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December 23, 1937.

The Secretary  
The Under Secretary  
A-W - Mr. Wilson  
A-S - Mr. Sayre  
PA/D - Mr. Dunn  
Eu - Mr. Moffat

I have read with very much interest the strictly confidential despatch, No. 3745 of November 18, 1937 from our Embassy in Berlin on the German Law of May 27, 1937 Regulating Capital Repayments Owed Abroad and with particular reference to developments in connection with the Saxon Public Works Bonds. I am fairly familiar with the history of the Saxon Public Works Bonds and with developments with respect thereto under the present Government. Various German interests have been particularly anxious that some sort of service should be continued on these particular bonds but this particular development referred to in this despatch is one which has been consistently feared. The plants of the Saxony Public Works were put under direct Party control soon after the Party came into power and the present Statthalter of Saxony considers this public utility as a source of Party funds. This has been bad enough but until recently some pretense of maintaining the

the integrity of their service on the bonds was maintained.

The significance of the developments brought out in the despatch under reference is, I believe, very real. The removal of Dr. Schaecht from the Ministry of Economics and his taking a less active part in the Reichsbank may not indicate the beginning of disintegration in the German financial and economic structure, which has been held together so largely through his resourcefulness but it does indicate that General Goering has taken real command of the situation in order to carry through the Four Year Plan, and that everything will now be subordinated to carrying through that plan. The circumstances recited in the despatch under reference are, I believe, only a beginning of developments which we will continue to see on an increasing scale. There will be further discrimination against every remaining foreign interest and ours unfortunately remain the principal foreign industrial and financial interest in Germany so we will be the principal sufferers. The effect, of course, of these measures will be that the last vestige of German credit which remained abroad will disappear.

I merely wish to point out that in my opinion we are going to see more of this and that the remaining American interests in Germany will be subjected to further discrimination amounting in the end to practically confiscation. This is something which I always felt sure the Party was  
aiming

aining at but it was the restraining influence of Schacht which kept the most extreme measures from being taken. Now that restraining influence is gone. Aside from this capital investment that we have in German bonds, such as those of the Saxon Public Works, we still have an enormous capital investment in German industry and I believe that we must look forward to increased trouble by these industries.

The Party had succeeded in getting control of the Government and of the social structure. The struggle with the Church is still on and the outcome uncertain but with the Government's attitude against the Churches more clear, In the economic and financial field the Party had not been able to carry through its will completely owing to the restraining influence of Schacht and certain others. Now that restraining influence is gone. This, I think, is the significance of the Berlin despatch under reference and it means more trouble ahead.

G. S. Messersmith.