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Confidential

*OK to Mr. T. J. Hoffa.
Says, Mr. Hoffa.
A-M Files.
So Mr. Hoffa*

January 22, 1938.

Dear Mr. Secretary:

I understand that in some form the question of possible negotiations with Germany of a trade agreement, in perhaps even a very limited form, is coming under discussion again in the Department. I have just a few moments this morning but wish to put just a few thoughts before you in this connection.

I think it would be most unwise in every way for us to give the slightest encouragement at this time to Germany to believe that conversations can be entered into with any hope of success even for a limited agreement. If we wish to do anything to weaken our own position at home or abroad, if we wish to do something which will very definitely weaken the general international situation and give rise to further disturbance, if we wish to do anything to take the ground from under our trade agreements program, if we wish to do anything which will practically assure that certain markets temporarily lost or restricted for certain raw materials and agricultural products will be definitely lost to us, the best measure to that end will be to tell Germany under existing conditions that we are prepared to negotiate with her.

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The facts are that the German position has in no way changed. She may be showing more reserve in certain respects in the external field but her objectives externally remain unchanged. In her internal policy she is continuing to show absolute inflexibility in adherence to the economic, industrial, financial and social program. The practical separation of Schacht from the formulation of economic policy removes from the German field the only strong individual who in any measure stood for some of the things which we stand for and cannot sacrifice. Germany is more than ever, therefore, definitely embarked on a trading, industrial and financial program such as that which has done our trade and interests so much harm and which is causing so much disturbance in the general world situation. There is not a single concrete factor on which we can put our finger which would indicate that there is any change in her policy.

Those who can speak with authority for Germany today have said and continue to say privately that there is nothing that Germany can do at this time to change her policy without the risk of her whole structure going down. As Schacht once said to me, "if we make the smallest hole in the wall which we have built around Germany, it will get big so rapidly that the whole structure, economic and political, will crumble". This, I believe, is generally recognized in

Germany

Germany by all elements and, therefore, there can be no change expected until there is a complete change in policy in Germany and there is nothing like that in sight.

It is futile, therefore, to think even of conversations for a most limited agreement with Germany.

Germany does wish to begin such conversations with us not with the thought that she would really arrive at anything but because of the effect which the knowledge that conversations are in progress would have. She wishes it to be known for the advantage it would give her that she is talking with us. I believe even that knowledge that we are talking with her would have a very disturbing and further disintegrating effect on the general situation. Even an honest man in a community must have a right to maintain certain defenses and reserves with respect to the gangsters or racketeers in the community. So in the community of nations a country like ours has a right to maintain certain defenses and reserves such as those we have been maintaining and we cannot give them up merely to satisfy the gangster and racketeer countries in the family of nations.

Yesterday the President of one of the most important companies in this country and having wide interests in many parts of the world asked me whether it was true that active conversations were in progress between the United States and Germany for the settlement of her obligations to us. I told him I knew of no such conversations and asked him where he

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got this impression. He said that the company was the holder of a large number of German bonds which had been issued by one of the most important firms in Germany in settlement of their obligation to them. These had been issued through two important banking houses in New York some years ago. As service on these bonds in any form had stopped except in marks and as the company had learned that recently, under pressure, certain firms in other countries had been getting payment in foreign currency of capital and interest, his firm had taken up this matter with the German firm and had been promised repayment of a part of the capital sum in dollars. When nothing happened they took it up with the German firm. He showed me a letter from this firm, which is a world known one, in which appears the statement that the company can take no action on this matter at this time as the whole question of Germany's private and public obligations is now actively under discussion with the United States and that action must await settlement of that issue. The American said that he took up this question with the two New York banks which had been interested in the issue of the bonds and they said that they knew nothing of such negotiations. I told him that I knew nothing of any such conversations being in progress.

I mention the foregoing as an instance of the manner in which formerly responsible German companies are obliged

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to deal under the influence of the Government in Germany today. There is, of course, no basis whatever for this statement or assurance made by this German company in the above mentioned letter to the American company. Germany is not prepared to give us anything but assurances. She is not prepared to make the slightest hole in the wall. Assurances are the only thing that she would give us. We know that we cannot depend on any of them.

I am, therefore, very definitely and very strongly of the opinion that we should leave no doubt as to our position. I think that we should give Germany no encouragement whatever under existing circumstances that we may be able to engage in conversations for a trade agreement. The effect in this country alone of such conversations would be disastrous and would remove the faith of the American business world and of the American people in this trade agreements program. The honesty and firmness of all that we have said with regard to the principles underlying the trade agreements program would come into question. It would appear that, for some slight illusory and temporary advantage, we were apparently willing to compromise the principles underlying our program and economic system. The best service we can do to our trade and interests is to let Germany rest under no illusions as to our attitude.

I know it from personal knowledge and direct conversation with those interested in Germany, in the real future of German industry and in German interests as a whole that it is their deep-seated and earnest hope that we will not engage in any conversations on a trade agreement with Germany until her entire program is changed. These good Germans, and there are many of them left in industry and finance as well as in other fields, hope and pray that we will not respond to these maneuvers by the German Government. They see in our failure to respond and ⁱⁿ maintain a firm stand the only hope for Germany and for peace and for a reign of law and order and restoration of peaceful trade in the world.

This is a very brief memorandum and very sketchy and incomplete, but I wished these thoughts, which represent also my deepest convictions, to be before you at the earliest moment.

G. S. Messersmith.