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January 23, 1939.

The Secretary

The Under Secretary

PA/D - Mr. Dunn

Eu - Mr. Moffat

You will recall that under date of October 11, 1937 I prepared a memorandum setting forth some of my views on the developments in the European situation, particularly with respect to Germany, and on the probable further course of her action. I take no pride whatever in stating that the developments which we have witnessed since that time have in no sense deviated from the line indicated in that memorandum. I would have much preferred that events had proved me wrong.

I should like to state at this time that, in spite of surface indications which we may increasingly get which would tend to show that the German Government desires to improve the status of its relationships with this country, it is not prepared to take any real steps such as are necessary to bring about such improvement. The economic situation of Germany is giving great concern to those at the head of the regime. There is no question but that their difficulties in practically every respect are increasing. Even the internal financing is becoming more difficult. Under these circumstances, Germany desires to make every effort to improve her trade relations and general relations with us, but she is no more prepared now than in the past to take those steps which are necessary to serve as a basis for such improvement. There is practically every reason to believe that she is just as unable as in the past, without definite danger to the future of the regime

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and the economic practices which keep it going, to make such changes.

In the telegram, no. 57 of January 1, 8 p.m., from the Embassy in Berlin, Mr. Gilbert reports that in an article by Goebbels on German-American relations which recently appeared in the VOELKISCHER BEOBACHTER, there is at the beginning a bitter attack on our policy but that the closing paragraphs "appear to constitute an appeal for a better understanding between the United States and Germany and for the alleviation of current strained relations, a situation which Goebbels says is not desired by the American people exclusive of the influential Jews."

In a telegram from Mr. Rublee (Berlin Embassy, no. 52, January 21, 3 p.m.) reporting on a conversation which he had with Goering, Mr. Rublee states "in concluding the conversation Goering laid great stress at considerable length on the desirability of good relations between Germany and the United States. Outside of the Jewish problem he saw no concrete problems which should trouble relations between the two countries".

The foregoing is significant. The German effort will be to use every instrumentality under their control at home and abroad, and these must not be under-estimated, to convince people that it is the Jews who are at the basis of the unsatisfactory relationships between the United States and Germany. The hope is to create cleavage in public opinion and to stir up anti-Semitic feeling in this country. The desire is to make it appear that the Jews are responsible for the attitude of this Government in all matters affecting its relationships with Germany and thus create indirectly a more sympathetic and friendly basis for the efforts of those in this country who, in spite of everything, desire better trade relations with Germany.

I have on several occasions brought to your attention that out of my own experience with Goering, I found him a more reasonable man than any other

I knew

I knew in the present German regime but that he is a relatively ignorant and poorly informed person. He knows really very little concerning this country. It is quite possible that he may believe that the Jews and the persecution of the Jews are responsible for the present attitude of this country. He has no appreciation of our mentality, of the basic attitudes of our people and no real knowledge of this country whatever. He has only such information as is fed to him and which comes almost entirely from those who wish to strengthen the impressions which he already has.

Although, as I indicated in a brief memorandum which I sent you the other day, Dr. Schacht has had no real power in determining policy in Germany for at least a year, his open separation from his position of President in the Reichsbank has a real significance. The hopes of the more responsible and conservative German bankers and industrialists centered in him and as long as he remained nominally at the head of the Reichsbank he had a certain moral influence in the direction of restraint. Now that restraining influence, indirect as it may have been, is gone and his successor, Funk, is a man who is in no sense either an economist or a banker and who is completely the instrument of the regime and under the domination of men like Goebbels, Ribbentrop and Himmler. Funk himself is an opportunist who before the regime came into power was the managing editor of a financial paper in Berlin. He has a keen mind and certain ability but is certainly not either a banker or an economist. In his personal habits he is rather dissolute, is a complete opportunist and fatalist. He will do anything that he is told to do. The recent change from Schacht to Funk in the Reichsbank merely brings into the open a situation which has existed in fact for some time but it is significant as indicative of the necessity for certain measures of a radical character

being

being taken in the internal German economy. It will mean, I believe, also that in her trading methods outside of Germany, the German procedure will be more ruthless and more unprincipled even than heretofore. The action, therefore, is indicative in some ways of the growing seriousness of the economic and financial problems within Germany.

The strained relations between Germany and this country come for Germany at a most inopportune time. In spite of the anger and resentment felt by the heads of the German Government whenever they cannot carry through their will with some other government, they have blown off their steam in the press and will continue to do so in a somewhat milder form, but in fact they are deeply disturbed and may be expected to make various moves towards appeasement. The gesture they made indicating that foreign exchange would be made available in the case of American heirs to estates in Germany was one. They made it because they knew it would cost them little and in the fear that we might make reprisals if some such action was not taken. The fact that they were willing to talk with Mr. Rublee on the refugee question, after having made it so clear that they would have nothing to do with him, and the fact that these conversations are being continued when Schacht is out of the picture, are further indications.

What I should like to say at this time is that it is my considered judgment that the German objectives remain just what they have been and that the main lines indicated in my memorandum of October 11, 1937 still hold. We cannot expect any real change in their policy or practices. Greater efforts will be made to make it appear that some of these practices are being changed or modified. Experience will show, I am confident, that these practices will not be changed or any basic German policy modified. Endeavors of various kinds will be made to have an improvement on the surface of relationships between Germany and this country and in the hope that our Ambassador will re-  
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turn as the beginning of the basis for the economic concessions which she wants to secure. I think we must continue to face this situation realistically and realize that these moves are not being made in good faith but that they grow out of a desperately greater need of Germany, an increasing fear of us, and at the same time without the ability or the desire (on her part) to change any of the practices which are at the basis of these strained relations.

G. S. Messersmith.

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