

Vienna, December 13, 1936.

STRICTLY CONFIDENTIAL

MEMORANDUM OF CONVERSATION COVERING CERTAIN
ASPECTS OF THE PRESENT SITUATION IN GERMANY.

The raw materials situation for industry and the foodstuffs situation, which have been growing steadily worse, are approaching a crisis. The serious situation with respect to rubber is well known. Owners of private automobiles who wish to equip their cars with four new tires at a time are able to get only one or two at a time, and frequently have to wait for weeks before they get these. The lack of copper is approaching the acute stage. A good part of Germany's supply of iron ore has to be imported and, as exchange is lacking, several blast furnaces have recently gone out of operation. Work on one of the new subway stations in Berlin was recently stopped as steel supporting girders necessary were not available. The lack of fodder for cattle feeding has been a problem for some months and is becoming more acute. Large numbers of hogs will be killed in January in order to decrease the fodder problem, but it is the intention not to let a good part of the pork on the market, where there is already such a lack of it, and to prepare it for army use later. The scarcity of fats, meat, butter and eggs is already so real that the general population is well aware of it. Most surprising, however, comes the news that in inner Party circles it is now reckoned that a scarcity of bread may be reckoned with in February or March. The supplies of grain are running low, such lower than was expected, and it is believed that restrictive measures will have to be put into effect before the first of the new crop of grains is available in June, 1937. Every effort will be made to find the necessary exchange for sufficient supplies of grain from Southeastern Europe, as it is realized that any bread scarcity will be more important internally than the scarcity already prevailing in other foodstuffs.

Schacht, von Neurath, von Krosigk and other non-Nazis, who have been rendering such valuable services to the regime, have less power than ever and are practically reduced to being "technicians" whose activity is more and more restricted within a given field. They have no power of initiative. The older and experienced career officers of the Government, "Beamten", who held over from the former government, are more and more being used up and power is more and more concentrated in the new men from the Party, who have, consequently, less restraint than ever on them, due to the disappearance of these older men. Many of these "older men" are not really old in years, but are,

nevertheless used up through the strain to which they have been put. This accounts for the increasing difficulties of business and finance, for the officials of the regime are more and more unrestrainedly putting into effect National Socialist "Weltanschauung". Schacht's recent trip to Turkey, etc., was not purely commercial. It was political as well, and he was charged with the endeavor to lay the basis for the old Berlin-Baghdad dream. Schacht himself realizes that any endeavors in this direction are Utopian. But that he should be obliged to go on this mission indicates how unrealistic and unaware of the situation outside of Germany are the National Socialist zealots in unrestrained control of the situation.

A good many of the higher and secondary leaders of the Party are already used up and more and more out of the picture, for the most part as a result of personal over indulgence. Himmler, Goebbels, Rust, and Ley are sick and less in the picture as a result of over indulgence in good food. This is not significant as indicating a change of policy or that their place is being taken by less radical men, but simply a sidelight on developments in the country, where over indulgence has been the rule among principal Nazi leaders. Hitler is extremely nervous and more and more afraid of his life. Practically all of the more important Nazi leaders have private moving picture theaters in their homes, and the demand for American pictures there is heavy. Practically no American movies can be shown in the German theaters because of the objections to American films by the Government and the restriction on films in which non-Aryan actors or producers have participated. This deprivation of the German public, however, does not interfere with the Nazi leaders seeing these pictures in their private theaters. It is a general characteristic sidelight on the hypocrisy of the whole movement.

More money has to be found and it is getting more and more difficult. There will be more pressure in the next months on Jews, important business men, and the wealthy in Germany. They will be obliged to disgorge all their holdings abroad. The death penalty is already provided for those who fail to announce all of their foreign holdings. If the law were applied to the Party chiefs, most of them would be subject to the death penalty, for they almost all have holdings outside the country. The control over foreign holdings is becoming more and more complete. The books of companies doing business abroad are being more carefully controlled than ever, and the control goes even to the foreign offices in Buenos Aires, Rio, New York, etc., of these companies. The question is now being examined as to whether the German banks having foreign branches cannot operate with smaller capital abroad, so as to make some of this capital abroad in foreign currencies available for raw materials purposes. Scoring personally is examining such accounts and giving orders. It is not improbable that the offering of gold and jewelry will be one of the

extreme measures which may be resorted to in the spring in order to provide the exchange necessary for certain foodstuffs and raw materials for industry.

It is a mistake to think that the Army will act in order to restrain the regime before there is an internal crisis. The Army will not act until there is internal disorder. It will not act to avoid it, but only to repress it once it should start. The Army wants the rearmament program to continue and will support the regime as long as it can keep the industrial program going, which is so largely based on rearmament. While Hitler himself may be somewhat more aware of the real relative power of Germany, the great majority of those surrounding him and in reality controlling his decisions believe that they could still win, should there be war. They believe, first, that the present tactics of Hitler and of the Party have worked up to now, and that the policy of "fait accompli" would continue to work in the present state of Europe. They believe, second, that if there should be resistance to this policy of "fait accompli", the German program of "shock and terror" would bring Europe to its feet within a few weeks. That is, they believe air raids against London, Paris, etc., and the tremendous impetus of the first German attack would bring peace in a few weeks, with the imposition of Germany's will. So little do the leaders of the Party understand what has been happening outside of Germany.

The Army is disappointed over the performance of the small German tanks and of the engines of the airplanes sent to Spain. The reports which they have of the performance of the German material have given them much to think about and decreased confidence in at least these two articles of the present rearmament production. This, however, is only one aspect, for, on the whole, in Army circles, as well as in Party circles, there is intoxication through belief in the effectiveness of the machine already created.

The church and religious situation is not getting any easier. The Protestant pastors are not decreasing their resistance. Niemöller, in his Dahlem Church, reads every Sunday morning a list of the parishes in Germany whose pastors have disappeared, and a prayer is offered for the disappeared pastors. Similar lists are read and similar prayers are offered every Sunday in the Protestant churches. Niemöller continues to make the most extraordinarily brave statements. Cardinal Faulhaber was in reality attacked physically by a group of Hitler youth and seriously maltreated, and the position of the Catholic Church has in no sense grown better. In the Rhineland recently Christian pictures were taken out of some of the public schools in the country districts, and the peasants attacked the teachers and put the pictures back on the walls. The population is becoming more and more restive under the attacks on the Church and on the Catholic and Protestant clergy, which, if anything, have become accentuated in the last few months.

The Army is comparatively satisfied, for it is getting

the money for its rearmament program. Even this is becoming more difficult, and this is what it is principally interested in. They are not thinking of anything for the moment but rearmament, and will not as long as Goering sees that the exchange goes for raw materials for industry rather than for foodstuffs. At a recent small Army dinner which Hitler attended in South Germany, he said "Gentlemen, it is among you that I feel myself the best and the safest." General Beck, who is in command of the Artillery, etc., recently had a conversation with a friend in his office and was discussing certain men in the Party. General Beck took his friend away from his desk, where they were sitting, to a corner of the room, and said "here we are far enough away from the telephone to talk." Goering keeps a strict control of what happens in the offices of Goebbels and his principal lieutenants, and Goebbels does the same so far as Goering and his lieutenants are concerned. This is done through the vast system of control over conversations that has been installed through special apparatus in telephones, etc., all over Germany.

A story going about in inner circles in Germany and which is causing a good deal of amusement is, as follows (the Department knows that General Milch, who is the head of the air force, is not a pure Aryan, and that in order to keep him, General Goering had the mother of General Milch make a statement that her husband, who is not a full Aryan, was not the father of General Milch): The story is, "Why is Goering a greater man than Christ? Because Christ only made wine out of water, but Goering made out of Milch an Aryan." The explosion in Germany is still likely as long as Hitler and his advisers think that they still have any possible chance of success, and they still believe this. Things are coming to a crisis in Germany, and, while the explosion may be less likely than it was, it is still something that must be reckoned with. England must arrange matters with Italy so as to make sure that Italy will stay out, or at least not be on the side of Germany. While Berlin does not place complete confidence in Rome, it still believes that it can depend fairly well on Italy. England and France must give money to Southeastern Europe to maintain the situation there in the meantime as long as they are not prepared to take goods from these countries. Southeastern Europe cannot be expected to stand fast against Germany as long as Germany is the only one taking their exports, even though she is not paying for them. The situation in Southeastern Europe must be maintained, and for England and France it is either money or taking goods. Italy has been much more realistic in this respect than either France or England, for she has been taking goods, particularly from Austria and Hungary. The French are waking up, as is shown by the visit now in progress of the French Minister of Commerce to Belgrade.

In Austria, Dr. Kienbock, who is really probably the best central bank head in Europe today, is,

unfortunately, playing the part of a second Brüning. He is unconsciously and unwillingly being the best friend of Hitler in Austria through his policy of not permitting credit expansion and the starting of a far-reaching program of public works to overcome unemployment. Kienboeck has rendered great service to Austria and is not only a great central banker, but in many respects a good politician, perhaps even a statesman. He is, however, so set on the maintenance of his schilling that he may be neglecting to do the most important things, which are even more important than the maintenance of the schillings. Credit expansion in Austria is essential for industry, particularly in order to absorb more labor. A public works program is essential to absorb the unemployed, who are easy prey for the Nazis, who are becoming stronger as a result of unemployment. It would be far better to indulge in credit expansion and the expenditure of large sums for public works, such as roads, etc., than to buy armament material from Germany so as to be able to send more butter, eggs, and cheese to Germany. Kienboeck, by his refusal to see this, is making some of the same mistakes which Brüning made with the best intentions, but which was one of the things which lead to the Nazi regime in Germany. Credit expansion and a public works program would be far better constructive efforts to combat National Socialist activities than merely the repressive measures now taken by the Government. The present effort of Kienboeck is all the more futile, as the schilling will have to be devalued eventually anyway - not later than next spring.