

In reply to your question as to whether the regime has undergone any notable change in the last few weeks, i.e. any change in the balance between conservative and radical elements, you may be interested in the following:

There is growing indication of difficulties in the party. A good many of the leading men such as Hitler, Schacht, Schmitt and Goering and some of those in the immediate entourage of the Chancellor, realize that the Government and the party by their acts in the last year have brought the country into an impossible situation. They see Germany's isolation, political, economic and financial, as practically complete. What makes them see <sup>more</sup> darkly is that they see no way out without a radical change of policy. How far Hitler is disposed towards making any radical change, for example in the anti-Jewish policy, is a question, but that he is beginning to realize that they cannot get out of their difficulties without a change, is becoming more apparent. The secondary leaders, however, of the party who represent the more radical element and who at the top have Goebbels with them, have not changed their views and have little more comprehension of what they are leading the country into. They are still the stronger and controlling element in the Government and in the party.

This new Government has never been a dictatorship in the real sense of the word. The power has from the outset been largely in the hands of the secondary leaders with direct contact with the masses. At the beginning the control of the primary leaders over the movement was more complete, for they were in closer accord with the secondary leaders. Now that the majority of the primary leaders have developed and gone beyond the secondary leaders, the breach is constantly growing wider, with the primary leaders in the position of being less and less able to force their will. They may here and there in spots be able to control the action of the secondary leaders, but they realize that they can undertake no general action which is contrary to the will of the secondary leaders. This situation must be thoroughly understood and appreciated if one wishes to understand what is happening and is likely to happen in Germany.

As to whether the religious question is as serious as the foreign observer would believe it to be, the following may be of interest:

There are those who believe that the religious question is only beginning to have its serious effects. It is reported that the Pope is ready to issue a White Book in which eighty-two violations of the Concordat are recited. The question of the Catholic youth organizations is by no means settled. The radical elements in the party are insistent on their complete dissolution. The Catholic Church is less disposed than ever apparently to agree to any dissolution, and intends to stand by the

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SECRET

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provisions of the Concordat in this respect. The resistance in Bavaria has strengthened the position of the Church among the people. The resistance among the Protestants, although one hears less of it, is in reality said to be stronger than ever. There are many who believe that the attitude of the party towards the Church is alienating people away from the party every day. The religious action of the party has done real damage to the regime and the effect on the people, so far as lessening confidence and enthusiasm for the general program is concerned, is very real and seems to be likely to become even greater.

With respect to the economic situation it is definitely worse. Production in many lines in Germany has been stimulated and there are undoubtedly more people at work, but working hours have been shortened, wages have been reduced and family income in general among the working classes cut down, while on the other hand the prices of essential foodstuffs have remained steady or gone up. The price of butter remains around mark 1.60. The stimulation of production has necessitated increased imports of raw materials and the present level of production and employment can be kept up only if raw materials are available. The export balances for the last two published months show a deficit and in spite of the restriction placed on so-called non-essential imports, this unfavorable balance for Germany is likely to become worse, as exports, it is reliably reported, are continually falling off and foreign markets are taking less and less German goods. In Hamburg and in Bremen there is almost a feeling of panic, for there the export and import situation is more generally appreciated and understood.

The great problem and by far the outstanding one in the German situation, and the one which may be the deciding factor of this whole business, is Germany's need for raw materials for which there is no capacity for payment in the form of foreign exchange. The situation of the Reichsbank has steadily grown worse. The exchange situation is critical. Practically all of the available means through which the Government has aided German exports to meet competition in foreign markets with goods from depreciated currency countries, have been exhausted. There are only two ways in which the supply of raw materials can be assured, i.e. by which they can be paid for. First, by the conclusion of trade agreements with the major suppliers of raw materials such as the United States, or through the extension of long term credits.

Even though favorable trade agreements could be negotiated with certain countries which are suppliers of the major raw materials, such as cotton, wool, copper, oil, etc., and if German manufactured goods were to be taken in return for these raw materials, it would take some time for such agreements to become effective in practice, and it is doubtful if even reduced tariff rates would be sufficient to induce foreign buyers to take German

The above is a copy of the original document as it appears in the file. The text is heavily obscured by a large, diagonal watermark that reads "SERVICE STATE". The watermark is in a large, bold, serif font, with the word "SERVICE" on the left and "STATE" on the right, separated by a diagonal line. The background text is a dense, multi-line block of text, likely a legal or official document, but it is mostly illegible due to the watermark and the quality of the scan. The text appears to be in English and may be related to a legal proceeding or a government document.

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goods. The disinclination of foreign buyers to buy any German goods or to do any business with Germany just because they have no sympathy whatever with the present regime, is a very real factor, and people are not necessarily buying in the cheapest market. With increasing production costs in Germany the reducing of tariff barriers in other countries loses a good deal of its effect. Then, too, it is a question as to whether the Government to-day is able to carry out its contractual obligations, and this must cause at least a certain hesitancy on the part of those entering into new obligations which may not be fulfilled.

The other way out is through credits, and it would seem that this is the method which the German Government hopes to follow. It would be difficult to form an opinion as to where such credits can be secured. With existing German obligations at the prices they now command in the foreign markets, with a practical certainty that interest payments will be made entirely in marks within Germany and with the use of these marks in the country so hemmed in by regulations that the holder or owner can practically not use them or only a small part thereof, it is rather ironical to speak of the interest payments on German obligations being met. With this in mind and with the cynical attitude towards the debts of yesterday which may be the attitude towards the debts contracted to-morrow, it is rather hopeless to see where such credits can be found or who would be willing to take the extraordinary risks involved in their extension.

Cotton, hides, wool, copper and fats are already under import control monopolies. This list is likely to be extended, and the next raw product to be covered will probably be oil. Unless there is relief in the Devisen situation, which does not seem to be in sight in any way, the importation of certain manufactured articles will likely be entirely prohibited. Certain major raw materials are already being rationed to the factories. There are those who believe that the rationing process may have to go down to the consumer as it did in the war time. Unless relief in the form of credits or otherwise can be secured from the outside, all sorts of control measures of the most drastic character are inevitable. The experience of the past year indicates that the Government will not hesitate to take any action, no matter how drastic, in the form of control.

Slowing up of the necessary and adequate supply of raw materials will mean slowing up of production in Germany, and as employment has already been spread so widely, people will lose jobs. The German people are a very patient people and capable of great sacrifice and of enduring all sorts of things. It is a question as to how long such a system of "Zwangswirtschaft" could be in effect without setting in motion factors which force cannot control. There are many who believe that it would result in the formation of a Government more truly representative of Germany and more understanding of her position as a neighbor, and one with which relations can be entered into in the manner usual between responsible and representative Governments.

Lebensversicherungsgesellschaften.

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