

VERY CONFIDENTIAL.

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CABINET.

THE GERMAN DANGER.

(A collection of reports from His Majesty's Embassy at Berlin between the accession of Herr Hitler to power in the spring of 1933 and the end of 1935.)

1 CIRCULATE to my colleagues a collection of reports from His Majesty's Ambassadors at Berlin between the accession of Herr Hitler to power in the spring of 1933 and the end of 1935. Most of these documents have already been circulated to the Cabinet at various times; but, read again as a series, it will be found, I think, that they furnish a useful introduction or background to the study of the German problem as it presents itself to-day.

2. The most striking feature of this series of reports is the clear evidence which it contains of the steady and undeviating development under Hitler's guidance of German policy along certain definite and pre-ordained lines. These reports also reveal Hitler's almost unbroken success during the last three years in applying this policy in foreign affairs, and also the fact that from the very first he has been able to seize and keep the initiative in so doing.

3. Hitler's foreign policy may be summed up as the destruction of the peace settlement and re-establishment of Germany as the dominant Power in Europe. The means by which this policy is to be effected are two-fold: (a) Internally through the militarisation of the whole nation in all its aspects; (b) externally by economic and territorial expansion so as to absorb as far as possible all those of German race who are at present citizens of neighbouring States, to acquire new markets for German industry and new fields for German emigration, and to obtain control of some of the sources of those raw materials at present lacking to Germany. The form and direction of this expansion is the one still doubtful factor in Germany's plans for the future.

4. It is only in the economic and financial spheres that Hitler's policy has not proceeded according to plan, and is now having to face extensive and maybe insuperable difficulties.

5. I draw two conclusions from the situation thus presented. The first—which unfortunately has had recently to be emphasised more than once—is that it is vital to hasten and complete our own rearmament. In view of what is so openly proceeding in Germany, we must be ready for all eventualities.

6. My second conclusion is that, whilst pursuing our rearmament, it will be well to consider whether it is still possible to come to some *modus vivendi*—to put it no higher—with Hitler's Germany, which would be both honourable and safe for this country, and which would, at the same time, lessen the increasing tension in Europe caused by the growth of Germany's strength and ambitions. Perhaps Hitler's economic difficulties may make him less uncompromising than

he otherwise would be, but, even so, I do not conceal from my colleagues that, in the present temper of the German Government and people, this solution of our problem will not be easily realised.

7. I would ask that particular care may be taken to safeguard the confidential nature of the contents of this paper. There is evidence that there have been serious leakages of the information obtained by His Majesty's Ambassador at Berlin; and reports have been spread as to the nature of his views. Continuance of these leakages must prejudice his own position and the sources of his information.

A. E.

January 17, 1936.

THE GERMAN DANGER.

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I.—POLITICAL.

[C 3990/319/18]

No. 1.

Sir H. Rumbold to Sir John Simon.—(Received May 3.)

(No. 425. Confidential.)

Sir,

Berlin, April 26, 1933.

HERR HITLER has now been Chancellor for nearly three months, and there is as yet no sign of any constructive policy in the economic domain. The Chancellor has been busy gathering all the strings of power into his hands, and he may now be said to be in a position of unchallenged supremacy. The parliamentary régime has been replaced by a régime of brute force, and the political parties have, with the exception of the Nazis and Nationalists, disappeared from the arena. For that matter Parliament has ceased to have any *raison d'être*. The Nazi leader has only to express a wish to have it fulfilled by his followers.

2. It is true that the Reichswehr and the President are probably still in a position to check and possibly even to control Hitlerism, but, as time goes on, the isolation of the defence force will become more marked and, though the troops are still immune from Hitlerism, it seems impossible that they should remain so indefinitely. Sooner or later, especially if the President dies, the Reichswehr may be expected to throw in their lot with the present régime.

3. Hitherto I have dealt in despatches with the internal changes and the events of the moment. Now that Hitler has acquired absolute control, at any rate till the 1st April, 1937, it may be advisable to consider the uses to which he may put his unlimited opportunities during the next four years. The prospect is disquieting, as the only programme, apart from ensuring their own stay in office, which the Government appear to possess may be described as the revival of militarism and the stamping out of pacifism. The plans of the Government are far-reaching, they will take several years to mature and they realise that it would be idle to embark on them if there were any danger of premature disturbance either abroad or at home. They may, therefore, be expected to repeat their protestations of peaceful intent from time to time and to have recourse to other measures, including propaganda, to lull the outer world into a sense of security. To ensure stability at home is an easier task. The new régime is confident that it has come to stay. At the same time it realises that the economic crisis which delivered Germany into its hands is also capable of reversing the process. It is, therefore, determined to leave no stone unturned in the effort to entrench itself in power for all time. To this end it has embarked on a programme of political propaganda on a scale for which there is no analogy in history. Hitler himself is, with good reason, a profound believer in human, and particularly German, credulity. He has unlimited faith in propaganda. In his autobiography he describes with envy and admiration the successes of the Allied Governments, achieved by the aid of war propaganda. He displays a cynical and at the same time very clear understanding of the psychology of the German masses. He knows what he has achieved with oratory and cheap sentiment during the last fourteen years by his own unaided efforts. Now that he has the resources of the State at his disposal, he has good reason to believe that he can mould public opinion to his views to an unprecedented extent. After all, his recent victory is the best proof that the methods which he proposes to adopt are sound. There may, of course, be a saturation point, a point at which the masses grow sick of propaganda, but it does not seem to have been even approached as yet. The experiment which Dr. Goebbels is now conducting at the Ministry for Propaganda is one of the most interesting in political history and will in due course provide the answer. Dr. Goebbels is singularly well fitted to conduct the new Ministry. His pioneer work during the last five years has been wholly admirable, and he appears to be a man of infinite resource and invention.

4. Dr. Goebbels is engaged on a two-fold task, to uproot every political creed in Germany except Hitlerism and to prepare the soil for the revival of militarism. The press has been delivered into his hands, and he has declared that it is his intention "to play upon it as on a piano." Next to the press he ranks wireless as a medium for propaganda. The cinema, the theatre, and, of course, public speeches delivered to mass audiences, and relayed by wireless to the nine German

broadcasting stations and so to millions of listeners, are to play an important rôle. For long-distance propaganda the elementary schools, high schools and universities are being harnessed to the needs of the State, and the latter may be confidently expected to hand over future generations of voters to the party machine as finished products of the Nazi educational system.

5. The outlook for Europe is far from peaceful if the speeches of Nazi leaders, especially of the Chancellor, are borne in mind. The Chancellor's account of his political career in *Mein Kampf* contains not only the principles which have guided him during the last fourteen years, but explains how he arrived at these fundamental principles. Stripped of the verbiage in which he has clothed it, Hitler's thesis is extremely simple. He starts with the assertions that man is a fighting animal; therefore the nation is, he concludes, a fighting unit, being a community of fighters. Any living organism which ceases to fight for its existence is, he asserts, doomed to extinction. A country or a race which ceases to fight is equally doomed. The fighting capacity of a race depends on its purity. Hence the necessity for ridding it of foreign impurities. The Jewish race, owing to its universality, is of necessity pacifist and internationalist. Pacifism is the deadliest sin, for pacifism means the surrender of the race in the fight for existence. The first duty of every country is, therefore, to nationalise the masses; intelligence is of secondary importance in the case of the individual; will and determination are of higher importance. The individual who is born to command is more valuable than countless thousands of subordinate natures. Only brute force can ensure the survival of the race. Hence the necessity for military forms. The race must fight; a race that rests must rust and perish. The German race, had it been united in time, would now be master of the globe to-day. The new Reich must gather within its fold all the scattered German elements in Europe. A race which has suffered defeat can be rescued by restoring its self-confidence. Above all things, the army must be taught to believe in its own invincibility. To restore the German nation again "it is only necessary to convince the people that the recovery of freedom by force of arms is a possibility."

6. Hitler describes at great length in his turgid style the task which the new Germany must therefore set itself. Intellectualism is undesirable. The ultimate aim of education is to produce a German who can be converted with the minimum of training into a soldier. The idea that there is something reprehensible in chauvinism is entirely mistaken. "Indeed, the greatest upheavals in history would have been unthinkable had it not been for the driving force of fanatical and hysterical passions. Nothing could have been effected by the *bourgeois* virtues of peace and order. The world is now moving towards such an upheaval, and the new (German) State must see to it that the race is ready for the last and greatest decisions on this earth" (p. 475, 17th edition of *Mein Kampf*). Again and again he proclaims that fanatical conviction and uncompromising resolution are indispensable qualities in a leader.

7. The climax of education is military service (p. 476). A man may be a living lexicon, but unless he is a soldier he will fail in the great crises of life. The aristocratic principle is fundamentally sound. It is possible to train the nation even when military training is expressly forbidden. "Give the German nation 6 millions of young men perfectly trained by athletics, consumed by fanatical patriotism, educated to the maximum of aggressiveness, and a national State will, if necessary, be able to convert them in less than two years into a regular army, provided certain cadres are available." Hitler goes on to explain that an army like the Reichswehr and not a militia is, therefore, indispensable. An army is indispensable not merely to regain the lost freedom, but to ensure the maintenance and expansion of the race. The recovery of lost provinces has never been effected by protest and without the use of force. "To forge the necessary weapons is the task of the internal political leaders of the people. To see that the weapon can be forged and to find allies is the task of the Minister for Foreign Affairs. Foreign policy may be unscrupulous. It is not the task of diplomacy to allow a nation to founder heroically but rather to see that it can prosper and survive. There are only two possible allies for Germany—England and Italy (p. 699). No country will enter into an alliance with a cowardly pacifist State run by democrats and Marxists. So long as Germany does not fend for herself, nobody will fend for her. Germany's lost provinces cannot be gained by solemn appeals to Heaven or by pious hopes in the League of Nations, but only by force of arms (p. 708). Germany must not repeat the mistake of fighting all her enemies

at once. She must single out the most dangerous in turn and attack him with all her forces" (p. 711). "It is the business of the Government to implant in the people feelings of manly courage and passionate hatred." The world will only cease to be anti-German when Germany recovers equality of rights and resumes her place in the sun.

8. Hitler admits that it is difficult to preach chauvinism without attracting undesirable attention, but it can be done. The intuitive insight of the subordinate leaders can be very helpful. There must be no sentimentality, he asserts, about Germany's foreign policy. To attack France for purely sentimental reasons would be foolish. What Germany needs is an increase in territory in Europe. Hitler even argues that Germany's pre-war colonial policy must be abandoned, and that the new Germany must look for expansion to Russia and especially to the Baltic States. He condemns the alliance with Russia because the ultimate aim of all alliances is war. To wage war with Russia against the West would be criminal, especially as the aim of the Soviets is the triumph of international Judaism.

9. How far Hitler is prepared to put his fantastic proposals into operation is of course uncertain, but it is clear that he cannot abandon the cardinal points of his programme any more than Lenin or Mussolini. They are, he declares, the granite pillars on which his policy is supported. He asserts again and again that they cannot be altered or modified. They are the product of profound thought and reflection on his part. A number of the clauses of the original twenty-five-point programme have been abandoned as Utopian or out of date, but the campaign against the Jews goes to show that Hitler will only yield to energetic opposition even on comparatively unimportant points of policy. The brutal harshness with which he has overwhelmed his opponents of the Left and the ruthlessness with which he has muzzled the press are disquieting signs.

10. Still more disquieting is the fact that though Germany remains nominally a member of the League of Nations the official policy of the country so far as it has been translated into action or expounded by members of the Government is fundamentally hostile to the principles on which the League is founded. Not only is it a crime to preach pacificism or condemn militarism but it is equally objectionable to preach international understanding, and while politicians and writers who have been guilty of the one have actually been arrested and incarcerated, those guilty of the other have at any rate been removed from public life and of course from official employment. The Government are openly hostile to Marxism on the ground that it savours of internationalism, and the Chancellor in his electoral speeches has spoken with derision of such delusive documents as peace pacts and such delusive ideas as the "spirit of Locarno." Indeed, the foreign policy which emerges from his speeches is no less disquieting than that which emerges from his memoirs. Even when allowance is made for the exaggerations attendant upon a political campaign, enough remains to make it highly probable that rearmament and not disarmament is the aim of the new Germany.

11. As I have already stated, the Government have as yet shown no inclination to grapple with the economic situation. Germany's export surplus has dwindled during recent months, and the shrinkage of her export trade can only accentuate the present unemployment crisis. Somewhere in his memoirs Hitler alludes to the fact that it is much easier, quicker and probably more satisfactory to wage a war and so obtain fresh territory for colonisation by seizing farms already in existence in enemy country, than to adopt the laborious process of purchasing estates for internal colonisation.

12. If it be the intention of the new régime to restore militarism, and everything so far seems to point that way, the first and one of the most serious obstacles has already been overcome. Representative government has been overthrown. Parliament has to all intents and purposes been abolished. A campaign of terror instituted by the authorities has not failed to have its effect on Democrats, Socialists and Communists alike. It is doubtful whether any real resistance would now be offered to a return to conscription. Still more serious is the fact that the resumption of the manufacture of war material by the factories can be undertaken to-day with much less fear of detection or denunciation than heretofore. Owing to the abolition of the press of the Left and the exemplary punishment of traitors and informers, it will be much easier in future to observe secrecy in the factories and workshops. I cannot help

thinking that many of the measures taken by the new Government of recent weeks aim at the inculcation of that silence, or "Schwiegsamkeit," which Hitler declares in his memoirs to be an essential to military preparations. In the introduction to my annual report last year I stated (paragraph 27) that militarism in the pre-war sense, as exemplified by the Zabern incident, no longer existed in Germany. I wrote (paragraph 29) that there had been a revival of nationalism, that nationalism was not synonymous with militarism, but I added that, "should nationalist feeling in Germany become exacerbated, it might well lead to militarism." The present Government have, I fear, exacerbated national feeling, with the results which I anticipated. The wireless and other educational propaganda which is now being conducted by Dr. Goebbels aims at arousing that perfervid patriotism which can only end in a militarist revival. Indeed, the political vocabulary of national socialism is already saturated with militarist terms. There is incessant talk of onslaughts and attacks on entrenched positions, of political fortresses which have been stormed, of ruthlessness, violence and heroism. Hitler himself has proclaimed that Germany is now to enter upon a "heroic" age, in which the individual is to count for nothing, and the weal of the State for everything. Colonel Hierl, a former Reichswehr officer and Hitler's military adviser since 1929, who has just been appointed Secretary of State to the new department of the Labour Ministry intended to control the Volunteer Labour Corps, has made no secret of his ideals. His aim, he declares, is the "Wehrstaat," i.e., a State in which the tasks of war are systematically planned and prepared in peace time, and in which every inhabitant will be called upon to render some service to the fatherland. Hierl's brochure, *Grundlage einer deutschen Wehrpolitik*, which appeared in 1929, combats General von Seeckt's view that Germany is best served by the Reichswehr and a conscript militia. While he admits that full-blooded conscription is not feasible at the moment (presumably because of the resistance of the population and the opposition of foreign countries), he claims that it can eventually be brought about by courage, determination, and, above all, circumspection. Hierl is, in fact, an out-and-out militarist. "Nature and history teach us that he who will not fight thereby sacrifices his right to live in this world of conflict. A State which surrenders itself to pacifism will be gobbled up as surely as an animal that gives up resistance. The slogan 'Nie wieder Krieg' ('no more war') is about as effective against war as a notice 'Nie wieder Gewitter' ('no more thunderstorms') tied by a peaceful householder to his lightning-conductor."

13. Colonel Hierl is (or rather was, in 1929) surprisingly candid. "The abandonment," he declares, "of the policy of submission (to the Allies) and the transition to a policy of resistance does not involve war at a moment's notice, though it does mean war in the long run. During the transition stage Germany must regain the necessary strength to burst her bonds." The first step, he asserts, is to convert the German people themselves and to get rid of the political parties.

14. The first step has been accomplished with extraordinary ease and dexterity. Now comes the transition stage, and there is, to my mind, something oddly reminiscent of the Tirpitz period in the present state of things. The problem before the naïve exponents of National Revolution is even more difficult than that which confronted Admiral von Tirpitz. The problem of 1905, as Tirpitz explained in his post-war *Politische Dokumente* with engaging candour, was the construction of a fleet sufficiently powerful to challenge Great Britain on sea without being "caught out" before that task was completed. He describes how he had to throw dust in the eyes of the English during the tedious and difficult transition stage, when Germany was constantly in the danger zone. "Form so harmlos wie möglich" ("Form as harmless as possible") was the simple formula which led him to success. He describes with unconcealed glee the shifts to which he had recourse in order to lull opinion, not only in England, but in Germany. He even prints the telegram which he received from the Emperor instructing him to feign fierce indignation at an interview with Sir Frank Lascelles in 1905. The subject of the interview was a speech by Mr. Lee, then First Lord of the Admiralty, accusing Germany of building a fleet for aggressive purposes, an accusation which Tirpitz admits a few paragraphs earlier to have been well founded.

15. The task of the present German Government is more complicated. They have to rearm on land, and, as Herr Hitler explains in his memoirs, they

have to lull their adversaries into such a state of coma that they will allow themselves to be engaged one by one. It may seem astonishing that the Chancellor should express himself so frankly, but it must be noted that his book was written in 1925, when his prospects of reaching power were so remote that he could afford to be candid. He would probably be glad to suppress every copy extant to-day. Since he assumed office, Herr Hitler has been as cautious and discreet as he was formerly blunt and frank. He declares that he is anxious that peace should be maintained for a ten-year period. What he probably means can be more accurately expressed by the formula: Germany needs peace until she has recovered such strength that no country can challenge her without serious and irksome preparations. I fear that it would be misleading to base any hopes on a return to sanity or a serious modification of the views of the Chancellor and his entourage. Hitler's own record goes to show that he is a man of extraordinary obstinacy. His success in fighting difficulty after difficulty during the fourteen years of his political struggle is a proof of his indomitable character. He boasts of his obstinacy.

16. Herr Hitler has, of course, sufficient native cunning to realise the necessity for camouflage. Indeed, the recent debate in the House of Commons will have come as a warning that the task which the new rulers of Germany have set themselves must be approached very circumspectly. It is unlikely that Captain Göring will for some time to come repeat his Essen speech about redeeming with blood a pledge written with blood. Protestations of peace on the lines of the Chancellor's Potsdam speech are much more likely.

17. It may seem strange that a European Government, despite the experiences of the last twenty years, should seriously contemplate so dubious and risky a policy. But the actions of the new Government have already shown the world that, like former German Governments, they are capable of almost any degree of self-deception. I have the definite impression that a deliberate policy is now being pursued; a policy which was dimly outlined during the chancellorship of Herr von Papen, which has now been definitely adopted in principle and which has the support of the entourage of the President. The aim of this policy is to bring Germany to a point of preparation, a jumping-off point from which she can reach solid ground before her adversaries can interfere, and to do all this without violating articles 173 to 179 (Chapter III: Recruiting and Military Training) of the treaty. This is the only interpretation that I can place on the concrete measures which are now being taken [and of which my military attaché has furnished an account in his report on the 25th April (see my despatch No. 424 of the 26th April)]. To quote a recent report of my military attaché: "When these various measures have had time to come into operation it will be seen that thorough arrangements have been created to inculcate discipline, to improve the physical condition and to give instruction in many forms of military training. The process will be applied continuously from the age of 12 till the men become too old for service in the field, and, secondly, it will be seen that a supply of instructors and an organisation to handle complete classes of the nation, quite independent of the Reichswehr, have been created. The cumulative effect of these measures will be to produce a very large reserve of personnel who will require little further training to take their places in the armed forces of the country on the outbreak of war."

18. I do not, of course, rule out the contingency that there may be a revulsion of feeling in this country, and that saner counsels may prevail when the new régime has had time to take stock of the European and world situation. But the spirit of the moment is definitely disquieting, and the Government of this country, for the first time since the war, are giving State sanction and encouragement to an attitude of mind, as well as to various forms of military training, which can only end in one way. I, therefore, feel that Germany's neighbours have reason to be vigilant, and that it may be necessary for them to determine their attitude towards coming developments in this country sooner than they may have contemplated. I foresee that as time elapses it will be increasingly difficult to ascertain what is actually taking place in this country and to gauge the real intentions of the German Government. About the intentions of the National Socialist party itself there is no secret. Since the victory of the 5th March hopes have been kindled which will not be readily extinguished. To quote the words of the Oberpräsident of the Frontier Province at a mass demonstration which took place in the frontier town of Scheidemühl on

the 13th instant: "We are listening intently and waiting full of hope and faith to see whether in our time the resurgence of the nation will be followed by a moral and actual onslaught on the German East. To attain the goal, to restore German land and German men to mother Germany we need the whole German people for a crusade of the nation towards the East. What we have lost must not remain lost." German Ministers and officials have brought the task of concealing jingoism in harmless language to a high art, and the Oberpräsident was presumably merely trying to say that he hoped that the new Germany would go to war with Poland at the earliest possible moment.

19. Herr von Papen, speaking in Breslau a few weeks ago, stated that Hitlerism in its essence was a revolt against the Treaty of Versailles. The Vice-Chancellor for once spoke unvarnished truth. Hitlerism has spread with extraordinary rapidity since the 5th March, and those who witnessed the celebration of Hitler's birthday a few days ago must have been impressed by the astonishing popularity of the new leader with the masses. So far as the ordinary German is concerned, Hitler has certainly restored something akin to self-respect, which has been lacking in Germany since November 1918. The German people to-day no longer feel humiliated or oppressed. The Hitler Government have had the courage to revolt against Versailles, to challenge France and the other signatories of the treaty without any serious consequences. For a defeated country this represents an immense moral advance. For its leader, Hitler, it represents overwhelming prestige and popularity. Someone has aptly said that nationalism is the illegitimate offspring of patriotism by inferiority complex. Germany has been suffering from such a complex for over a decade. Hitlerism has eradicated it, but only at the cost of burdening Europe with a new outbreak of nationalism.

I have, &c.

HORACE RUMBOLD.

No. 2.

Extract from Despatch No. 979 of October 10, 1933, from Sir E. Phipps.

It would be a comfort to be persuaded of the peaceful intentions of Nazi Germany, but, although Herr Röhm makes one or two debating points, his statement is so unconvincing as to be alarming. It is no consolation to be told that the S.A. cannot be turned into soldiers overnight, that industry cannot be adapted for war in a day, that the brown shirt is not a suitable garment for field operations, and that Herr Hitler wants a period of peace for his constructive work. Few observers believe that the Germans are planning to let loose a war to-morrow. What is disturbing the world is that Germany is taking the first steps to become once more a nation in arms and her past history furnishes the most reliable guide to her motives. On this aspect Herr Röhm is either evasive or deliberately misleading.

The "nation in arms."

No. 3.

Extract from Letter from Sir E. Phipps to Sir M. Hankey, dated October 25, 1933.

Confidence in the future is one of the great Nazi slogans. The idea seems to be that Germany's tribulations in the past were due to corrupt Governments run by Jews and Marxists. The new clean administration will work wonders. I fear I do not share your view that the cause of this confidence is the removal of the Communist danger. The Nazis play this Communist card *ad nauseam*. There were about 5 or 6 million Communist votes in Germany, out of, say, 35 millions. The tame citizen undoubtedly took them much more seriously than the Governments of Prussia and the Reich, who knew that all their bloodthirsty talk about revolution and retribution meant nothing. The Communists and their fighting organisation, the "Rot-Front," did not put up the faintest resistance to Hitler, either in February or March this year. Indeed, it was they who in a sense delivered Germany into Hitler's hands. By putting up their own candidate for the presidency in 1925, they defeated Marx and put

The Communist "Bogey."

in Hindenburg. Hence Papen and hence Hitler. Of the 250,000 stalwart Communists in the Rot-Front, more than half are now in the S.A., which accounts for much of the brutality of that body. One can tell the Communist units in east and north Berlin because they march so much better than the other S.A. men. I see from the German press that Mr. Lloyd George among others has fallen a victim to the Communist bogey. His speeches, which are widely reported here, advocate support for Hitlerism as the only alternative to communism in Germany. Successive German Governments have used this argument since 1918. There was something in it, because the only alternative to their democratic régime was what we have now got—national socialism, which is a hotch-potch of fascism and other isms, including communism.

No. 4.

Extract from Despatch No. 1044 of October 25, 1933, from Sir E. Phipps.

Real nature
of Hitler's
protestations
as to his
pacific
intentions.

It appears that the decision to leave Geneva is viewed with some misgiving by the more reasonable members of the Government, a feeling which is shared by certain sections of the public. In fact the attitude of Germany may be likened to that of a small boy who has thrown a stone at an adult. It was great fun at the time, but how will the gentleman take it? The Germans are deeply conscious of their defenceless position, and their vulnerability to air attack has been brought home to them, perhaps unwisely, for political purposes by the Government. Hence it is only natural that the German Government should, particularly at this moment, be anxious to emphasise their peaceful intentions. The ordinary German in conversation is at pains to impress one with the fact that it would be madness for Germany to embark on a warlike adventure, that the Nazis are only concerned with building up the internal structure of Germany, that they have no real interest in foreign politics, and that Herr Hitler may be relied upon to keep the peace. The recent banning of Professor Banse's book is evidence of the desire of the Government to create a good impression abroad. As I listened to the Chancellor's wireless speech on the 14th October I was struck by the sincerity of his tone, and I can well believe my German friends when they tell me that the present German Government is not planning a war. The future is, however, quite another matter. The Italians are not a warlike people; they are indolent and peaceful in character. The action of fascism may be described as the action of massage on an atrophied limb, whereas in Germany it is a case of massage applied to a fevered, but otherwise muscular, limb. In my despatch No. 979 of the 10th October I drew your attention to the declaration in which the Nazi Chief of Staff endeavoured to demonstrate the wholly peaceful character of the Nazi movement. His arguments, which are those in general use in Germany to-day, arouse misgivings which no peaceful assurances, however sincere, can allay so long as the Government persist in giving the country spectacular military displays and bringing up the younger generation on garbled versions of Germany's history since 1914.

10. Most observers here think that the Chancellor's pacific views are sincerely held. With the best will in the world to believe in his sincerity, a certain residue of scepticism must be pardoned. The German is apt to be guilty of intellectual dishonesty, to blind himself to his own real sentiments and to profess with every appearance of sincerity convictions because they happen to be convenient. Moreover, Herr Hitler himself is an abnormal man with an artistic temperament, whose past history gives no guarantee of his reliability. He has been accused again and again in the course of his political career of violating his promises. For example, the Bavarian Government deemed him guilty in 1923 of breaking his word of honour and his solemn undertaking to refrain from political activities, and his controversy with President von Hindenburg as to what transpired at their first interview last year cannot be ignored. It is not to be lightly assumed that his interpretation of his own promises will always coincide with the normal interpretation. The sequel to his undertaking to my Italian colleague to refrain from Austrian propaganda will be fresh in your mind. I can only qualify my scepticism by remarking that national socialism is a new faith composed of many ingredients. These include undeniably a certain idealism and sentimentality, and it may be that there are possibilities inherent in it which, if it survives, may ultimately prove of value to European politics.

Extract from Despatch No. 1159 of November 21, 1933, from Sir E. Phipps.

The masses are convinced that Hitler is now converted to a policy of peace and reconciliation. They realise, however, that he will insist on Germany being given a fair deal, and that the time for humiliation is at an end. Hitler's own followers are rather taken aback by the pace he is setting, and do not seem to be able to grasp all that is happening. They have a vague feeling that Hitler is growing out of their ranks and that he is now well on the way to complete and independent control of Germany. If they grew obstreperous they knew that he has only to appeal to the crowd since the general election. The S.A. has not become superfluous, but for the moment it is not the power it was. Herr Hitler is becoming the people's Chancellor and, even if economic stress continues, the crowd will be patient, believing that no one could have succeeded where he failed. The dissensions between the right and left wings of the party, the tension with the Vatican, the controversies in the Evangelical Church and, above all, the apparent inability of the Nazi authorities to maintain a tight hold over the rank and file are all sources of weakness to the régime, but there is no reason to believe that they will bring it down.

Growing strength of Hitler's personal position, and its political effects.

In the realm of foreign affairs the burning question is that of "Gleichberechtigung." It was the issue on which the election was fought and it occupies the stage to the exclusion of almost every other question.

* * * * *

In contemplating the situation arising out of an electoral campaign waged against a practically non-existent adversary and conducted with propaganda methods of unexampled violence and mendacity, one is tempted to put certain far-reaching questions regarding the future of the Hitler movement and the future policy of Hitler. It has been asked, for instance, whether the movement is not a convenient screen behind which the old Prussian nationalism is weaving its dark web. This may well be, but if so the screen itself is singularly inefficacious and fails to conceal the fact that the youth of Germany is being reared in a purely militarist spirit. I told the Chancellor that militarism seemed to me to be the *leitmotiv* of this country, whereas elsewhere it was merely an incident, and that a spark might suffice to kindle that militarist spirit into a warlike flame. I might have added that the above-mentioned campaign of lies, depicting Germany as the one innocent lamb among a pack of wolves, was not calculated to inculcate in German youth that spirit of peace and understanding advocated so inappropriately and so loudly after Germany's banging of the Geneva door.

As regards Hitler, I doubt whether he himself realises how far he is at present the author of *Mein Kampf*, the full-blown blood-and-thunder book as originally published in Germany, that is to say, and not the recent pale, abridged and bowdlerised edition which has been published by his direction and translated into English. Towards the end of his book Hitler wrote as follows:—

"What have our Governments done to replant in the hearts of this people the spirit of proud self-assertion, manly defiance and passionate hate?"

"When, in the year 1919, the treaty of peace was imposed on the German people, one would have been justified in hoping that it would be this very instrument of unlimited suppression which would have given added strength to the cry for German freedom. Treaties of peace which impose on whole nations conditions which scourge like a lash, often sound the first drum for a later rising.

"How much might have been made out of the Treaty of Versailles!"

"How well this instrument of unlimited extortion and most shameful degradation might, in the hands of a determined Government, become a means by which Nationalist passions could be whipped up to white heat! How well a genius for propaganda might utilise these sadistic cruelties to raise the country from indifference to indignation, and from indignation to the height of fury!"

"How every one of these points might be seared into the brain and heart of this people until at last, in the minds of 60 million souls, both men and women, the shame and the hate which they felt in common became that single blazing sea of flame from which would be forged one desire, and from which would rise one cry:—

"WE WANT ARMS AGAIN!"

Who can tell how far this Hitler resembles the present German Chancellor, who has been making the welkin ring with shouts of peace? In some respects it is certain that he remains true to type, for he has not varied over the Jewish question or Austria since writing his book; but it would be too simple, and even perhaps dangerous, to assume that he maintains intact all the views held and expressed with such incredible violence in a work written in a Bavarian prison ten years ago, though, of course, those views cannot be left out of consideration in any endeavour to gauge the Chancellor's intentions on any given subject. . . .

We cannot regard Hitler solely as the author of *Mein Kampf*, for in such case we should logically be bound to adopt the policy of a "preventive" war, such as the Poles and French half-heartedly bid each other initiate last spring ("Tirez les premiers, messieurs les Français"), nor can we afford to ignore him. Would it not, therefore, be advisable soon to bind that damnably dynamic man? To bind him, that is, by an agreement bearing his signature freely and proudly given? By some odd kink in his mental make-up he might even feel impelled to honour it. His signature under even a not altogether satisfactory agreement, only partially agreeable to Great Britain and France and not too distasteful to Italy, might prevent for a time any further German shots among the international ducks. His signature, moreover, would bind all Germany like no other German's in all her past. Years might then pass and even Hitler might grow old, and reason might come to this side and fear leave that. New problems would present themselves, and old problems, including disarmament, might perhaps have solved themselves through the mere passage of time, and without those Herculean and hitherto vain efforts to satisfy German "honour" and allay French fear.

I have, &c.
ERIC PHIPPS.

[C 842/842/18]

No. 6.

Sir E. Phipps to Sir John Simon.—(Received February 5.)

(No. 127.)

Sir,

Berlin, January 31, 1934.

IT may be useful if I make some remarks of a general character on the present position and the future trend of German foreign policy.

2. The German problem, like so many others, has been complicated by the very comprehensible reluctance of human nature to face inconvenient facts. It was often said, after the war, and I am not aware that the statement was ever contradicted, that it was impossible to hold a great nation like Germany in subjection for ever. It was recognised, if only subconsciously, that the ultimate aim of successive German Governments must be the re-establishment of the position which had been lost in the war. The fear of France for her security arose from the very knowledge that, sooner or later, Germany must recover her strength.

3. Under the Weimar Constitution, recovery would have been slow and difficult. But France, for reasons which are easy to explain, failed to adopt a clear-cut policy towards Germany. Having, in return for an Anglo-American guarantee, grudgingly accepted the Wilsonian ideology, she was unable, when the guarantee was withdrawn, to return to the policy of annihilating Germany. At the same time, she was unwilling to bow to the inevitable and realise that there was henceforth no alternative but the policy of conciliation. For even the failure of that policy would not have landed her into any worse a position than a policy of drift. The result was to discredit the Weimar system in Germany, and eventually to bring about its disappearance, together with the elimination of the men who stood for the policy of treaty revision through the League of Nations or through negotiation. In their place there are now men, whose ultimate aims are much the same, but whose radically different methods may at some future date precipitate an international conflict. For Nazi Germany believes neither in the League nor in negotiation, and claims with some justice that the experience of the last fourteen years has converted the vast mass of the German nation, and particularly the younger generation, to their point of view.

4. Germany's foreign policy may be said to comprise the following aims :—
- (1) Fusion with Austria.
 - (2) Rectification of the eastern frontiers.
 - (3) Some outlet for German energy towards the south or east.
 - (4) The recovery of some colonial foothold overseas.

The order may vary with the needs of the moment. Dr Brüning, for example, placed fusion with Austria first on the list, not because of its urgency, but because it seemed easiest of attainment. He, and Hitler after him, believed that Austria was vulnerable from within, Dr Brüning because of the Catholic, and Herr Hitler because of the Nazi, connexion. Weimar Germany attached relatively little importance to colonies or sea power. Herr Hitler has found that Austria is amenable to Nazi treatment, and therefore for the moment leaves the Brüning order of precedence unchanged.

5. Herr Stresemann hoped to reach these objectives by conciliatory methods. He was convinced, though his conviction was rudely shaken for a year before his death, that conciliation and compromise would achieve more than the sword, all the more as he saw no prospect of being able to sharpen the German sword. For he, and even Herr Hitler at the time, was impressed by British, French and Polish utterances, and assumed that intervention would follow if Germany took her sword to the grindstone. Here it may be said that nothing has so enhanced the prestige of Herr Hitler in Germany as the behaviour of the ex-Allies since he took office. All reasonable and cautious opinion in Germany foretold disaster, occupation of the Rhineland, sanctions, perhaps blockade, if Germany reverted to nationalism. The Nazis seized power, and nothing happened. Herr Hitler left the League and still nothing happened. On the contrary, the statesmen of Europe were represented here as having been galvanised into running after Germany. The fear that force may yet be used against Germany exists, but it is rapidly disappearing, and the man, particularly the young man, in the street thanks Hitler for the removal of a distressing bogey. It is therefore not surprising if the Chancellor pursues methods which hitherto have brought him success.

6. To attain his aims, the first step is obviously to discard the remaining servitudes of the Peace Treaty which stand in his way, namely, the disarmament stipulations. His policy is simple and straightforward. If his neighbours allow him, he will become strong by the simplest and most direct methods. The mere fact that he is making himself unpopular abroad will not deter him, for, as he said in a recent speech, it is better to be respected and disliked than to be weak and liked. If he finds that he arouses no real opposition, the *tempo* of his advance will increase. On the other hand, if he is vigorously opposed, he is unlikely at this stage to risk a break, and his policy will probably be to gain time and to go forward as best he can, trying to divide his opponents, and even reverting to the derided methods of his predecessors. In the event of really serious opposition, he may fall back on his so-called "long-term programme," which is fully described in *Mein Kampf*. A new political bloc of Germans, Austrians and scattered Teuton elements is to be established in the centre of Europe. Time is of no consequence. A hundred years is nothing in the life of a nation. The new German people will be trained on original lines. Its mode of life will be Spartan, and it will be so fanatically patriotic that when the day comes, as come it must in the course of time, Germany will have only to shout and the walls of Jericho will crumble.

7. Recent events have, however, given heart to the Nazis, and the "long-term programme" is receding into the background. There is an ever-growing conviction that the day is not so far distant when Germany can at last emerge safely into the open. Hence the Chancellor's foreign policy to-day may be summed up in the word "rearmament." With the passing of every month the demand for "equality," that is to say, rearmament, becomes more insistent and the German requirements more extensive. Nothing short of a vigorous and united policy on the part of his adversaries would impress the Chancellor or the German people. Although Germany appears now to be flouting the opinion of Europe over a variety of major questions, she is doing so because she believes she can now safely pursue this course. She is, I consider, still sufficiently conscious of her weakness and isolation to be brought to a halt by a united front abroad, though the time is not far distant when even a threat of force will prove ineffective.

8. When Germany is rearmed and feels secure from foreign intervention, it will be possible to take in hand the programme outlined above. Herr Hitler is probably sincere when he declared that, after the return of the Saar to the Reich, there will be no territorial question at issue between France and Germany. The rectification of the eastern frontiers and expansion towards the south or east are in the immediate future of more importance, and are aims which are easier of attainment than the annihilation of France. There is, for that matter, no desire to inflict injury on France, for the Nazi racial doctrines recognise the right of the French race to maintain itself in Europe. There has been a change in this respect from pre-war modes of thought, and militarism or imperialism, as pure dogmas, are no longer popular with the young generation.

9. For the moment then, rearmament occupies the centre of the stage. With it is connected the question of the Saar Territory, the early return of which is essential to the prestige of the Hitler régime. Until this territory is safely back in German hands, it is likely that the Chancellor will continue to play for time, more especially as he feels that time is on his side and that with every passing month the chance of effective foreign opposition to his plans is likely to diminish.

10. You ask me what are the main influences bearing upon the Chancellor at the moment. I should say that in the realm of foreign affairs there are no personal influences bearing on him. His policy is simple and straightforward and has the backing of the whole nation. The only elements which might oppose it are those whose caution or cowardice make them fear that he is setting too hot a pace for safety. As I have already said, the experience of the last few months has convinced the majority of these people that their fears in the past were groundless, and that Dr. Brüning lost valuable time through over-caution.

11. A consideration which is influencing the policy of the Chancellor is, as I have said before, the fact that the Saar is still in foreign hands, and he must do nothing to prevent the liquidation of the question in Germany's favour. Another, but less important, factor operating in the same direction is the natural hope of driving a wedge between the ex-Allies. For the moment, I should imagine, he would be prepared to make a show of moderation, if he thought it advisable, in order to prevent the constitution of a united front against Germany. But these are both temporary influences. Soon, it is hoped, the Saar will be in German hands, and Germany will be sufficiently strong to attract friends to her camp, for it is her belief that only strength brings friends. It is obvious that the subsequent realisation of her political aims will have to depend at any given moment on a variety of circumstances—the political constellation in Europe, the economic development of Germany herself, and so on. Russia, for instance, is an uncertain factor. In deference to the general line of German foreign policy, Hitler has had on occasion to stifle his personal inclinations and conform to the policy laid down by men of widely different convictions, Herr Stresemann and Dr. Rathenau. The internal political development in Germany, though Hitlerism professes to be able to control and direct national thought, may prove after all to proceed along unsuitable lines. But assuming that nothing untoward happens, this is, as I see it, the direction in which German foreign policy is bound to move and is at present moving.

12. It may well be asked how this policy squares with the Chancellor's reiterated protestations that he, too, is a devotee of peace. It is plain that the Chancellor needs peace at the moment and that Germany will continue to need peace until she has rearmed and until prosperity returns. One might hazard a guess that for at least a decade, and probably for longer, Germany will not pursue her programme in a manner likely to precipitate deliberately an armed conflict. The recent signature of the declaration with Poland is evidence of her intentions in this respect. The conclusion of this agreement may be taken as proof that Herr Hitler is a statesman capable of sacrificing a measure of popularity for the sake of German foreign policy. For though it may add to his prestige with the above-mentioned timid section, it will detract from it with another much larger section of the community. Not one of Herr Hitler's post-war predecessors, as General von Blomberg remarked to me last night, would have dared to make such an agreement with Poland. Indeed, he might have added, anyone else in doing so would have courted assassination. I was particularly struck in the Reichstag yesterday by the comparatively cold reception given by even that packed and servile body to the passage of the Chancellor's speech dealing with the Polish Agreement. As in the case of Russia, however, Hitler is prepared to put aside sentiment and pursue a policy of reality.

13. Whilst it may be said that a nationalist Germany will not be deterred in the long run from pursuing her policy by the mere consideration that it may lead to war, for the moment she desires peace, for the reason that she is not prepared for war, and that she recognises that in modern times war is at the best a profitless undertaking. But she demands equality of armaments as of right. Later, she will presumably demand the territorial revision of the "unjust" peace treaties also as of right, and will hope to secure these desiderata by peaceful means or at all events by the threat of force. If these methods fail and the "just" claims of Germany should lead to war, the blame will be laid on her enemies with the same passionate conviction as the blame for the last war is laid to-day on the Powers, whose jealousy it is sedulously suggested encompassed the encirclement and destruction of the German Empire.

I have, &c.
ERIC PHIPPS.

[C 4391/29/18]

No. 7.

Sir E. Phipps to Sir John Simon.—(Received July 7.)

(No. 794. Confidential.)
(Extract.)

Berlin, July 5, 1934.

I PROPOSE in this despatch to set forth (1) the events leading up to the intended plot, (2) the plot itself, with its chief actors, (3) its suppression and chief victims, (4) its possible immediate results. The Röhm
"Plot."

I.—*Events leading up to the Plot.*

To get the proper perspective it is necessary to hark back for a moment to the post-war period when the actors in the drama first came on to the stage. Hitler himself then appeared in Munich as a reservist, with nothing to do and no prospects. He helped to recapture the city from the Communists, and in this connexion made the acquaintance of Ernst Röhm, then a captain in the Reichswehr with a bent for politics. From spring 1919 onwards Röhm and Hitler were associates, but it must be borne in mind that the relation was always that of a captain in the army with a corporal. In due course the corporal was glad to earn his living as a lecturer at Reichswehr continuation classes, a job created for him by Röhm. In 1921 the ex-servicemen who formed the backbone of the Nazi party, following the fashion of the moment for illegal armies, set up the S.A. Röhm commanded this little force, and in the same year the first conflict arose between him and Hitler regarding the nature of the S.A. Röhm never understood that Hitler did not wish to set up a military force. Hitler's idea was much more cunning. With unerring instinct he grasped the full significance of the inborn love of the German masses for marching, uniforms, parades and the like, and conceived the idea of exploiting this popular bent for political purposes. His plan was to form a political party in which the men between the ages of 20 and 50 would be soldiers, but in a political army. Röhm, on the other hand, regarded the S.A. as a military force. During the Ruhr invasion in 1923 the Reichswehr helped to train the S.A. in orthodox military fashion. In the same year accident brought Captain Göring into touch with Hitler, and Röhm and Göring became rival military experts behind the Führer. In the autumn of 1923, when a Bavarian Nationalist, Herr von Kahr, overthrew the Social Democratic coalition in Munich and set himself up as dictator, Hitler decided in turn that his hour had come. He bitterly reproached himself for not having anticipated von Kahr, and encouraged by Göring and Röhm, who assured him that the Reichswehr would not intervene, attempted to wrest the Government from the rival dictator on the 9th November. The Reichswehr did intervene, and Röhm never forgave them. There are many points of resemblance between Hitler's abrupt action in November 1923 and his action of the 30th June, 1934, eleven years later.

During Hitler's incarceration in 1924 Röhm revived the S.A., but in a purely military sense, and placed them definitely under Ludendorff's command. On his release Hitler quarrelled finally with Ludendorff, demilitarised the S.A., placed Captain Pfeffer von Salomon in command, and Röhm retired to Bolivia as a military instructor. But Pfeffer, a former army captain, treated Hitler with scant respect. Pfeffer, like Röhm, despite his conversion to "socialism," could never forget that Hitler was merely a corporal in the German army. It was the failure on Röhm's part to understand the Führerprinzip, as distinct from the

military principle, which ultimately cost him his life. He always regarded himself as Hitler's superior despite the latter's popular appeal. After the Munich "Putsch," Gregor Strasser, an orator almost equal to Hitler, usurped Röhm's place as second in the party; but in 1930, after the Berlin S.A. had mutinied in a manner similar to the Munich mutiny of Saturday last, Hitler replaced Pfeffer by Röhm (who had returned from Bolivia) in January 1931. As time passed the S.A. organisation expanded mightily, and the fight between Röhm and Hitler regarding its military character was resumed. Hitler's warnings that the French would take fright if Röhm militarised the S.A. proved to be correct when in 1932 the Brüning Government forbade the wearing of uniform by the S.A. But the arch-intriguer, General von Schleicher, soon obtained the revocation of the order, issued on his own advice in the first instance. Schleicher, at that time the power behind the throne at the Reichswehr Ministry, had conceived the idea of bringing the S.A. and the Nazis into the Nationalist orbit, and exploiting a movement which he had hitherto regarded with some contempt, for his own ends.

Hitler's difficulties with the S.A. under Röhm and Pfeffer had caused him at an earlier date to set up a personal bodyguard known as the S.S. Limited in number, of magnificent physique, the S.S. in their smart black uniforms, by their discipline and training, cut even a better figure than the Reichswehr. Himmler, a Bavarian schoolmaster, commanded them. The natural consequence was fierce rivalry between the two organisations. After 1930 Hitler never again employed any bodyguard other than the S.S.

Hitler came into power in January 1933 after numerous intrigues. Schleicher had ousted Papen by a long series of ingenious moves, which ultimately brought Papen into violent conflict with Hitler and the Nazis. Papen retaliated in January 1933 by going to Hitler behind Schleicher's back and offering him the Chancellorship in the President's name, provided the Nazis would be content with a few minor posts in the Cabinet. Hitler, though depressed by his defeat at the elections, wavered an instant, and here Colonel von Bredow (another of the victims) came into the picture. He suggested to Schleicher that the army should arrest Hitler and Papen if they showed any signs of ousting Schleicher. As everybody at that time betrayed everybody else, Papen soon ascertained Bredow's plan, and Hitler, on being apprised of it, hastened to accept Papen's terms, though they seemed to his friends to amount to capitulation. He entered the Reichskanzlei with Hugenberg and his other enemies in a parliamentary Government—at least so it appeared until Röhm took action.

Röhm and Goebbels soon realised that the mob did not understand that Hitler had capitulated and sold the movement to Papen for a mess of pottage. On the contrary, public opinion assumed that Hitler's appointment as Chancellor signified the genuine triumph of national socialism. Röhm set about the real overthrow of the Constitution of Weimar. Seizing the administrative apparatus with the help of his S.A., he paved the way for the elections. Bolder spirits, like Heines and Ernst, by setting fire to the Reichstag, finally stampeded the country into the Nazi camp. Small wonder that Röhm thought that he and Hitler were "gleichberechtigt," to say the least.

One can realise Röhm's disappointment when he found that Hitler firmly declined from the outset to entrust him with the office of Reichswehr Minister. The military forces had hitherto stood aloof from the political struggle against him, and for this Hitler was grateful to them. But though the Reichswehr showed no hostility to his régime, it gave no cordial welcome. Soon the lavish display of Röhm's pseudo army, the multitude of S.A. staffs and staff cars and the glittering paraphernalia with which Röhm surrounded himself, gave offence to generals and officers brought up in the frugal Prussian school. After a year it began to dawn on Hitler that he would one day have to choose between the army and the S.A.

During the disarmament negotiations Röhm naturally defended the existence of the S.A. with every argument at his disposal. Not that the Chancellor was likely for his part to disband them without being secure of the loyalty of the Reichswehr. When the discussions on disarmament came to an end, Röhm resumed his pressure on Hitler to expand the army by the inclusion of those units and officers which he as Chief of the Staff should specify. Hitler went to the length of conducting a recruiting experiment with the Reichswehr. Certain areas recruited individual S.A. men in addition to their normal recruits; others recruited non-political candidates as before, while in certain cases S.A. units were

taken over complete for training. Hitler was greatly impressed by the results, which showed that the army instructors could make no headway at all with complete S.A. formations. These had been trained on wrong lines. Individual S.A. recruits tended to introduce politics into the army. He decided to give the army a free hand as before in its choice of recruits. Realising that the expansion of the army was to be effected without his advice or co-operation, Röhm felt deeply aggrieved. His licentious mode of life had in the meantime led the Chancellor to remonstrate with him and his subordinates Heines and Ernst. Indeed, the indiscipline of the S.A. threatened eventually to make the régime unpopular, and it needed the personal intervention of the Chancellor to induce Röhm to intervene in the most flagrant cases. His self-indulgence finally forced Röhm to leave for a cure in Bavaria after the Chancellor's decision to put a stop to all military exercises of the S.A. was imparted to him. Hitler's decision that the S.A. should discard uniform during the month of July incensed Röhm to such an extent that he approached the S.A. group leaders and outlined his ideas to them in strict confidence.

II.—*The Plot.*

To speak of a plot is perhaps misleading. Röhm appears to have had in mind an action somewhat similar to that of February and March 1933. The S.A. would assemble in the streets, as they had done on the previous occasion, and take possession of the executive machinery. The movement would rapidly spread from the big cities and envelop the country. Beginning with this idea, Röhm seems to have elaborated it into a plan. The S.A. having overcome all opposition, Hitler would be rescued from his present colleagues in the Government and restored to his former entourage. Baron von Neurath told me yesterday that he himself and General von Blomberg were regarded by the conspirators as the reactionaries from whom it was specially desirable to rescue the Führer. The Reichswehr, Schleicher probably told him, would adhere to its rôle of passivity. The populace generally would be swept by a second revolutionary wave, and the Third Reich, unadulterated by outsiders like Papen, Seldte, Blomberg and Neurath, would come definitely into being. It may seem incredible that Röhm should conceive such a plan, and still more incredible that General von Schleicher should allow himself to be involved even in the slightest degree, but when it is borne in mind that the moment was not unpropitious for a variety of reasons, their action will not appear quite so astonishing. In the first place, popular apathy was so manifest in the spring that Hitler and Goebbels had to launch their summer campaign against critics and "grousers." This campaign had fallen flat. The economic situation was deteriorating rapidly, the Reichsbank announced empty coffers, the populace were talking of ration cards, and the Government were beginning to limit and control imports when Röhm left for Wiessee.

III.—*The Suppression.*

If action were to be taken, Röhm must have realised that it should not be long delayed, and if, as Baron von Neurath told me, he had fixed on the month of August, he must have been forced to hasten the date by Herr von Papen's sudden attack on the Government at Marburg on the 17th June. It is unlikely that Papen acted in concert with Schleicher, who hated him. The immediate result of the Marburg speech was a fresh discussion between Herr Hitler, General Blomberg and President von Hindenburg, the result of which must have been decisive for Röhm and his friends. Though the President and the army approved of Papen's speech, they had no inclination to pursue the matter further. For that matter, Hitler's policy and that of the Reichswehr could not be said to conflict on any major issue, such as the necessity for a strong central Government, the retention of the capitalist system and the expansion of the army. Furthermore, Hitler's recent decision to refrain from any interference with the army and his order to expand to 300,000 meant promotion, and so added to his popularity among all ranks. Rather than weaken Germany's military strength at a critical moment like this, he would—he told General von Blomberg—break up his own political party. So long as Hitler continued to hold the balance between Left and Right, the army were ready to remain neutral, like President von Hindenburg, their Commander-in-chief. As a result of Hitler's visit to

Neudeck, Papen made his peace with him and General von Blomberg published his article in the *Völkischer Beobachter*. The decision taken by Hitler during the same week to reorganise the S.A., which may have been reported simultaneously to Röhm, would compel him to act before the 1st July, the date fixed for the temporary disbandment of his force, for he would realise that reorganisation meant demilitarisation of the S.A. The decision to retain the S.S. was a further warning. To come now to the actual plot: the Government have given no evidence in support of their statement that there was a definite conspiracy outside Röhm's immediate circle. General Göring, in his statement of the 30th June, declared that Hitler had decided to make an example of a rebellious clique of S.A. leaders, but he made no reference to a definite plot. There is no doubt that the first inkling of trouble was Hitler's message to Goebbels to join him in the Rhineland after midnight on the night of the 29th-30th June, sent, no doubt, on receipt of a message from Munich that trouble was brewing. The events which followed have been fully reported in my telegrams so far as they were ascertainable from the statements of the authorities. These, however, contain several loose threads. From private, but highly reliable, sources within the S.A. and S.S. organisations, it seems that Schleicher was injudicious enough to receive the visits of a number of S.A. leaders on the same day that Röhm received a number of his ringleaders before his departure for Bavaria. Many hundreds of S.A. leaders were summoned to Munich for the morning of the 30th June. Whether all the summonses were issued by Röhm or, as is asserted in other quarters, by Hitler himself, is not definitely known. On the other hand, it is inconceivable that such dangerous men as Schneidhuber and Schmidt, the two commanders of the Munich S.A., should have been denounced by the Bavarian Minister of the Interior were there any chance that they might prove innocent. When Hitler arrived at 5.30 A.M. on the 30th June at Wiessee, I understand that Röhm's bodyguard, sixteen in number, were so drunk as to be quite incapable of action. Even when allowance is made for his abnormal physical and presumably mental condition, it is difficult to reconcile the state of affairs at Röhm's residence on the eve of a "Putsch" with his former military training. Röhm offered no resistance and the remainder of his bodyguard, which arrived a little later, dispersed at Hitler's order. Several hundred S.A. leaders were arrested as they arrived in Munich. Owing to the secrecy with which the accused persons were brought to Berlin and executed, it is difficult to obtain accurate details. Members of the S.S. who were present at the Lichterfelde firing-ground contradict each other on the most simple matters of detail. Some assert that there was no court-martial and that over 100 prisoners were shot; others insist there was a court-martial of a summary kind and that only sixty were shot. The Group-Leader of Berlin, Karl Ernst, a key man in the plot, was arrested at Bremen when about to board a steamer for a pleasure cruise on which he had booked places for himself and his wife some weeks earlier. It is not clear how so important a conspirator came to be at Bremen when his presence would be vitally needed at Berlin. Röhm may have overlooked him when he made the hurried change in his plans.

While the execution of the Nazi leaders is comprehensible on grounds of general disaffection, no explanation of the deaths of persons not connected with the Nazi plot has been furnished. Herr Klausener, the most energetic of the Catholic leaders behind the scenes, was in touch with Herr von Papen, but only in his capacity as another Catholic leader, and with Papen's "chef de cabinet," von Bose, but no evidence has been brought forward to justify their execution of that of Herr von Kahr in Munich. Both General Göring and Dr. Goebbels were bitterly hostile to the Catholic movement, as well as to General von Schleicher. On the other hand, the fact that the Cabinet endorsed all the actions of the Führer during the week-end and that the Minister of Justice went out of his way to sanction all that had occurred is strong evidence that Hitler's measures were justified. Similarly, Hindenburg's approval appears to extend to the execution of all the victims. Baron von Neurath, who informed me himself that it was clear from seized documents that a "Putsch" was to take place in August, is too serious and experienced an official to be easily misled, while the Minister of Justice, Dr. Gurtener, a man of Nationalist sympathies, but not a Nazi, is stated by all who know him to be the embodiment of sanity, common sense and uprightness. General von Schleicher was in the habit of producing a sheet of paper with the names of seventeen persons whose execution would mark his return to power. Whether he was joking or serious was difficult to say.

IV.—*The Immediate Consequences.*

In the meantime the purge continues. The police, who are the old Prussian police of "system" days under the command of reliable and moderate Nazi or Nationalist officers, have taken possession of the quarters, offices and archives of the S.A. The S.S. have confiscated considerable stocks of weapons and ammunition. The Chancellor is evidently determined to demilitarise the S.A. thoroughly on this occasion, and the new Chief of Staff, Lutze, seems to be a man of straw, while the real commander is General Daluge, a former "system" police officer with Right sympathies who enjoys Göring's confidence. Except in Silesia, Hitler's measures have been received with genuine relief by the populace. Indeed, in certain areas and in some streets in Berlin the reappearance of the police and the disappearance of the S.A. gave rise to rumours that the Hitler régime had been overthrown. Passers-by gave vent to their feelings in no uncertain fashion.

An inevitable result of Hitler's action will be the reorganisation of the S.A. presumably into a purely political body. It seems unlikely that the police will be ousted again from their proper function of maintaining order in the State, if necessary with the help of the army. In that case the S.A. will become a kind of *claque* for use at political meetings or at demonstrations and parades. The S.S., on the other hand, young men in the prime of life, will presumably gain in prestige and importance. Hitler's promise that the State would not maintain two armies (Reichswehr and S.A.) is apparently to be fulfilled, and if, as he hopes, the rank and file of the Reichswehr soon become Nazi in allegiance, the régime will no longer have any reason to distrust the regular army. So long as the S.A. maintained their military organisation, the army regarded them as rivals with whom hostilities might break out in certain eventualities. This danger now seems to be at an end.

No. 8.

Extract from Despatch No. 1221 of October 15, 1934, from Sir E. Phipps.

VI.—*Conclusion.*

46. It is true that the Nazi educational aims have not yet been fully realised, but this is largely due to difficulties caused by the obstruction of dissident teachers, the delay in issuing the new uniform school books for the Reich as a whole, and the independence of local authorities. These difficulties will inevitably be swept aside as the Government, with characteristic German tenacity, advances towards its goal. German Education.

47. In the meantime it may be said that a machine has already been created which is well designed to capture the youth during their most impressionable years and fashion the "uniform type of perfect citizen." Intellectualism is derided, and the pursuit of pure knowledge is condemned. The modern German is being brought up in a water-tight compartment, in which he has no opportunity of coming in contact with realities or with the opinion of the outside world. Like the Spartan, his life and service is at the complete disposal of the State. His education is admittedly intended to enable him to acquire only such knowledge as will strengthen his attachment to the Nazi party. Its main object is to endow him with those spiritual and bodily virtues which will fit him to carry out the rôle allotted to him. The spiritual virtues are the soldierly character, the heroic conception of life and the readiness to sacrifice himself for his country. The bodily virtues are health, toughness and athletic fitness. The methods adopted to inculcate these virtues are, as it happens and whatever the ultimate object in view, the methods which would normally be adopted to bring up a race of warriors. The universities are no longer to be seats of learning, but forcing houses for the production of Nazi leaders. Finally, there are, as an integral part of the educational system, the Hitler Jugend and the Labour Service, both of which round off and complete the politico-military training already given in the schools.

48. National socialism claims to be strictly original. Any suggestion, for example, that it is inspired by Soviet or Italian conceptions is indignantly repudiated. Otherwise one might be tempted to imagine that the Nazi educational system is modelled on that of the Samurai. "Peace with honour" is the catchword in the schools as on the political platforms, and there is no evidence of any tendency to preach war for war's sake. Nevertheless, whether consciously and deliberately, or not, the nation is being fashioned into a powerful and pliable instrument in the hands of an absolute Government. In the interest of peace—for a weak Germany, it is said, is a temptation to her predatory neighbours—the German schoolboy of to-day is being methodically educated, mentally and physically, to defend his country. He is being taught to die to protect his frontier. But I fear that, if this or a later German Government ever requires it of him, he will be found to be equally well-fitted and ready to march or die on foreign soil.

[C 235/55/18]

No. 9.

Sir E. Phipps to Sir John Simon.—(Received January 10.)

(No. 13.)

Sir,

Berlin, January 7, 1935.

I HAVE the honour to transmit to you herewith a very interesting report by the military attaché to this Embassy on the German army in 1934.

I have, &c.

ERIC PHIPPS.

Enclosure in No. 9.

(Extract.)

Report by the Military Attaché on the German Army in 1934.

Political Tendencies.

40. It is impossible for a foreign observer to withhold a large measure of admiration for the resistant qualities displayed by the corps of Reichsheer officers. This body, only 4,500 strong, was opposed passively by the whole Nazi party and actively by the S.A., many times numerically stronger, with most of the Government and all the Nazi party machinery at their back. Yet these few officers are the only body that has completely thwarted the plans and ambitions of the Nazi party. The struggle was extremely hard and great flexibility and skill had to be shown; the Reichsheer had to accept the Aryan paragraph (total losses = 5 officers, 2 cadets and 5 other ranks), the wearing of the Nazi emblem on their uniform and several other Nazi inflictions. The secret of their strength lies in the texture of their loyalty, frugality and discipline, which, together with their doctrines and aims, are all inculcated by their leader, the Chief of the Army Command, and by him alone. Against these qualities the enthusiasms and ambitions of the Landsknechts of Röhm were of no avail in the long run. . . . There are no signs that the Reichsheer have in any way modified their aim, which is to devote the whole of their energies to recreate the military strength of Germany. They have given their oath to Herr Hitler as the one man who can assist them most in their task. They have, in addition, the happy conviction that when Herr Hitler ceases to be needed by Germany, he will be more than ready to release them from their oath, though there is always the possibility that an assassin may anticipate that moment.

Sir E. Phipps to Sir John Simon.—(Received January 24.)

(No. 60.)

Sir,

Berlin, January 22, 1935.

THE result of the Saar plebiscite is likely to have a profound effect on the future course of German domestic and foreign policy.

Effect of
Saar
plebiscite on
German
foreign
policy.

2. At home Herr Hitler's position has been materially strengthened. He has demonstrated that, despite his open violation of Part V of the Treaty of Versailles and his brusque exit from the League, he has been able to secure the execution of that small portion of the treaty which Germany desires to see fulfilled. The big majority recorded for Germany proves to his enemies that the day of his eclipse is not at hand, whilst the insignificant number of votes given to France proves M. Clemenceau a liar before history, and confirms, the Chancellor claims, his oft repeated thesis that the Treaty of Versailles is based on a tissue of falsehoods and consequently has no moral value. Finally, the victory has come at an opportune moment, and the genuine enthusiasm which it has generated will supply the régime with sufficient motive power to carry it forward for some time.

3. The effect on German foreign policy is likely to be equally far-reaching. I fear that there is every prospect that Herr Hitler, intoxicated by his victory, will become more difficult to treat with on all the major questions at issue before us. The German press significantly greets the Saar result as the "Victory of Blood." The unexpectedly large majority for Germany not unnaturally gives rise to the belief that an election in Austria would also show a result exceeding the previous expectations of the most optimistic of the Nazis. Furthermore, it leads the National Socialists to conclude—and perhaps with some truth—that the German minorities in Poland, Czechoslovakia and Tyrol would vote for Hitler to-morrow were they allowed to do so. It is a remarkable fact that at the present moment national socialism is more enthusiastic and ardent outside this country than in it.

4. In the matter of disarmament there are indications, which I have already reported, that the German requirements are likely to be assessed at an ever increasing figure. The *D.A.Z.*, in a leading article of the 18th January, significantly remarks that the Franco-Russian understanding is a new factor, of which due account will have to be taken. Baron von Neurath said as much to me on the following day in regard to German requirements in the air.

5. Still more unpromising, perhaps, is the outlook for the return of Germany to the League of Nations, whatever certain Wilhelmstrasse officials and others may say to British visitors. Even if agreement be reached on disarmament and Germany be granted a full measure of equality, with all this term implies, including, presumably, the militarisation of the Rhine, the removal of the war guilt clause and, in fact, the consignment to the waste-paper basket of the Treaty of Versailles, not to mention complete equality on sea and in the air, it will probably be no easy matter to lure the German Government back to Geneva. Herr Hitler, in his interview with Mr. Ward Price on the 17th January, stated that the return of Germany to the League depends entirely on whether she obtains full equality of rights. This, on the face of it, is a not unpromising declaration despite the qualifications which follow, but I fear that when it comes to the point it will be difficult to overcome the deep and widespread German prejudice against the League of Nations. As I reported at the time, the decision to withdraw was a popular one, and for a variety of reasons it will not lightly be reversed. Rightly or wrongly, whether because of the language difficulty, their mental inelasticity or their inability to win the sympathy of an international assembly, the Germans were always fish out of water at Geneva. The atmosphere is displeasing to them. They feel enveloped in a cloud of general hostility and suspicion. With the advent to power of Herr Hitler their situation became much more uncomfortable, and there are few German officials who would look forward without apprehension to appearing once more in the Salle de la Réformation. For the purpose of gaining advantages for Germany the sacrifice might be made, but the general opinion appears to be that Geneva promises rebuffs rather than solid advantages, and that, besides, Germany has already by her own efforts obtained what she requires. As a Serbian patriarch is said to have remarked to the Archbishop of Canterbury: "For years we prayed for deliverance from the Turks. But at last

we took up arms and did it ourselves." By means of the expansion of German strength, it is believed, more friends will be made than by lobbying behind the scenes at Geneva. This sentiment is reflected, for example, in a press telegram of the 17th January from Geneva, which describes the warmth of the welcome given to the Saar representatives after the plebiscite. Never before, says the correspondent, during the past fifteen years had they been received with such courtesy and attention even by the messengers in the Secretariat. Success, he concludes, is what counts at Geneva.

6. Another consideration, which is likely to weigh with Herr Hitler, is that the League is based on the principle of collective security, whereas his policy is directed towards the conclusion of separate bilateral non-aggression pacts. Did he not at one of my first meetings with him declare his readiness to conclude such pacts with all his neighbours? The stronger Germany becomes, the more ready will the limitrophe States be to conclude such agreements with her, and only thus will it be possible to break the ring around her frontiers. This policy is not likely to be abandoned till it has been thoroughly tested and shown to have failed. In his interview with Mr. Ward Price referred to above, Herr Hitler remarks that he will not conclude pacts, the consequences of which cannot be foreseen, and that, if Germany is not prepared to go to war for herself, she will not do so on behalf of foreign interests which do not concern her; and he repeats his readiness to conclude non-aggression pacts with his neighbours. So long as he maintains this attitude, it is difficult to see how Germany can loyally subscribe to the Covenant.

7. Finally, those of Herr Hitler's advisers who predicted that Germany's withdrawal from the League would bring disaster have been discredited. There are, to-day, few Germans in any walk of life who, in the light of a year's experience, consider that Germany's interests have in any way suffered from her absence from Geneva. On the other hand, those, like Herr von Bülow, who advised Herr Hitler to take the step are more than ever of the same opinion, and their voice is likely to catch the Führer's ear. The manifest desire of Great Britain and other States to see Germany back in the fold only confirms them in their reluctance to return, and in their belief that the League is an instrument for the stabilisation of the *status quo* and the enforcement of the last remnants of the Versailles Treaty.

8. The mood may pass. Economic difficulties, internal strife, the counsel of the moderates may bring about a more prudent frame of mind. But for the moment, I feel it my duty to warn you that the result of the Saar plebiscite has been to render Herr Hitler more independent and the omens less propitious for the success of any negotiations with this country. In all the circumstances it must be greatly regretted that the French Government did not show more foresight and liquidate the Saar question by negotiation with Herr Hitler out of court, as he publicly suggested, and in accordance with the advice of their Ambassador in Berlin.

I have, &c.
ERIC PHIPPS.

[C 2839/111/18]

No. 11.

Sir E. Phipps to Sir John Simon.—(Received April 4.)

(No. 320.)

Sir,

Berlin, April 1, 1935.

OVER two years have now elapsed since the electorate of this country, stamped by the Reichstag fire, voted for the abolition of the parliamentary régime and the establishment of a National Socialist dictatorship. On the 5th March, 1933, Hitler polled over 17 million votes, while the strongest of his opponents, the Socialist party, only obtained 7 million. It is true that at this, the last free exercise of popular suffrage, the National Socialists were outnumbered by the other parties (20 to 17 million), but at the same time it was clear that the minority comprised all that was young, vigorous and enthusiastic in the country. On the 24th March, 1933, the Reichstag, by 440 votes to 94, under the pressure of Nazi terrorism, passed a self-denying ordinance which for all practical purposes put an end to the Weimar Constitution.

Growing
strength of
Hitler's
position in
Germany.

2. During the two years that have elapsed the original National Socialist party have steadily lost power and influence, while their leader, Adolf Hitler, without losing the loyalty of his old followers to any alarming extent, has won over the great mass of the Opposition to himself and his policy, both internal and external. He has achieved this by accomplishing, in the opinion of the masses, not one but several miracles. In the first place, he has obtained work (or what amounts to work so far as the individual is concerned) for 3 million people. Secondly, he has torn up Part V of the Treaty of Versailles under the very noses of Germany's former enemies. And, thirdly, he has, as it were, liberated Germany from the clutches of his own National Socialist gangsters who threatened at one time to make life a purgatory for all but a privileged caste. The return to more normal conditions during the last six months has, indeed, been so rapid and so marked that the great bulk of Hitler's one-time opponents are now, to say the least of it, reconciled to his rule, if not to national socialism. Furthermore, it is now dawning upon friends and enemies alike that a benevolent despotism has immeasurable advantages over the parliamentary system in the case of a defeated country. Not only has it an advantage over the travesty of a parliamentary system known as the Weimar Republic, but many intelligent Germans are now of opinion that it is preferable to the French and British systems of representative government. It would certainly seem to an unprejudiced observer that a country which is anxious to free itself from the shackles of an oppressive treaty has better prospects if it is prepared to accept a restriction of individual liberty and a concentration of all power in one hand, provided, of course, the hand be firm and wise. In the case of Hitler, no doubt exists in the German mind that the country's choice has been fully justified by the history of the last two years.

3. The fifteen years during which the Weimar Constitution was in force seem to have left no permanent impression on the people of this country. Accustomed for generations to have but little to say in the management of their own affairs, they appear to have reverted to type with little friction and with few regrets. Hitler still has many political opponents, but even these will admit that the great majority of the German people seem happier under an authoritative Government than they were under a parliamentary régime. Were a general election to take place to-day in conditions of complete freedom, it is not unlikely that Herr Hitler would receive a considerable majority of the votes.

4. To take the three miracles of the last two years in order of importance according to the popular German view, we begin with unemployment. For years before he came into power Hitler doggedly refused to give any explanation of his mysterious programme for coping with unemployment. Why, he asked, should he betray his panacea to his rivals? The mystery is now cleared up, and it is evident that Hitler was well-advised to keep his secret to himself. As we now realise, his programme consists not merely of public works of the normal kind, but of the very important work of rearming Germany. To-day military contracts and contracts for public works are almost indistinguishable. The provision for motor roads which serve equally as military roads is a case in point. In addition, the expansion of the army and air force has absorbed large masses of men from the labour market. The simplicity of many of Hitler's basic ideas savours of genius to the public mind.

5. The rearmament of Germany and her return to the field of international politics on an equal footing constitute the second miracle. Neither the army, the *intelligentsia* nor the Ministry for Foreign Affairs conceived that the time was ripe for "calling the Allied bluff." Any attempt on Germany's part to challenge the Versailles Treaty would lead, they firmly believed, to intervention and possibly to the occupation of the Rhineland. Any parliamentary Government in this country would have courted disaster in the Reichstag had it embarked on Hitler's policy of flouting the treaty. Even in Hitler's case the adventure was not devoid of grave personal risk. There was always the chance during the early stages that the signatories of Versailles would pull themselves together and veto German rearmament by the threat of a preventive war. In that case the Hitler régime would have come to an end, and Hitler and his chief supporters would have had to choose between suicide and exile. Now that Hitler has put his bold plan into execution, his influence is highest in those very quarters where it was at first regarded with most suspicion, namely, the Reichswehr Higher Command, the Ministry for Foreign Affairs, permanent officialdom and responsible circles generally.

6. The third miracle, the bloody week-end of the 30th June, came, in the first instance, as a shock to civilised opinion here, though less than elsewhere. But it soon became apparent that a change for the better had taken place. Hitherto Germany had resembled a country in the occupation of foreign troops. Hordes of men in strange uniform dominated the scene. The execution of Röhm and his friends was immediately followed by the dissolution of the great mass of the irregular forces. The Reichswehr came into its own and the public began to realise that Hitler's midnight flight to Munich, and his savage vengeance on his political opponents were episodes in a battle on their behalf. With his elimination of the gangsters came the reinstatement of the police and the Law Courts in their respective functions and in general a return to more normal conditions. During the autumn of last year "Gleichschaltung" or the elimination of political opponents from the Civil Service, came to an end, and the removal of a political opponent to custody or the concentration camp now requires on the order issued by the party machine or the police the counter-signature of the highest official in the province.

7. The more the public reflect on the events of the 30th June, the more they realise that Hitler had had no choice but to act summarily and brutally as he did. To have shown mercy to his disaffected gangsters would have been to court sporadic outbreaks of trouble at later dates, to run serious personal risk, and, above all, to have delayed reconciliation with the army, which was a necessary pre-condition for the great national work of rearmament. The very speed with which Hitler made up his mind and executed his bloody plan appealed above all to the youth of the country. He revealed himself as a true leader and man of action in the eyes of a primitive, virile and not over-sensitive people.

8. The abolition of the freedom of the press, which rankled in the public mind throughout 1933, assumed a different aspect as soon as rearmament on a big scale was undertaken. The public realised that information of military value could hardly be withheld from Germany's enemies unless the press were muzzled. Now that newspaper criticism of the measures of the Administration has been in abeyance for two years, the country is coming to the conclusion that Germany has suffered no great loss and that things are going at least as well as they were four years ago.

9. All these changes have coincided with the Führer's personal evolution. On assuming power he and his friends confidently expected to find a corrupt Administration, a venal police force, and an incompetent Civil Service. To his surprise he found that most of the Republican windmills against which he had titled so vigorously had no existence in actual fact. General Göring in particular found that the Prussian civil servant was the same threadbare, underpaid, conscientious hack that he has been since the days of Frederick William II, and that the German judiciary was as incorruptible under the Weimar régime as it had been under the Imperial Government. Herr Hitler in the Reich had the same experience as General Göring in Prussia. When he approached the competent department for the purpose of putting into execution one of his pet schemes, he either discovered that the scheme had long since been tried and proved a failure, or, if it had not been tried, the department concerned was usually able to supply proof of its impracticability. In actual practice he found that the Weimar Ministers had pursued by different methods much the same aims as he hoped to achieve by more revolutionary means. Beyond discovering that an authoritative Government is untrammelled by party considerations, he found little difference in foreign or military policy between his predecessors and himself. His predecessors were equally anxious to escape from the meshes of Versailles, but they lacked the courage and the opportunity, and their hands were tied by the party system. The Polish Corridor was a case in point. The Weimar Governments would have gladly come to an agreement with Poland shelving the question, but their political opponents, including Hitler himself, would have been the first to make capital out of their action. The feeling of disillusionment, which usually springs from the responsibilities of office, has accordingly modified the outlook of the Chancellor and his policy, though not necessarily his doctrines and his ultimate aims.

10. As matters stand, the economic and financial position of the country continues to give rise to gloomy prophecies, as it has done ever since I took up my present post. It was asked last winter how raw materials could be obtained in sufficient quantities to enable the German machine to continue. We are now in

spring, and though there has been a set-back in unemployment, the figures are again improving and there is no widespread discontent. The Government will have to face the unpleasant fact that the lean war years are nearly over and that the post-war years are beginning to throw on to the market annually nearly a million young men and women anxious for employment. The position next year and the year after will in this respect be definitely more difficult.

11. In the political field the position of the Left Wing of the party was said last autumn to be undermined, and changes in the composition of the Government were thought in many quarters to be imminent. Later on the disillusioned prophets expressed the view that Hitler would take drastic action after the Saar plebiscite, and that a widespread purge—a blood bath—was to be expected after the 13th January. None of these expectations have been realised. The winter is over and it may be said that economically and politically the Government have emerged from this annual ordeal more successfully than their opponents expected or even they themselves anticipated.

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18. It is small wonder that the Minister for Economic Affairs, on whose none too ingenuous person the main problems of bending economic facts to fit political aspirations devolve, should recently have announced that economics are not a science, but an art. His artistic skill is at present under the utmost strain, for, as he admits, he is endeavouring to do something, which appears even to himself to be impossible. Can Dr. Schacht continue to provide the funds for the enormous rearmament and unemployment programme of the Government? It is a question on which he himself would no doubt be very reluctant to express an opinion.

19. In the field of internal politics there has been, as I have said above, a gradual evolution from gangsterdom to more normal methods of government. How far the régime has travelled on this road is illustrated, for example, by the change in the status of the S.A., which only a year ago was a power in the land. Then came the 30th June. Even after the bloody elimination of its commanders, it was considered wise to treat the scattered and demoralised remnants of the force with care and the Nuremberg Party Day was exploited to conciliate them. In his speech on the 9th September, Herr Hitler said: "Only a lunatic or a deliberate liar can say that I or anyone else ever had the intention of dissolving an organisation which it has taken us years to build up." Since that date seven months have elapsed; compulsory military service has been introduced and the virtual elimination of the S.A. as an important factor in political life has been completed.

20. Another noteworthy development has been the manner in which the whole governmental machine has slowly shaken down. The personal differences and jealousies which poisoned relations between the leaders have to a great extent been smoothed out by give and take on both sides. The Reichswehr have obtained satisfaction on all vital points and are prepared to leave to others the organisation and direction of the vast party machine, on which the régime still depends for popular support. As time goes on Herr Hitler's prestige in the country seems to grow. It was never higher than it is to-day. The return of the Saar and the successful unilateral repudiation of the military clauses of the peace treaty have stimulated the enthusiasm of his supporters and won over many neutrals and even enemies. Nothing succeeds like success and there are few Germans who deny that Herr Hitler has "delivered the goods." Only that small minority, often very highly placed, which still clings obstinately to the ideals of liberty, rejects him.

21. The workman, who cannot be expected to live on the political achievements of the régime alone, is naturally impressed by the efforts made to find him employment and to improve his conditions of life.

* * * * *

22. If it were not for the economic outlook and for the Church dispute, which continues to defy all efforts for a settlement, the internal situation of Germany could be regarded with qualified optimism. The Germans are not disposed to minimise their difficulties. But they regard Herr Hitler as a prophet and the majority expect with calm confidence that he will find the way to the promised land. He, on his side, is more convinced than ever that fate has chosen him as its instrument just as it chose Frederick the Great for the regeneration of the German people. In truth, can we wonder at his conviction? His foreign policy since my arrival at Berlin has been the reverse of that of a "good

European"; it has been a crescendo of violence and has hitherto failed to evoke any stronger reaction on the part of the ex-Allies than some notes of platonic protest.

23. Having helped himself, in defiance of the treaty, on land and in the air, Herr Hitler now suggests, with grim humour, that the British Empire may some day be grateful for the protection of the fleet that he intends to build. The size of that fleet at present seems uncertain, but if Herr Hitler adheres to his intention of attaining naval parity with France, he will eventually possess a fleet half the size of our own concentrated in an infinitesimal fraction of the waters over which ours is called upon to sail.

24. So far as I can see, only economics and finance can be expected to counter these proud plans, but economics and finance have in the past proved so elastic as to defy all expert prophecy. Stalin, on the other hand, when he pointed at "that little island" to Mr. Eden on the map, seemed to think that we alone could finally prevent the hegemony of Germany by withholding from her certain raw material, without which she would be unable to continue her present orgy of expenditure on armaments. I do not know whether this course be feasible or not. In any case, let us hope that our pacifists at home may at length realise that the rapidly-growing monster of German militarism will not be placated by mere cooings, but will only be restrained from recourse to its idolised *ultima ratio* by the knowledge that the Powers who desire peace are also strong enough to enforce it.

I have, &c.
ERIC PHIPPS.

[C 2949/55/18]

No. 12.

Sir E. Phipps to Sir John Simon.—(Received April 8.)

(No. 341.)

Sir,

Berlin, April 6, 1935.

IN my despatch No. 127 of the 31st January, 1934, I had the honour to submit my views as to the position and the future trend of German foreign policy. This year, in my despatch No. 60 of the 22nd January, I drew attention to the far-reaching effect on German policy of the result of the Saar plebiscite. It may be of some assistance if I now send you some reflections on the recent Berlin meeting in so far as it throws light on German aims.

2. The racial doctrine of the Nazi party lays down that an admixture of foreign blood is disastrous to the health of a nation. The conquest of foreign territory, far from being an advantage, is thus a positive disadvantage, and Herr Hitler is, I believe, sincere in declaring that no further territorial differences exist between France and Germany. An unprovoked attack on France would only be justified if Germany thereby obtained a free hand to realise her aims in Europe. Those aims have not, in my opinion, altered fundamentally since I wrote my despatch No. 127 of the 31st January, 1934. To take the point in the same order:—

3. Herr Hitler's statement to you on the Austrian question appears to me to sum up very frankly the German point of view. Rightly or wrongly, he is convinced, especially since the Saar plebiscite, that a free vote in Austria would result in a Nazi triumph and that only foreign support keeps the present minority régime in power in Vienna. If this be so, it may seem curious that he should view with disfavour the proposed pact of non-intervention in Austria. The true explanation is, I think, the one he gave himself, namely, that no formula has been devised which in his opinion will effectively put a stop to foreign and particularly Italian intervention. In these circumstances, Germany has nothing to gain by tying her hands. Were it possible to assure Herr Hitler that the effect of the pact would be to deprive Herr Schuschnigg of all foreign support, Germany's signature would probably be forthcoming, because he would then be confident that Austria would inevitably become National Socialist in a short time. In the meantime, propaganda, somewhat disingenuously described by Herr Hitler as carried out privately, will continue to pave the way for the day when Austria will be able freely to express her will. For the moment, military

pressure is unnecessary, since the German Government are satisfied that their aims in Austria will be realised by the spontaneous action of the Austrian people. If this hope proves illusory, it will be time to think eventually of more violent methods, when German rearmament is sufficiently advanced to permit of their application.

4. If Herr Hitler made his position *vis-à-vis* of France and Austria clear, the same cannot be said of his intentions in the east, except in so far as German participation in the Eastern Pact is concerned. Whereas he declared that he had solemnly given up all claim to Alsace-Lorraine, he would not go further in the general question of Germany's territorial aims than to say that it was difficult to modify the territorial status of Europe unless Germany were ready to face the danger of the whole structure tumbling. The fact is that the revision of the eastern frontier is on a special footing for the reason that the territory which Germany intends eventually to recover there is alleged to be inhabited by Germans. It was, Herr Hitler holds, shamefully torn away from Germany under the peace treaty, and its recovery would not be an annexation; nor would it be open to racial objections. Exactly how German aims in the east are to be realised may not be quite clear to Herr Hitler himself. Hence, probably, the obscurity of his language regarding prospects in the east. He opens by saying that, in the absence of a common frontier, there would be no war between Germany and Russia, and that Poland was protected for another eight or nine years by her non-aggression pact with Russia. Other pacts, he said, limited the real possibilities of conflict in those regions of Europe; moreover, he could give an assurance that Germany would never declare war on Russia. He then proceeded to dwell on the peril to Germany and Europe generally of Russia's aggressive designs.

5. If any conclusion can be reached from Herr Hitler's remarks, it is probably that he does not anticipate or desire a conflict with Russia in the near future. He is therefore willing to sign a pact of non-aggression with Russia. When this pact expires, together with the Polish agreement, Germany will perhaps be in a better position to judge whether to pursue her eastern aims in agreement with Poland at the expense of Russia, and possibly Czechoslovakia, or at the expense of Poland, with or without the complicity of Russia. In the meantime, the Russian bogey is a useful card to play, both to justify German armaments and to mobilise European opinion against Russia.

6. In my despatch No. 60 of the 22nd January, 1935, I anticipated that the German claim to equality would not be confined to armaments. The conversations have borne out this view. In particular, Herr Hitler has categorically declared that, until the return of the German colonies, Germany will remain in a condition of inferiority which will preclude her return to the League of Nations. It is interesting and instructive to note how rapidly the German attitude has changed under the influence of a consciousness of revising strength. Although, of course, German colonial aspirations were not denied, it was considered until very recently inopportune to raise this thorny question. In an interview in the *Daily Mail* of the 6th August last, Herr Hitler declared: "We want nothing from England . . . I would not sacrifice the life of a single German to get any colony in the world. We know that the former German colonies are costly luxuries, even for England." On the 6th September Herr Hess said that Germany would not reopen the colonial question and so give her enemies the opportunity of inflaming foreign opinion. To-day foreign opinion is of less consequence, and Germany, having helped herself, in defiance of the world, to military equality, is not shy of suggesting that the colonial question should be settled in her favour as *one* of the conditions of her return to Geneva.

7. Herr Hitler's claims in the naval sphere are described by the *Times* of the 4th April as "not exorbitant." I cannot consider them to be moderate; but, as at present formulated, they are certainly nebulous. On the one hand, Herr Hitler declared to you that his claim to 35 per cent. of the British fleet implied unequivocal recognition of British naval superiority, and that any assurance which he gave with regard to it would be for ever. In the same breath, however, he said that, on the other hand, he did not see any heavenly or earthly authority who could force Germany to recognise the superiority of the French or Italian fleets. Germany's requirements for the protection of her trade were just as great as those of France or Italy for the protection of theirs. He then proceeded to base his claim on the need for the protection of the "long" coastline

in the Baltic in particular, and of German communications with East Prussia, which for Germany had almost become an overseas colony. If, therefore, Herr Hitler persists in demanding naval parity with France, he will, in effect, claim to possess a fleet over 50 per cent. of the British fleet. If this claim is put forward when Germany possesses her present relatively short Baltic coastline, what percentage will she expect to have if and when she obtains colonies or mandates?

8. The introduction of compulsory service was officially described here as the first step towards the liquidation of the Versailles "Dictate." Of the other steps the most important is the abrogation of the provisions of the peace treaty relating to the demilitarised zone. There is no doubt that these provisions are regarded by Herr Hitler as an infringement of German sovereignty. It is fortunate that the Treaty of Locarno so specifically guarantees the régime of the demilitarised zone. Herr Hitler has repeatedly said that Germany will honour every obligation which she has freely incurred, and no suggestion has ever been made that the Treaty of Locarno was not freely accepted by Germany. Moreover, Herr Hitler has on several occasions specifically declared his intention of abiding by the treaty. In his speech in the Reichstag on the 30th January, 1934, he said: "This question (*i.e.*, the Saar) is the only territorial question which remains open between the two countries. The German Government is ready and determined, after the solution of this question, to accept both the spirit and the letter of the Locarno Pact, for there will then exist no territorial question between France and Germany." On the 20th February, 1934, in his conversation with Mr. Eden, he emphatically declared that as regards Locarno, the German Government would scrupulously and faithfully observe every treaty into which it had entered of its own free will. In a conversation with the Belgian Minister in March 1934, he said that he considered himself bound by Locarno, where Germany's signature was freely given. On the 12th July, 1934, he said to me that as regards France, Germany was covered by Locarno. Finally, on the 12th November, 1934, and again on the 19th March, 1935, the military attaché was informed at the Reichswehr Ministry that Germany intended to adhere to the Locarno Treaty and would not alter the treaty status of the demilitarised zone. I have good reason to believe that Herr Hitler attributes the safety of his régime during the early months of its existence to the Locarno Treaty, which prevented France from launching a war of aggression against him.

9. In the recent conversations Herr Hitler, although he may not have said so as categorically, certainly did not deny that he regarded himself as bound by the Treaty of Locarno. It is difficult to reconcile these various declarations with the language used to my French colleague in my presence and reported in my telegrams Nos. 39 and 40 of the 3rd and 4th February last. You will recollect that on this occasion he said that if France continued on the same path, Germany would be obliged finally to declare that the zone must be abolished or at least made reciprocal. He indicated that, in any case, German acceptance of the zone was not going to be eternal. Since Germany cannot of her own volition terminate the Treaty of Locarno and there is little prospect of France allowing Germany to fortify the zone, it looks as though the Chancellor meant that he did not propose to abide by the Locarno Treaty for ever.

10. Since 1914, when the breach of Belgian neutrality brought down on Germany the odium of the whole world, she has felt shy of the moral and material consequences of a treaty violation. This sentiment, which is not always appreciated abroad, accounts very largely for the efforts of the German Government to prove that the rearmament of Germany does not constitute a violation of the Treaty of Versailles, a treaty which, moreover, is not considered binding, since it was imposed by force. If this be so, it may be asked, will Germany cynically violate the Treaty of Locarno? The question is difficult to answer. But the possibility must always be borne in mind that Herr Hitler will pursue the same tactics as he employed in regard to the Treaty of Versailles. That is to say, he may declare the Treaty of Locarno inoperative on the ground that the other contracting parties do not intend to abide by it. It was for this reason that I attached importance to General Göring's enquiry of Mr. Ward Price as to whether Great Britain would honour her obligations to Germany under the treaty.

11. According to information given to the military attaché, the Army Command objects to the demilitarised zone, not only on obvious strategical grounds,

but also because the population is losing military feeling, a fact which is proved by their difficulty in obtaining the proper quota of recruits from this area. In the face of the attitude of the Chancellor and the army, the best chance of maintaining the régime of the demilitarised zone appears to lie in making it clear that His Majesty's Government intend scrupulously to carry out their obligations under Locarno and expect the other contracting parties to do the same; and that any violation of the treaty by Germany would, in their opinion, be a violation of solemn pledges repeatedly given by the Chancellor.

I have, &c.
ERIC PHIPPS.

[C 3943/55/18]

No. 13.

Sir E. Phipps to Sir John Simon.—(Received May 16.)

(No. 472.)

(Extract.)

Sir,

Berlin, May 15, 1935.

I HAVE the honour to transmit to you herewith in original a very interesting despatch addressed to me on the 11th May by Colonel Thorne, the retiring military attaché to this Embassy, summarising the gist of two conversations which he had with General von Reichenau (Chief of Staff to the Minister of Defence) whilst introducing his successor to the Reichswehr Ministry.

German
policy in
Eastern
Europe:
Views of
General von
Reichenau.

2. I would draw your particular attention to the following points:—

- (a) In paragraph 2 General von Reichenau is reported as advocating a transfer of populations in the east of Europe as a means of reconciling a policy of expansion towards Russia with the Chancellor's declarations that Germany does not wish to annex territory populated by another race.
- (b) In paragraph 3 General von Reichenau is reported as making the suggestion which has found an echo in certain English circles that the best policy His Majesty's Government could pursue would be to admit Germany's hegemony on the continent and to give her a free hand in Europe in return for German non-interference in the rest of the world. This is a view which is widely held in Germany to-day.
- (c) In paragraph 4 General von Reichenau is stated to have referred to the possibility of Germany being one day obliged, in order to break the hostile ring around her, to compose her quarrel with Russia.

I have, &c.
ERIC PHIPPS.

Enclosure in No. 13.

Colonel Thorne to Sir E. Phipps.

(No. 3.)

(Extract.)

Sir,

Berlin, May 11, 1935.

I HAVE the honour to forward the gist of two conversations with General von Reichenau which occurred during the process of introducing Colonel Hotblack to representatives of the Reichswehr Ministry. Lately I have found a tendency amongst officers in the Reichswehr Ministry to suggest that the influence of General von Reichenau with both the Reichskanzler and General von Blomberg is on the wane, but General von Reichenau gave no indication that he felt his position or power was in any way diminished, and described the measures he intended to take to bring about a number of important alterations. He remarked once that employment in a post, which was mainly political, for nearly two and a half years of great anxiety and responsibility made him look forward to employment in the future which was purely military, but that was the only indication that his activities and influence in the Reichswehr Ministry might not last for very long. I think, therefore, that his ideas are worth recording.

2. In discussing the objectives which Germany might have in a future war in the East, it was interesting to find that, unlike most Reichswehr officers who claim there were no satisfactory objectives for the German forces in Russia, the general pointed out how a successful invasion could be followed by the evacuation of the Russian population further eastwards and the resettlement of this territory by another people, perhaps by Poles, and this could be done about as far as the line held by the German troops in the last war. Presumably, though he did not say so, General von Reichenau's intention was that these Poles for settling in Russia would be made available by their evacuation of some, if not all, of the Corridor to make room in their turn for German settlers. He took the line that this policy should not trouble Britain; on the contrary, it should calm the apprehensions of those Britishers who had apparently been misled by the French into believing that Germany's objectives lay in the West. Her need, however, was for empty spaces for expansion and settlement, while France and Belgium were already so thickly populated that no empty spaces could be created.

3. Both in the matter of Russia and elsewhere in his conversation the general suggested, but without making a definite statement, that the best course of action would be for Britain to give Germany a free hand in Europe in return for German non-interference with Britain outside the continent of Europe. He stated that he thought that the only means of keeping order in Europe was for one Power to dominate, and he seemed to be convinced that the Power most suited for this task was Germany.

4. The alarm felt in Switzerland was also not justified, as if Germany did not want to invade France, she obviously would not want to march through Switzerland. Evidently the general had not considered the possibility of German penetration by force into Switzerland or by the method adopted successfully by the U.S.S.R. when expanding into Turkestan. He harped on "the terrible encirclement of Germany," and said this must lead to war, as it was essential to Germany to break the circle. For this purpose, though he hated and mistrusted Russia, he would be prepared to try to contract some form of alliance with that country and detach her from France. If Germany should succeed in carrying out such a course, he suggested that it would be a great blow to Britain.

I have, &c.

ANDREW THORNE, *Colonel, G.S.,*
Military Attaché.

[C 4684/55/18]

No. 14.

Sir E. Phipps to Sir Samuel Hoare.—(Received June 13.)

(No. 563.)

Sir,

Berlin, June 12, 1935.

DESPITE Herr Hitler's white-paper hoarseness and the successive announcements of the existence of a German military air force and Germany's return to universal conscription, the postponed visit of Sir John Simon and Mr. Eden to Berlin finally took place as arranged.

2. The visit was probably necessary from the point of view of British public opinion, which began to wonder why British visits to Rome and Paris, together with constant meetings at Geneva, should not be followed up by a heart to heart talk between responsible British and German statesmen. Our public opinion was perhaps right, and the visit certainly produced a good psychological effect. It removed from Germany any excuse for maintaining her attitude of hurt feelings, which, combined with raucous Teutonic cries, table-bangings and treaty-breakings, was truly hard to bear. Indeed, my chief fear was lest the visit should produce too good an effect, with all the danger of subsequent violent reaction. At first the Chancellor did, in fact, attach exaggerated hopes to its eventual results. He had never encountered before two such civilised and courteous adversaries as Sir John Simon and Mr. Eden. Their mere presence in Berlin after the pettish white-paper postponement was a lesson in manners. But it was only some time after their departure that he realised that listening to his claims did not necessarily imply the granting of them.

3. And then, after a couple of weeks or so, came Stresa and the long-hoped-for and altogether desirable Anglo-Franco-Italian front. This constituted the

Effect on
Hitler of
Stresa and
Geneva
Resolutions
condemning
Germany's
violation of
Part V of
Treaty of
Versailles;
value of
Hitler's
signature.

high-water mark in the affairs of the Powers whose hope it is to contain Germany. But, as a result of Ethiopian tension, these refreshing waters soon receded, and now we can only regretfully look up at the distant white line.

4. It is curious that, whereas the blame pronounced at Stresa by the three Great Powers was salutary and caused the Germans furiously to think, that pronounced a few days later at Geneva merely caused them furiously to vociferate. Stresa made Hitler scratch his head, Geneva made him lose it, and Germany as a whole followed suit. This attitude is illogical, it is regrettable, but it is a fact. It can perhaps partly be explained by German hatred of and contempt for the League. Blame from three strong adversaries, of whom two at least have shown a reasonable understanding for the German case, is one thing. Blame from the institution containing Bolsheviks, Czechs and Latvians, not to mention other racially impure weaklings, is quite another, and was unbearable for the fair Nordic man, and seemed, moreover, in his blue eyes, to be the height of hypocrisy. Baron von Neurath told me in confidence that Herr Hitler, directly he heard of the Geneva resolution, had summoned him by telephone to Munich and had raved at him for five hours without, I hear, stopping to eat or drink. General Göring and Dr. Goebbels urged the Chancellor to double the air force at the earliest possible moment. Baron von Neurath and Father Time, working together, finally took the edge off all this sound and fury, and then, after some beneficial delay, came the Chancellor's speech which now confronts us.

5. Herr Hitler's thirteen points raise questions of high policy which are naturally outside my competence. I think it my duty, however, as an observer on the spot, to make a few remarks on one aspect of the matter.

6. It would be easy to produce a list of instances when Herr Hitler broke faith in the past. By rummaging Herr Hitler's actions or writings in his past of greater freedom and less responsibility, we can doubtless find events and tendencies alike disquieting. To conclude therefrom that no faith can be attached to his signature in the future would condemn us to a policy of sterility.

7. His Majesty's Government may decide that it is now undesirable to conclude any convention with this country; they may prefer to maintain their liberty of action. If, however, they feel that advantage should be taken of the presence of M. Laval at the head of the French Government and of his notorious desire to come to some reasonable understanding with Germany, I earnestly hope that they will not allow themselves to be deterred by the mere contemplation of Herr Hitler's past misdeeds or breaches of faith. After all, he now leads nearly 70 millions of industrious, efficient and courageous, not to say pugnacious, people. He is, like most men, an amalgam, and he may, like many men, have evolved since the old, somewhat gangster-like days at Munich. His signature, once given, will bind his people as no other could. It need not bind Great Britain to any state of undue weakness: it need not blind her to the undoubted dangers lying ahead. And if the worst befall, and Hitler decide to break his freely-given, solemn pledge, surely our battle-ground would be all the firmer for having put him to the test?

I have, &c.
ERIC PHIPPS

No. 15.

Sir E. Phipps to Sir Samuel Hoare.—(Received September 19.)

[By Bag.]

(No. 201. Saving. Very Confidential.)
(Telegraphic.) *En clair.* (Extract.)

Berlin, September 18, 1935.

THE following may be taken as an authentic account of Hitler's reactions in the Abyssinian affair. Hitler and the Abyssinian question.

He is at no pains to conceal his "Schadenfreude." Indeed, "Schadenfreude" is felt throughout official circles more and more as the plot develops. But this is tempered with extreme caution and Hitler's instructions are that neutrality and reserve are to be shown in the press and in diplomatic conversations. Though his sympathies are with his brother dictator on the merits

of the case, he has never forgiven Mussolini for his sabre-rattling on the Brenner last year in connexion with the Dollfuss murder, which compelled him (Hitler) to climb down. . . .

Before leaving for Nuremberg Hitler discussed the situation briefly, and remarked in conclusion that Germany had nothing to lose and probably something to gain from a quarrel in which three of the participants (the League, France and Italy) were Germany's enemies, while the fourth (England) was a doubtful neutral. The quarrel could only end in an armed clash, or the permanent estrangement of two, if not more, of the quartet. Furthermore, it was a welcome diversion during this stage of "German reconstruction" (of the air force and army). As for sanctions, the Chancellor thought that Germany might profit materially by the occasion if Geneva adopted economic measures. The question should be studied attentively.

To resume, Hitler is chuckling (and arming) on his fence, where he means to stay as long as possible. In the event of an Anglo-Italian conflict he will only come down, armed to the teeth, at the time he considers the most favourable for Germany, and the price of his friendship, or even of his neutrality, will be a heavy one.

No. 16.

Sir E. Phipps to Sir Samuel Hoare.—(Received October 11.)

[By Bag.]

(No. 228. Saving.)

(Telegraphic.) *En clair.* (Extract.)

Berlin, October 10, 1935.

Colonies:
General von
Blomberg's
views.

GENERAL VON BLOMBERG (War Minister) lunched with us on 8th October and I had some conversation with him afterwards.

General von Blomberg thinks that Italy has undertaken a task beyond her powers, and that the very large number of troops that she has thrown into East Africa may prove fatal for her, owing to the possibility of terrible and wide-spread epidemics amongst them. He remarked, however, that Mussolini's real excuse was the vital need for expansion, and that applied to Germany as well as to Italy. If Germany were not allowed to expand the "kettle would some day burst." He recalled your words at Geneva regarding raw material, but said that was not enough. Germany must have colonies again. I reminded my guest how little raw material Germany had drawn from her colonies before the war, and how few colonists, apart from officials, she had sent there. The reply of the Minister for War was that Germany had not been sufficiently long in possession of those colonies to be able to develop them to the full; it was, moreover, intolerable for her to be considered unworthy to possess them now.

[C 7092/5356/16]

No. 17.

Draft of the Conclusion of a Chapter dealing with certain Aspects of the Internal Situation in Germany, compiled for the War Office Handbook on Germany by the British Embassy, Berlin, October 1935.—(Received October 17.)

VII.—CONCLUSION.

Many German writers, including Walter Rathenau, have attributed Germany's defeat in the last war largely to the system of government. A Reichstag which had a nuisance value, but no responsibility, a Chancellor who was liable to be dismissed at a moment's notice at the Imperial caprice, a civil administration subordinated in war to the High Command and unable to be master in its own house: these were some of the weaknesses to which attention has been drawn. Herr Hitler, however, although he inveighs against democracy and parliamentarianism in even an attenuated form, specifically states in *Mein Kampf* that he does not regard the German system of government as responsible for the loss of the war. The causes of the disaster, he maintains, lie much deeper: the influence of the Jews and Marxists, a faulty foreign policy and, above all, a mistaken system of education.

Nature of
Hitler's
dictatorship:
its organisa-
tion for war.

This does not, however, mean that Herr Hitler regards the pre-war system of government as satisfactory. On the contrary, he has imposed on Germany an entirely new structure of his own design which is now in process of erection. As he explains in *Mein Kampf*, the basis of his system is the abolition root and branch of rule by the majority, representative government and elections. Each appointed leader is responsible not to the people, as in democratic countries, but only to his immediate superior. In other words, it is the military system applied to the government of the country.

It is no exaggeration to say that in the last two years Germany has been organised on a military, if not on a war, basis. Industry, labour, finance and the distribution of raw materials lie under strict Government control; the needs of the fighting services take precedence over all others; the press and wireless have been brought into the service of the State; the individual has been deprived of his liberty, and any action which he may take in opposition to the designs of the Government is labelled high treason and is punishable by death. More important still, the Nazi conception presupposes the willing acquiescence of each individual in a system in which he is merely a cog in a vast machine. The educational curriculum for the future is admittedly not designed to impart knowledge, but to fit each man and woman to fulfil with blind obedience the particular task allotted to him by the State.

There is no man in Europe who wields so much power as Herr Hitler. He is head of the State, Prime Minister, Commander-in-chief of the fighting services and leader of the Nazi party; he is untrammelled by any constitutional or legal restrictions; his term of office is unlimited save by death; he has no dynastic anxieties, no need to safeguard the succession for any individual. There is nothing he cannot do. In war he would act, as he has done in peace, with decision and lightning rapidity, and no rumour of his intentions would reach the outside world. No criticism or even misgiving as to the wisdom of his policy would be allowed. The whole country would be mobilised and its war effort would be co-ordinated under his direction. Even in the purely military sphere he would play a predominant rôle, ensuring through the War Minister full co-operation between the three fighting services.

The advantages and disadvantages of this system in war can easily be assessed. In the initial stages a strong Government, a docile nation, rapidity of decision and unified control are obviously an advantage. In the long run, however, the system must stand or fall by the personality of the supreme leader. If he uses his unlimited powers wisely and well, the system is vindicated. If, however, he fails, the conduct of the war will not be efficient. The system of government and even the Leader himself cannot be changed without a revolution. The result is likely to be a catastrophe.

So long as Herr Hitler is at the helm it would be imprudent to expect a failure. During the Berlin conversations this year he remarked with quiet assurance that if he had been Chancellor in 1914 he did not think that Germany would have lost the war.

[C 7515/134/18]

No. 18.

Sir E. Phipps to Sir Samuel Hoare.—(Received November 8.)

(No. 1140.)

Sir,

Berlin, November 7, 1935.

I HAVE the honour to transmit to you herewith a copy of a minute by the military attaché to this Embassy recording the views held by an officer of the German General Staff on future German expansion.

2. I would draw your attention in this connexion to the remarks made by General von Reichenau to Colonel Thorne which are recorded in my despatch No. 472 of the 15th May last. That General von Reichenau still holds similar views is evident from certain remarks which he made recently to His Majesty's Minister on the subject of the ultimate unification of the German population in Czechoslovakia with their fellow-Germans of the Reich. The question of the frontier would, he said, in this case be of secondary importance, for, if necessary, people of other race could be displaced ("verdrängt").

[12506]

F

German
policy in
Eastern
Europe and
colonies.

3. Even assuming that military opinion at present favours expansion towards the south and east, even into territory at present peopled by other races, as the only solution for Germany's needs, there is ample evidence that the idea of colonial expansion overseas is still entertained in high quarters. For example, in his conversations with Sir John Simon on the 25th March the Chancellor made it clear that Germany regarded the restoration of some colonial territory or the attribution of a mandate as essential, both in order to mark Germany's return to the company of Great Powers and to wipe out the stigma of the colonial provisions of the Peace Treaty. In his speech, too, of the 21st May the Chancellor insisted that equality of rights must extend to "all rights of property in international life," and the history of German rearmament has taught that equality in theory only is unacceptable to the German Government. Finally, there is no doubt that Dr. Schacht will continue to urge the necessity for the return of some overseas colonies from which Germany may be able to draw raw materials without upsetting her foreign exchange position.

4. European expansion and colonial expansion are not necessarily mutually exclusive. The first can be realised by Germany's unaided efforts; the second, at present at any rate, only by the assent of His Majesty's Government. Hence, perhaps, the preference shown by the soldiers for the former.

I have, &c.
ERIC PHIPPS.

Enclosure in No. 18.

Views of the German General Staff.

(Extract.)

THE following views were expressed by a comparatively junior Staff officer who is in direct touch with the Minister of the fighting services and the Chief of Staff of the army. He is more National Socialistic in his views than the elder German Staff officer.

2. He said that they had noted with gratification Sir Samuel Hoare's references to Italy's need for expansion. He was anxious to know what were Britain's constructive views with regard to the necessity of Germany's expansion.

He said that he did not think that colonial expansion was the right answer; it did not suit Germans and might well bring them into conflict again with Britain. Expansion eastwards seemed to be the only solution, particularly as the small States on Germany's eastern frontier had no real nationality, and also because Germans had shown that they had a particular aptitude for controlling lower-grade Slavonic populations.

Berlin, November 6, 1935.

[C 7647/55/18]

No. 19.

Sir E. Phipps to Sir Samuel Hoare.—(Received November 14.)

(No. 1160.)

Sir,

Berlin, November 13, 1935.

AS you will have gathered from my reports, the salient feature of German social, economic and political life is the reconstruction of the armed forces. It is difficult to drive along any road in this country without seeing striking evidence of the truth of this statement. On every side giant military establishments are springing up. There are few towns of any importance where barracks or military schools are not being built, some of them still far from completion. Enormous aerodromes either finished or under construction march, sometimes for miles, with the main road. The armed S.S. sentries at the gate of many factories and the high barbed wire fence surrounding them proclaim their military character. The streets of provincial towns are gay with uniforms; military cars and lorries painted in camouflage colours mix with civilian traffic. In the air the ceaseless hum of aeroplanes bears witness to the expansion of the German air force.

2. In every German circle military service is a staple subject of conversation. Friends and relations are being called up for short courses or, in the case of young men, for their regular period of service. The relative merits of the respective arms or of garrison towns are eagerly canvassed. The press plays its part in stimulating public enthusiasm. The departure of recruits for their new units is written up. Photographs of smiling soldiers in the barrack rooms advertise the jollity of the military life. Articles describe the material prosperity which has descended on the garrison towns; farmers, cobblers, barbers, butchers and tradesmen of every kind gleefully welcome the incoming troops. Bands play on the market square, and military displays are organised for the grateful townsmen. The armed forces and their creator, Herr Hitler, are the heroes of the day.

3. Germans complain that English public men, in particular Mr. Winston Churchill, are apt to concentrate their attention exclusively on German rearmament. They never, it is said, refer to the social achievements of the German Government, to the reduction of unemployment, for example, or to the improvement in labour conditions or to the work of the "Kraft durch Freude" organisation. To depict the German Government as engaged solely in rearmament shows a lack of balance and sense of proportion. The error, if error it be, is one of which the Nazi leaders are almost equally guilty. Since March of this year the members of the Government have not ceased to exploit to the full the enthusiasm of the people for their new toy. Relatively little has been heard of social policy; the trump card has always been the crowning mercy of German rearmament. At Nuremberg and Bückeberg the army topped the bill. In the admonitions of Dr. Goebbels on the food shortage, in General Göring's recent speeches at Breslau and Saarbrücken and in the press the nation is urged to endure all for the sake of rearmament. You cannot have butter and an army, says Dr. Goebbels; be grateful that the Government have made the decision for you and given you the army.

4. It is not disputed even by Government spokesmen that rearmament will require serious sacrifice on the part of the population. There is no published budget, and it is impossible to make a reliable estimate of military expenditure. The Hungarian military attaché, who occupies a somewhat special position here, states that the barracks for the German army and air force this year were estimated to cost 2 milliard reichsmarks (£100 million at par). This sum, he says, has already been exceeded, apparently as a result of the cost of the new Air Ministry, with its 2,500 rooms. The *Daily Telegraph* correspondent has received information from what he believes to be a good source to the effect that the military estimates, exclusive of capital expenditure on buildings, &c., amounted this year to 2½ milliard reichsmarks (£125 million at par). The naval attaché calculates the cost of new construction for this year on the basis of the normal programme at 200 million reichsmarks (£10 million at par). This programme does not represent even half the total required to bring the German fleet up to full strength under the London Agreement, even supposing that England builds no new ships. In addition, there is the normal "recurring expenditure" to be met. In 1934 the vote for this item was 130 million reichsmarks. There are now more ships and more personnel, and it would be surprising if this sum had not been doubled. Finally, there is the air force. Here it is impossible even to hazard an estimate. All that can be said with certainty is that the air force is large, and that money, material, and, indeed, human life, are being prodigally spent. The army complain of General Göring's extravagance, and the air force openly demand a special standard of comfort in view of the dangerous character of their peace-time occupations.

5. It may be asked: For how long will the people bear material privation in order to maintain this enormous military machine? A German diplomatist, hostile to the present régime, expresses the opinion that the average German is a gross materialist who can always be got at by his stomach. The Nazi party is also showing signs of anxiety. The issue of food cards, for which preparations have been made, has been postponed, and may be definitely ruled out by Herr Hitler as politically undesirable. Every effort is made to allay discontent and to avoid the spread of alarming rumours. An Englishman in Leipzig was recently interfered with because it was erroneously believed that he had photographed a food queue. Nevertheless, although discontent may be rife, it cannot become articulate or effective under a régime which is backed by force, and

which in Herr Hitler's words is plainly determined to exterminate its enemies with "brutal ruthlessness." Above all it must be remembered that the country is virtually living in war conditions, a state in which the Government has unlimited power, and in which the people are prepared to endure more than in time of peace.

6. Except that battles are not being fought, Germany may be said without exaggeration to be living in a state of war. Everything is subordinated to the needs of the defence forces. The Government controls the distribution of raw materials and the output of the factories. The military chiefs are in complete control of the armed forces; there is no parliamentary or civilian interference. A high degree of secrecy is still preserved. To quote the words of the liaison officer at the War Ministry, officers may not enter the houses of foreign diplomatists except by special permission, which in principle is not granted. The American service attachés now ring up the War or Air Ministries to ask if so and so can come to lunch or dinner before they approach the officer in question. The discussion of military matters is prohibited. It is high treason to impart information even of a nature not considered in the least confidential abroad. The death penalty is inflicted for the betrayal of official secrets; it is also inflicted on Communists and may be inflicted on all who obstruct "the work of national regeneration." The political police is powerful, numerous and as well supplied with funds as secret services usually are in war time.

7. It is not surprising that in these conditions discontent caused by the food shortage and the rise in prices cannot be articulate. Perhaps the most discouraging feature of the position is the fact that, so far as I can ascertain, the populace are prepared to make considerable sacrifices to rebuild the army. The average citizen remarks ruefully that so long as Germany fulfilled the stipulations of the treaty she got nothing but kicks and cuffs. No sooner had she taken matters into her own hands than Berlin began to enjoy the visits of foreign statesmen. References to Germany to-day by European political leaders are respectful and guarded. In a word, there is general agreement with General Göring that the sacrifice of a quarter of a pound of butter in order to "recover the national honour" is not only good sentiment but good business. How long the docility of the country will continue depends on too many unascertainable factors. During the war German opinion withstood the strain for at least two years longer than foreign observers expected. But even then the Government was hampered by the latitude given to the parliamentary parties, and later to persons more or less openly promoting disaffection. Dr. Scheffer, discussing this very point with a member of my staff, remarked that with the present Government in power Germany would never have been driven into surrender. Herr Hitler, you will recollect, made a somewhat similar observation during his conversations with Sir John Simon and Mr. Eden. At Munich on the 9th November last Herr Hitler said in his speech that in 1914 the outbreak of war involved no difficult decision on the part of the individual in Germany; on the contrary, it involved the decision to march out, "to the infinite joy of millions." If war were to break out to-day, I have little doubt that the order to march would be received with infinite joy again. In any event, if public resentment at the present state of affairs were to increase, and if the Nazi party were to fail in its task of maintaining internal peace, the army, for whom the nation is tightening its belt, would see to it that there was no effective interference in the execution of its plans.

8. It is difficult at present to say when the process of rearmament will be judged to be complete. Meanwhile, as a German lady living in a garrison town remarked: "If war came I don't think I should see much difference, except that I might be woken at night by bombs instead of by these endless squadrons of low-flying machines."

9. That military expansion will be followed by territorial expansion goes without saying, though Germans in private conversation often say it. The question asked is *where* and not *whether* Germany should expand. Dr. Schacht, reasonable and moderate as ever, confines himself, for the present at any rate, to demanding that Great Britain and France should present Germany with Togoland and the Cameroons, in order that he may be able to buy raw material with marks instead of "Devisen." He deigns to recognise (always for the present), that there might be difficulties in the way of a return of "South-West" or of Tanganyika. General von Reichenau, however (see my despatch No. 472 of the

15th May last), and other military authorities advocate expansion in the east of Europe, with a transfer of populations. General von Blomberg told me last month that if Germany were not allowed to expand "the kettle would some day burst" (see my telegram No. 228, Saving, of the 10th October).

10. All Germans agree in considering any attempt, whether by the League of Nations or by general pacts of "collective security," to stabilise the *status quo* and to prevent Germany's expansion as highly reprehensible and, indeed, immoral. Such attempts, they hold, can only end in war and in a war waged by Germany at any rate in the most righteous of causes.

11. It will be seen that the present Ethiopian imbroglio is mere child's play compared to the problem that will, in some not very distant future, confront His Majesty's Government.

I have, &c.
ERIC PHIPPS.

No. 20.

Sir E. Phipps to Sir Samuel Hoare.—(Received December 6.)

[By Bag.]

(No. 287. Saving.) *En clair.*

(Extracts.)

(Telegraphic.)

Berlin, December 5, 1935.

I LUNCHEDED with Dr. Schacht on 2nd December and we had some conversation afterwards.

Colonies:
Views of
Dr. Schacht.

Dr. Schacht expressed sympathy for Mussolini's expansionist aims, although he did not actually defend his methods of attaining them. On the other hand, he condemned the "egotistical" attitude of Great Britain. I replied that if Dr. Schacht ascribed Great Britain's attitude in the Abyssinian affair to egotism he was making a grave mistake; it was due not to egotism but to the very opposite, *i.e.*, idealism, hatred of war and a practically unanimous determination on the part of the British people to try to render war impossible in the future, or at least unprofitable for the aggressor.

Dr. Schacht said that it was not only towards Italy that Great Britain was displaying egotism, but also towards Germany, who absolutely needed colonies in order to have a chance of overcoming her economic difficulties and of leading the decent life to which she was entitled. I reminded my host how little raw material Germany had drawn from her colonies before the war and how few colonists, apart from officials, she had sent there. Dr. Schacht replied, as the Minister for War had done, that Germany had not been sufficiently long in possession of her colonies to be able to develop them to the full. This, Dr. Schacht added, she would under the present régime be able to do, and it would, moreover, be of great value to her to be able to send overseas a number of her Nazi extremists in order there to work off their superabundant energy.

I indicated that I was, of course, speaking in a purely personal and private capacity, and enquired what were, in Dr. Schacht's considered opinion, the minimum colonial requirements that would be of real practical assistance to Germany. I pointed out that the whole question literally bristled with difficulties, that the more reasonable Germany's demands the better chance there was of their being taken into consideration, and I therefore urged that it would be a mistake to ask for the moon. Dr. Schacht replied that he never liked making minimum demands (this is only too true), he preferred maximum ones, and, in fact, would like to ask for the moon. . . . In subsequent conversation, however, it transpired that Dr. Schacht had chiefly in mind the Cameroons for this was the only name he mentioned, and he declared emphatically that if they could be returned to Germany he would be able to extract from them ~~the~~ 70 per cent. of the German requirements of fats, &c., which he was now obliged to import from abroad, to the great injury of his "Devisen" position. Then, siren-like, he indicated that colonies would only be for Germany guarantees for her future good behaviour, as Great Britain would always be able in case of need to take them away again.

Dr. Schacht admitted that the Führer had originally not favoured any demands for a return of the colonies, and I expressed regret that he had thought it necessary to convert Herr Hitler. Dr. Schacht did not deny this, but took credit for having converted the Chancellor in the still more important matter of German expansion towards the East. He had, he declared, pointed out the folly of any such idea. Any lands in that direction, viz., Poland, Russia, &c., into which Germany might be tempted to expand were already thickly inhabited. It was therefore towards the colonies, and not the East, that German efforts for expansion must be directed.

Dr. Schacht said that, unless Germany's wishes in this matter could be met, either grave internal troubles brought about by communism or a war would result.

It is always easier to whet the German appetite than to satisfy it. I am therefore doubtful whether any recognition on Germany's colonial claims would cause her to relinquish ideas of expansion in the East so dear to the hearts of the Reichswehr. Presumably, however, such recognition would only be granted in return for certain definite undertakings of good behaviour on the part of Germany.

Meanwhile, Dr. Schacht's "conversion" of the Führer seems to be spreading, for the French Ambassador was button-holed on the subject by the Minister of the Interior and by Herr Hess on 2nd December. Dr. Frick and Herr Hess, however, opened their mouths even wider than Dr. Schacht, and declared that the return of German East Africa would be welcome and eminently desirable.

[C 8198/134/18]

No. 21.

Sir E. Phipps to Sir Samuel Hoare,—(Received December 12)

(No. 1305.)

Sir,

Berlin, December 10, 1935.

IN my despatch No. 1160 of the 13th November, I described the progress of German rearmament. It may be useful if I now offer some observations on the policy, of which the powerful armed forces of Germany are to be the instruments.

2. Times have changed since the author of *Mein Kampf*, then a prisoner at Landsberg, became the ruler of Germany. Nevertheless, despite General von Blomberg's assurances to me, as reported in my telegram No. 228, Saving, of the 10th October, there is no reason to believe that Herr Hitler's basic ideas, as set forth in that book, have materially altered. As Nazi spokesmen constantly say, tactical considerations from time to time require a change of course, but the general direction and the goal remain the same. For example, after two and a half years, the theory elaborated in Chapter III, Part 2, "Nationals and Citizens," has now been given practical application by law. Or again, as the military attaché informs me, the solution eventually adopted in controversies regarding the organisation of the army is usually that advocated in *Mein Kampf*. In particular, universal military service, which Herr Hitler recommends for social reasons, was introduced against the advice of some of the best brains in the army. Similar instances could be multiplied.

3. At the risk of being diffuse it is therefore well, before considering the present-day direction of German foreign policy, to go once more over the ground covered in *Mein Kampf*. The principles there laid down may for convenience be grouped under the headings of pre-war and post-war policy.

4. *Pre-War German Policy*.—The German problem before the war, Herr Hitler writes, was to acquire the means of subsistence for a rapidly increasing population. Only four courses were open to the German Government: first, to restrict the population artificially, secondly, to develop internal colonisation, thirdly, to acquire new territory for the settlement of the superfluous population, and, fourthly, to adopt a colonial and mercantile policy. The first two solutions he dismisses because they involved the strangulation and eventual death of the nation. The third solution was without doubt the correct one, but it could only be achieved through alliance with England. "To win England's support no sacrifices should have been too great. Colonies and sea power should have been renounced, and British industry should have been spared competition." The

whole energies of the State should have been concentrated on the army. If, on the other hand, it had been decided to pursue a colonial policy, the only logical conclusion was an alliance with Russia. For it was clear that mercantile and colonial competition with England must eventually lead to war with the British Empire.

5. *Post-War Policy*.—The first task of German policy was to recover freedom and the right to rearm. These were the necessary conditions for executing a practical foreign policy, the object of which is to maintain, develop and feed the German people. "To forge this sword is the task of the political leaders at home; to protect the work of forging and to seek companions in arms is the task of the makers of foreign policy. The thought which must to-day lead us is once again the fundamental idea that the recovery of the lost territories of a nation is primarily a question of the recovery of the political independence and power of the motherland. To render this possible and to assure it through a clever policy of alliances is the first task of a strong leadership."

6. The question as to how and within what limits Germany is to seek space for expansion is discussed at length. Briefly, the conclusion is reached that there is no advantage in seeking the restoration of the frontiers of 1914 as such. These were in their day arbitrarily fixed and have only a sentimental value. In any event to recover them would lead Germany once more into the situation of 1914, that is to say into a conflict with the whole world. "If the German nation wishes to put an end to the situation of her threatened annihilation in Europe, she must not commit the fault of the pre-war era and make enemies of God and the whole world. I not only consider the recovery of South Tyrol by war as impossible, but I also should personally reject this policy in the conviction that in this matter it would be impossible to secure the flaming national enthusiasm of the whole German people which is a necessary condition of victory." Similarly in regard to the recovery of Alsace-Lorraine, he says: "Much as we all recognise to-day the necessity of a conflict with France, such a course would be completely ineffective in the long run if the conflict constituted the final goal of our foreign policy. It can and will only have a meaning if it offers us cover in the rear for the increase of the territory of our nation in Europe."

7. As regards the direction in which German expansion is to take place, it is clear that colonies which only offer restricted possibilities of settlement constitute an unacceptable solution. "See that the strength of our nation has its basis not in colonies but in home territory in Europe. But if we talk to-day of new land and territory in Europe we can, in the first place, only think of Russia and of the subject limitrophe States."

8. The argument that Germany should return to Bismarck's policy of an understanding with Russia is dealt with at some length. "The question should not be: 'What did Bismarck do?' but: 'What would he have done to-day?'" and the answer is clear. "He would never have allied himself to a State which was doomed to destruction." It must be borne in mind that an alliance with Russia must inevitably lead to war. "An alliance the objective of which is not the intention to wage a war has no meaning or worth. One only concludes alliances in order to fight." In the event of war a Russian alliance would be disastrous for Germany, for she could expect no effective help from modern Russia; nor could Russia be fully trusted. War would break out sooner than was expected and the outcome would be the end of Germany.

9. If an alliance with Russia is out of the question and an alliance with France cannot be realised, since she is the hereditary foe of Germany, there remain, he continues, only the possibilities of an alliance with Italy or England or an alliance with both at the same time. The solution for which Herr Hitler evidently hankers is that of an alliance or agreement with England. To achieve this he is, in *Mein Kampf*, not only ready, but anxious, to make the greatest sacrifices, even to the extent of renouncing for the present all colonial ambitions.

10. As regards the union of Austria and other Germanic races with Germany, he writes on the very first page: "German Austria must return once more to the great German motherland, yet not on any economic grounds. No; this union must in any event take place even if from the economic point of view there were no ground for it, or even if it were detrimental. The same blood must belong to a common Reich. The German nation possesses no moral right to the development of a colonial policy so long as it is not able to include its own sons in a common State. Only when the frontiers of the Reich include the

last German without being able to secure his means of subsistence does the moral right to the acquisition of foreign land and territory spring from the need of one's own people." (See also point 1 of the Party Programme: "We demand on the ground of the right of self-determination of all peoples the union of all Germans in a Greater Germany.")

11. To sum up, the racial theories of national socialism require the union of the German tribes in Europe, not on economic grounds, but on account of the affinity of blood. In addition, Germany must expand territorially. This cannot be achieved satisfactorily by means of a colonial policy: first, because colonies are not suitable for the absorption of large numbers of settlers, and, secondly, because of the political difficulties involved. Germany's proper course, in Herr Hitler's opinion, is to expand in the east at the expense of Russia and the Baltic States. For this purpose she requires the support of England and Italy. She renounces territorial claims in the west and south and proposes to attack France only if it be necessary to cover her rear.

12. Since this policy was outlined, circumstances have changed, even if the principles have not. Germany has rearmed and is fast becoming the most powerful military nation in Europe. Relations with Russia have degenerated to such a pitch that speeches are made here almost every day which might, before the war, have constituted a *casus belli*. The fist shaken at France in 1923 has become the outstretched hand. But it is perhaps in regard to relations with England that the greatest change has occurred. Every effort is being made to cultivate good relations, and the Naval Agreement is regarded as a substantial sacrifice to that end, but circumstances have compelled the Chancellor to abandon the idea of English co-operation for, or tacit assent to, a war of conquest in the east. He has also had to give up the ancillary plan of renouncing Germany's colonial aspirations.

13. The admission of Russia into the League of Nations, Great Britain's public attachment to the principles of the Covenant and, finally, the strong attitude of His Majesty's Government in the matter of the Italo-Abyssinian conflict have demonstrated to Germany that there is no hope of forming an alliance with England on the basis of a war of aggression against Russia. This being so, the question of paying a large price for such an alliance does not arise. Furthermore, other circumstances have forced the colonial question more into the foreground. Full equality of rights, a battle-cry invented since *Mein Kampf* was written, is not consistent with the permanent exclusion of Germany from the colonial Powers. More important, the currency crisis has induced Dr. Schacht and many others to demand colonies where Germany or German chartered companies can produce raw materials without paying for them in foreign currency. Rightly or wrongly, sincerely or disingenuously, Dr. Schacht and the vast mass of the German people claim that the colonies to which Germany is morally entitled will assist her materially in solving the currency crisis. A guarantee of the open door and the abolition of all monopolies in raw materials are of little interest to Germany. There is no complaint of monopolies, no complaint that raw materials cannot be obtained, only that they must be paid for in foreign currency, which Germany has not got.

14. It will be seen from the above that the aims of German foreign policy are still much as I described them in my despatch No. 127 of the 31st January, 1934. Reduced to the simplest or briefest formula they may be described as:—

- (1) Absorption of Austria and other Germanic peoples.
- (2) Expansion in the east.
- (3) Recovery of colonies.

15. The question of practical importance which must arise is: How and when does Germany propose to realise these aims? Neither Herr Hitler nor his Government would, I think, be able to answer these questions. For the moment their energies are devoted towards forging the instrument of their foreign policy. How it is to be used can only be determined later. It may, however, be of assistance if I attempt to give you an account of the various currents of opinion which are perceptible to-day.

16. The watchword of German foreign policy is "Good relations with England." This desire, expressed by almost every German in every walk of life, springs not from affection, nor from a sense of racial affinity, but from the lively hope of favours to come. A careful trial will be given to this policy, and it is

unlikely to be abandoned until it is clear that England is unwilling or unable to make a contribution towards the satisfaction of German aspirations. By concluding the Naval Agreement and definitely renouncing naval competition, Germany, it is thought, has taken the first step and has smoothed the path for England. All eyes are now looking for a sign from the other side of the channel. Some interest was aroused by Sir Samuel Hoare's statement at Geneva on the 11th September that "something must also be done to remove the causes from which war is apt to arise"; and by the Prime Minister's statement in his speech to the Peace Society of the 31st October that: "If the League only exists to keep things living as they are, it will become desiccated and crumble into dust . . . it must be capable of development and change." But the Germans profess themselves weary of words. They want to know what concrete proposals His Majesty's Government have to give practical effect to these admirable sentiments. They feel themselves held down by the weight of a world alliance seemingly determined to maintain the *status quo* for ever. Is England prepared to take any action to redress this situation or must the boiler eventually burst? The military attaché informs me that he notices a growing tendency amongst German officers to ask where England wishes Germany to expand.

17. Many thoughtful Germans recognise the practical difficulties facing His Majesty's Government. The Covenant of the League, as it now stands, precludes German expansion in Europe; the return of sufficient colonies to satisfy German requirements is a unilateral sacrifice which England can perhaps not be expected to make; and the reform of the League and the modification of the Covenant with the precise object of enabling Germany legally to acquire territory in Europe cannot be brought about in the face of the opposition of the interested parties. Hence the policy of understanding with England is held by these circles, no matter how Anglophile, to be fruitless. This view was expressed with great frankness to a member of my staff by a leading German journalist. He argued that only one course was open to Germany in the long run, namely, an understanding with Russia, or a return to Rapallo, in other words. The National Socialist party, he argued, would have to swallow it, just as they have swallowed the agreement with Poland; and the inevitable bankruptcy of the policy of understanding with England would make the change of course easier than was now imagined.

18. As you are aware, many leading members of the Ministry for Foreign Affairs and of the General Staff favour a return to Rapallo. They never really approved its abandonment. Yet it is the opinion of all observers here that German military plans are being laid with a view to operations in the East. "Siegreich wollen wir Frankreich schlagen" is sung in the streets, but so far it has apparently not been translated into active military preparations. It is still the official policy to renounce all territorial claims against France. More important, the Germans have a healthy respect for the defensive value of modern weapons and for French military prowess. During a discussion with the military attaché on the efficiency of modern defence, General Keitel, General von Reichenau's successor, said: "Yes, that is what Hitler is always saying. War under modern conditions is not worth while." At the same time, it must be stated that there appears to be a school of thought in the Air Ministry which believes that France can be brought to her knees cheaply and quickly by means of intensive air warfare. General Milch, possibly expressing the opinion of his bellicose chief, said as much not long ago to a member of my staff. But the fact remains that so far as German military preparations are concerned, these are being made with a view to operations east not west of the Elbe.

19. As regards union with Austria, opinion is gaining ground that Germany's recent policy has been a mistake in that it has brought no advantage, but only the hostility of Italy and the whole world. It is felt that Germany can well afford to be patient and that sooner or later a movement towards union will be made from Austria itself. (Recent signs of estrangement between Great Britain and Austria in connexion with sanctions did not pass unnoticed in Berlin.) In that event the Powers, including Italy, would find it hard to justify intervention. Speaking on this topic, a member of the Ministry for Foreign Affairs remarked that the Italians were justifying their invasion of Abyssinia by invoking the voluntary surrender of Ras Gugsa and other chieftains; they would, he hoped, have nothing to say when hundreds of "Rases" from Austria and even Italian Tyrol flocked to the German colours.

20. The fact that the Austrian question is in cold storage does not mean that Germany has in any way renounced her aims. It only means that she intends to realise them less clumsily. At any moment, however, events may occur which will bring about a reversion to the more brutal methods of the past. Such an event might conceivably be the collapse of Italy under the pressure of sanctions. And here it may not be out of place to examine briefly the impression made on Germany by the Italo-Abyssinian dispute and the application of sanctions by the League.

21. A display of force is always impressive to the German, and the attitude of His Majesty's Government has therefore enormously increased British prestige in this country. A nation accustomed to think of England as incapable of any initiative and as following unwillingly but meekly in the wake of France now sees the situation suddenly reversed. The press, deaf to the explanations of British spokesmen, declares that England has awakened because the Empire has been touched on a vital nerve. The announcements of British rearmament and Sir Samuel Hoare's statement that England is not going to play a second-class rôle are read as signs of a revival of British world power. In press articles and in conversation England is often spoken of as the most powerful nation in the world to-day. A responsible German, discussing the prospect of an Anglo-German understanding, remarked gloomily that it could now with difficulty be brought about because "England is so powerful that Germany has nothing to offer her." This, however, is not the general view, and so long as British prestige stands as high as it now does, the policy of Anglo-German understanding will be abandoned only with the greatest reluctance.

22. As regards sanctions themselves, the general opinion seems to be that so long as sanctions remain a weapon in the League armoury important countries will be obliged in self-defence to render themselves immune therefrom. A fresh impulse has been given to German autarchy, and active steps have already been taken to re-examine the whole question in the light of the Italian experience in order to render Germany invulnerable. For over four years, it is pointed out, Germany, without any advance preparation, withstood the severest sanctions during the Great War. The progress of science, past experience and careful preparation should now enable her to hold out for any measurable time. In fact, although the man in the street may perhaps regard the action of the League as a dress rehearsal for eventual sanctions against Germany, responsible circles seem not ungrateful for the experience gained at another country's expense in the art of circumventing sanctions and elaborating counter-measures. "There will never again be recourse to sanctions" was the cryptic comment of an important member of the Government.

23. For the rest, the Chancellor, congratulating himself on his wisdom in leaving the League in time, is finding his seat on the fence a comfortable and convenient post of observation. He does not at the moment think much of Italy's prospects, but he can afford, whilst energetically pursuing his rearmament, quietly to await developments. In any event, whatever the issue, he fervently hopes and trusts that the Stresa front has been irretrievably shattered. Secure from sanctions and relieved from the threatened pressure of the Stresa front, he feels that events in Europe are slowly untying his hands. The internal and especially the financial and food position still cause grave anxiety, but from the point of view of foreign affairs the outlook is brighter than it has been since the war.

24. Despite the folly of prophecy, we must try to reply to the question: "What will Germany do?" So far as the immediate future is concerned, much will depend on the development of Anglo-German relations, on the policy of Italy when the Abyssinian conflict has been decided and on the development of German relations with Poland. During the years now in sight Germany's internal policy of protecting agriculture and restricting her foreign trade in a desperate effort to make herself self-supporting seems calculated to weaken her striking force. Can this country support the burden of a reconstituted army, navy and air force of vast proportions on a much more restricted basis of internal and foreign trade than before the war? These and other problems are occupying the German Government at the moment much more than questions of foreign policy.

25. Will Herr Hitler plunge Europe into war? I believe him to be sincere in declaring that he does not want war. But did he for a moment want the

events of the 30th June, 1934? Circumstances were then too strong for him and they may be too strong again. Faced with the choice between quitting the German stage or plunging Europe into war, the trio who control the destinies of this great country would not hesitate. In the first case their lives would be forfeit. In the second there would at least be the chance that fortune might favour the brave. The Reichswehr here, however, may, I think, be trusted not to permit war until they are really ready.

26. If then we look further ahead the prospect becomes less and less reassuring. Germany cannot wait indefinitely for the rectification of her eastern frontier. Moreover, if Herr Hitler pursues his present policy of forcing up the birth rate, the German people will indubitably become what he so stridently bewails in *Mein Kampf*, namely, a "Volk ohne Raum," an over-populated country, entitled *ipso facto* to expand into the "Raum," or territory, of less fruitful peoples. Already there are two births in Germany for every one in France. Inevitably an explosion must eventually take place as a result of this item of German internal policy, even if nothing caught fire on the field of foreign affairs.

27. It can safely be said that the rearmament of Germany on its present scale is not being carried out solely for self-defence. The youth of this country are not being trained from childhood to regard war as inevitable without good reason. The English trade-union leaders whom Sir John Simon had good reason to rebuke a few days ago were wrong in protesting against an Anglo-German football match, but they were right if they merely meant to assert that there was no such thing as sport for sport's sake in Germany. There is in fact only sport for the sake of war, *i.e.*, sport to increase physical fitness with an ultimate view to prowess in the field of battle, and this sport is obligatory for the entire male population.

28. To sum up, I would say that Germany has no hard and fast foreign policy at the moment. I can easily envisage a reversal of her present inclinations if, for instance, reform of the League proved illusory and friendship with England, or with France and England, proved unattainable or nugatory. The army might, in conjunction with the Ministry for Foreign Affairs, reverse the helm and put the ship back on the Rapallo course, or any other course that seemed propitious. But it is more likely that Hitler, if left to himself, will, like Mr. Micawber, prefer the policy of waiting for something to turn up. This is not, to the German way of thinking, such a bad policy in human affairs. Who would have said in 1918 that the vanquishers of Germany would be reduced to such a state of apathy by internal political and economic developments that she would be allowed in 1935 to burst her bonds and force the gates of her Versailles prison house? The British Government to-day may speak with a strong voice in world affairs, but a Labour-Pacifist Government may come into power in England. The United States Government to-day may agree to an oil embargo, but will a Republican Government to-morrow be equally amenable? The average German feels that Germany's opportunity will occur during one of these phases of weakness. (In a speech at Hamburg last month Dr. Goebbels expressed this view when he said: "The world is again on the move. That happens about once a century, and when such a displacement process ('Umschichtungsprozess') is over it is no good coming along ten years later and saying that we were not on the spot because we happened at the time to be busy with our confessional disputes. No; we must be ready to hand; and he is safest who has a united nation behind him.") After all, he argues, was not Hitler's rise due to some inexplicable paralysis of the Weimar system, and has his subsequent success not been due to some equally inexplicable inertia in the Versailles camp? All that can be said with certainty about the firmament of foreign affairs is that the constellation is for ever changing. But the German Micawber, who resembles his feckless prototype merely in his capacity for waiting, will be found in all other respects to be a formidable and ruthless opportunist. If Hitler's heart could be searched to-day his policy would doubtless be found to be very simple. He will keep his powder dry, bide his time and put his trust partly in Wotan, but chiefly in his own mysterious good fortune that has led him, at times quite unexpectedly, *per aspera ad astra*.

I have, &c.

ERIC PHIPPS.

Sir E. Phipps to Sir Samuel Hoare.—(Received December 20.)

(No. 1344.)

Sir,

Berlin, December 16, 1935.

Sir E.
Phipps's
interview
with Hitler,
December 13,
1935.

I HAVE the honour to set forth hereunder, in somewhat greater detail than in my telegraphic reports, what passed at my interview with the Chancellor on the 13th December, which I had sought with a view to carrying out instructions.

2. I opened the conversation by saying that it was a very long time since I had had the honour of seeing Herr Hitler and that His Majesty's Government would be glad to learn from him personally his views on the possibility of further conversations respecting the London Declaration of the 3rd February, and particularly the question of the air pact and air limitation.

3. The Chancellor, who struck me as being in a not very amiable mood, muttered something to the effect that he could hardly consider these continual requests for his views as being made completely *bona fide*. He was still waiting, he said, for a reply to a note that he had addressed to His Majesty's Government regarding the air pact last July. To this I replied that it was, on the contrary, you, Sir, who expected an answer from the German Government to suggestions which you had made to the German Ambassador in London on the 1st August last. At this Herr Hitler looked blankly at Baron von Neurath, who was present throughout our interview, and who murmured something inaudible. . . . I reminded the Chancellor of his oft-expressed opinion that a general understanding must be achieved step by step. In this connexion I reminded him of the last sentence in point 5 of his Reichstag speech of the 21st May, and suggested that we had all seemed to be agreed that the first step should be to conclude an air pact and an air limitation agreement. I added that the agreements that we contemplated were based upon the spirit and principles of Locarno. They would not interfere with the Locarno equilibrium and they would not be used to the disadvantage of any of the Locarno Powers. That was our conception of the agreements. Such agreements were regarded as both safe and useful, and the German Government could rely upon us in the negotiations to maintain this position. This being so, it seemed to His Majesty's Government entirely safe for the German Government to enter the negotiations on these lines.

4. Herr Hitler, despite these explanations, expressed the strongest objection to the conclusion of any bilateral arrangements within the air pact, and no arguments of mine could shake him. He then made his usual, though on this occasion somewhat more violent, outburst against what he described as the Franco-Soviet "military alliance" directed against Germany, declaring that it had rendered any air pact out of the question, for the bringing into the picture of Russia had completely upset the balance of power in Europe. He referred to Russia's enormous strength on land and in the air, and remarked that Berlin might easily in a few hours be reduced to a heap of ashes by a Russian air attack before the League or any other body had even begun to discuss the question of how to deal with it. I pointed out that it was for the very purpose of putting the air pact into speedy execution that the French wished for the conclusion of these bilateral arrangements, without which the air pact itself might prove useless for the reason he had himself given. What, indeed, seemed to be in the general interest was to extend the Treaty of Locarno to the air and to come to some rapid arrangement for air limitation.

5. Baron von Neurath here made his only intervention and declared that if the French persisted in their wish for bilateral arrangements it might be pointed out to them that in that event the demilitarised zone would have to be abolished, for Germany could not consent to keep her light machines behind the zone whilst France (and England, too, in the event of a conflict) would be able to keep hers right on the frontier. At this stage Herr Hitler complacently observed that he could quite well have proceeded to reoccupy the demilitarised zone on the 16th March without provoking war. He had, however, been content with Locarno and had therefore abstained.

6. The Chancellor then painted the Russian picture in ever blacker shades and in ever louder and sharper tones. He abused the French for their folly in concluding this military treaty, and blamed Great Britain for thinking that by currying favour with Russia she would set up that Power as a counter-weight

to Japan. I denied any such intention on the part of Great Britain and remarked that we were all living in the same house and that it would be useless to try to ignore the presence of one inhabitant, viz., Russia. That had been M. Clemenceau's idea after the war (*i.e.*, a "cordon sanitaire") and it seemed to us a mistaken and negative policy. By entering into conversation with Russia we hoped that she would gradually evolve in a more moderate direction, and, indeed, it was possible that she was already doing so. This the Chancellor hotly and indignantly denied. He said that Russia was a foul and unclean inhabitant of the house with whom the other dwellers should have no political truck whatever (he admitted that he had entered, and would again enter into various commercial and economic transactions with this inhabitant). In fact, the Russians were noxious microbes who should be politically isolated. I retorted that it was Germany who was originally responsible for the instalment of the most dangerous microbe of all, Lenin, by giving him special facilities during the war to pass through her territory. Herr Hitler bitterly admitted the truth of this, and said that Germany had been the first to suffer and had regretted it ever since. If he, Hitler, had been in power such folly would never have been committed. (Baron von Neurath grew rather restless at this shot among the old German ducks.)

7. The Chancellor then dilated on Russian infamy, remarking that the oath of Russian recruits included a vow to foster world revolution (what would the world say if *his* recruits had to take any such oath?); he declared that it was owing to Russia that no pact of "non-interference" was worth concluding, for she was continually guilty of the most aggressive and insolent underground interference in the affairs of all civilised States, not excluding the British Empire. No air limitation pact, he declared, was possible that did not allow him to take into account Russia's enormous strength in the air. Supposing *he* had just concluded a military alliance with Russia directed against France, what would not the French requirements in the air be? I denied the fairness of the analogy and remarked that in view of the Chancellor's notorious hatred for Communist Russia such a *volte-face* would arouse far greater suspicion than the Franco-Soviet Agreement need do; I added that that agreement was due to France's fear of Germany, partly owing to the secret manner in which the Polish German Agreement had been concluded.

8. The Chancellor referred to the reply that he had given to the question addressed to him from Stresa respecting the Eastern Pact, and declared that he had not at that time realised the full meaning of the Franco-Soviet alliance. He even implied that an attempt had been made to deceive him on that occasion. His main objection to the alliance is the fact that each party reserves to itself the right to decide in the last resort who the eventual aggressor is. For instance, in the event of war between Russia and Poland, if Germany came to the latter's assistance, she would be dubbed the aggressor by France and treated as such. This even impaired the efficacy and value of the Treaty of Locarno.

9. Faced with this completely negative attitude, I referred to the statement issued by the *Deutsche Nachrichten-Büro* on the 6th December to the effect that the German Government were still ready to discuss the question of an air pact and air limitation. At this the Chancellor looked blank and evidently attached no importance to, or was even unaware of, that statement, which, as I have reported, was issued by the Ministry for Foreign Affairs at the instigation of Herr von Bülow, probably with a view to throwing dust in our eyes and in those of the German public. I then remarked that we were even now engaged in a race in air armaments, and in this connexion I reminded Herr Hitler of the Prime Minister's declaration in the House of Commons regarding our determination to have an air force equal to that of any potential aggressor. The Chancellor indicated that this would be an unfortunate attitude to maintain. There could be no question of an air race between Great Britain and Germany.

10. I then enquired whether the Chancellor could not make some constructive proposal in the matter, and he informed me that the German Government would be quite ready to exchange confidentially secret information with His Majesty's Government regarding their respective air strengths and requirements. Such information must on no account be passed on to the French, for, if it were, Moscow would immediately be informed by them. War between England and Germany ever again was unthinkable; hence the Anglo-German Naval Agreement, which Herr Hitler would loyally respect for all time. He himself, he declared, and all his men, for he was mortal, favoured a close understanding

with Great Britain. The two great "Germanic" peoples must never again fight one another; he had been pressed to demand 50 per cent. of our fleet, but had declined, for he wished to show beyond doubt his determination to remain on the most friendly terms with us.

11. I promised to report the Chancellor's remarks to His Majesty's Government, but observed that I knew they would be greatly disappointed at his negative attitude over the air pact and air limitation.

12. Herr Hitler then remarked that, if he demanded the return of the colonies, it was not with the wish to injure anybody's interests or to be unfair. He was only demanding the return of what really and truly was Germany's property. He *must* have them back, otherwise where could he put his people? He added bitterly that Great Britain's present prosperity was merely due to her "Empire."

13. At one moment Herr Hitler referred savagely to Lithuania, declaring that neither that country nor the Baltic States in general would present any obstacle to a Russian attack on Germany. (This was contradictory to a statement he had previously made in the course of our conversation, to the effect that he really did not know how he would be able to attack Russia even if he wished to.) Russia, he said, with two divisions could wipe that rotten little State out of existence. When I pointed out that Lithuania had recently behaved better over the Memel question, he grudgingly admitted that this was true.

14. It was only at the end of our interview that the Chancellor referred spontaneously to Abyssinia. He declared that recent developments in that affair gave him furiously to think. Supposing East Prussia, he said, were overrun by Russia, the League would presumably impose sanctions in a leisurely manner, and would then propose to hand over not only East Prussia but part of Silesia also to Russia. Moreover, sanctions had proved ineffectual, and the moral to be drawn was that only one's own strength would defend one from attack. I pointed out the difference there was from a cultural point of view between Germany and Abyssinia, and remarked that time had not yet been given for the full force of sanctions to come into play.

15. Herr Hitler said that he had no particular reason to love Italy after her hostile attitude and absurd anti-German press campaign of last year, but nevertheless he felt uneasy at the anti-Fascist behaviour of Great Britain throughout this affair. After all, if Mussolini disappeared, chaos and bolshevism would ensue in Italy and would certainly spread. I replied that the Chancellor was making a great mistake. His Majesty's Government felt no hostility towards fascism in other countries, and, indeed, would infinitely prefer it there to chaos. Herr Hitler then went so far as to hint that we had led Mussolini on with a view to his destruction. I scouted this idea and thought it advisable to say that months ago Sir Eric Drummond had warned the Duce that Great Britain, if forced to choose between her loyal obligations under the League and her traditional friendship for Italy, would be obliged to choose the former. Moreover, our constant efforts for a peaceful solution and our latest Paris proposals showed that we were not hostile to Mussolini. Herr Hitler at one stage remarked that he thought Mussolini had behaved foolishly over the Abyssinian affair. He himself (Hitler) would have come to some previous arrangement with Great Britain in the matter before embarking upon it. He expressed his conviction that Mussolini would accept the Paris proposals. (This is important and will be referred to in a subsequent despatch, in which I shall endeavour briefly to draw certain conclusions from Herr Hitler's attitude during our interview.)

16. From time to time the Chancellor muttered sentences, such as: "Germany is a very great country and always will be. She was great in a military sense under the Hohenzollerns and is great now. Prussia was also great as a military Power under Frederick the Great." Even when pretending to fear a Russian attack, he spoke of Russia with supreme contempt, and declared his conviction that Germany was vastly superior to her both militarily and technically. At times he ground the floor with his heel, as though crushing a worm.

I have, &c.

ERIC PHIPPS.

[C 8373/55/18]

No. 23.

Sir E. Phipps to Sir Samuel Hoare.—(Received December 20.)

(No. 1359. Very Confidential.)

Sir,

Berlin, December 19, 1935.

HAVING recounted in my despatch No. 1344 of the 16th December my conversation with the Chancellor of the 13th December, I propose here to set forth as briefly as possible certain impressions that I have derived and certain conclusions that I have drawn therefrom:—

Sir E. Phipps's impressions and conclusions after his interview with Hitler.

(1) *Russia.*

Contempt was too much mixed with fear to carry conviction; the more so since I know that the German Ambassador at Moscow, who is now here, saw the Chancellor recently and told him that the one obsession of Russia was peace at almost any price, and a craven fear of Germany.

(2) *Locarno and the Demilitarised Zone.*

Herr Hitler's attitude and manner when referring to these questions made a very bad impression. He was patronising in regard to Locarno, and struck a cynical note of regret at having failed to reoccupy the zone on the 16th March last. It seems probable that he will proceed to that reoccupation whenever a favourable opportunity presents itself. This will hardly be, however, before he has made a final effort to "square" Great Britain.

(3) *Colonies.*

The Chancellor referred to their return as a matter of course. No trace remained of the deprecating smile with which he indicated to Sir John Simon and Mr. Eden that colonies would be welcome. On this occasion it was a sharp summons to disgorge our loot; in fact, I was almost made to feel that I had stolen his watch.

(4) *Abyssinia.*

This subject, as I have reported, was only mentioned casually by the Chancellor at the end of our conversation. His conviction, however, that Mussolini was bound to accept the Paris proposals showed, I think, (a) that he felt he must base his refusal to discuss air pacts or air limitation upon something more permanent than the conflict, which, on the day of our conversation, he thought was drawing to a close, and (b) that, in order to forestall any possible re-formation of a really cordial Franco-British *Entente*, he must seek to divide Great Britain permanently from France by offering her a secret exchange of information on the respective air strengths and air requirements of herself and Germany.

It is clear, moreover, that the likelihood of an early settlement of the Abyssinian imbroglio would account in some measure for Herr Hitler's ill-humour when I saw him. As I have since reported, he fears above all things a resurrection of the Stresa front and any undue increase of Mussolini's prestige. (The Duce's downfall would not suit him for other, but no less obvious, reasons.)

(5) *The Secret Proposals.*

Herr Hitler's manner in making the above and in brushing aside the Prime Minister's declaration in the House of Commons regarding our determination to build up to parity in the air with any possible aggressor had something patronising about it. In effect it was an invitation to Great Britain to content herself with a mere fraction of the German air force.

2. It now seems evident that Germany means to arm on land and in the air at her own sweet will and to the limit of her capacity. Many recent despatches from this Embassy have called attention to various aspects of Germany's determination to attain great military strength. I earnestly trust that Great Britain will not take any hasty action calculated to help her even indirectly to satisfy that ambition. To whet the German appetite is easy, to satisfy it impossible. The return of the colonies would not only act as a stimulating *hors d'œuvre* to the German gormandiser, it would enormously increase Hitler's prestige and power. Such a reward for present iniquity would be positively dangerous; and how then could we ever show our approval of some possible emergence of any future German virtue?

3. To rearm is, I firmly believe, our most urgent task; but its urgency would only be increased by the display of any signs of weakness towards this régime. It is only force that Nazidom admires; generosity spells weakness in its eyes, and is therefore despicable.

4. After all the situation may be black, but it is not desperate. Nazidom is not yet ready to shoot, anyhow on a big scale. Meanwhile we can become strong again, and renew our somewhat tattered friendships on the sound basis of a great common danger. The closer those friendships again become, the less the danger will be, and in any case Nazi Germany is now beset with numerous difficulties, financial, economic, social and religious, from which it would be folly for us, for any reason whatever, to help to extricate her. She has taken the road to Endor; she may turn away in time or she may pursue her course up to that dark terminus. Whenever the light returns to her we can always, if need be, assist her genuine resurrection even by the sacrifice of some British interest to the cause of general peace.

I have, &c.
ERIC PHIPPS.

No. 24.

Sir E. Phipps to Sir Samuel Hoare.—(Received December 23.)

[By Bag.]

(No. 303. Saving.)

(Telegraphic.) *En clair.*

Berlin, December 21, 1935.

Relative
strength of
colonial
school and
those who
advocate
German
expansion in
Eastern
Europe.

IT is difficult to estimate the relative strength of those who demand the return of the colonies and those who advocate expansion in Europe. The first school speaks openly, loudly and at times stridently; the second school only admits its aspirations in the course of private conversations. The reason for this difference is fairly obvious. The first school is merely expressing what it is pleased to consider the natural desire of the rightful owner for the return of the stolen watch (see my despatch No. 1359 of 19th December). The second school advocates a policy that can only be carried out by means of war, whereas the whole huge apparatus of Nazi propaganda bellows peace. For this reason, and for obvious reasons of European policy, the demand for European expansion must always be confined to comparatively narrow circles round Hitler, Göring and the army. It can never become a "popular" movement or vie with the colonial movement for support.

As stated in paragraphs 12 to 17 of my despatch No. 1305 of 10th December, German policy is necessarily opportunist, and the form of expansion which is most easy to realise will be the one favoured at any given moment. Colonial expansion being more feasible to-day enjoys the widest support. Furthermore, it would enormously facilitate German expansion in Europe later on. That is, at all events, the firm conviction of Dr. Schacht and other leading German economists who are now struggling with shortages of all kinds owing to the lack of colonial raw materials. It is accordingly easy for them to convince the Nazi leaders and the militarists that the possession of colonies would render the burden of rearmament far lighter to bear in the near future, especially if world trade fails to recover, and the war panoply becomes unbearably heavy for the German masses in consequence.

For all the above reasons the colonial school is at present gaining ground. It would raise its voice still louder were it not that Herr Hitler, Herr von Ribbentrop and the Minister for Foreign Affairs are so anxious for an Anglo-German understanding that they may be prepared, as in the case of the fleet, for a course of rigorous self-denial for some time to come.

So far as I can judge from my restricted angle of vision here, we can lose nothing by procrastination and even obstruction in the colonial question. If Dr. Schacht and his friends are right in thinking that the colonies are so indispensable to Germany's rearmament and general prosperity, we would be well advised to go as slow as we can. Nazi policy has always been to snatch an ell whenever an inch was conceded by their Republican opponents. It will, I fear, be much the same in foreign affairs. The return of the colonies would be the prelude to bigger music.

II.—ECONOMIC.

No. 25.

Extracts from Department of Overseas Trade Report on Economic Conditions in Germany to June 1934 by Mr. J. H. F. Thelwall, late Commercial Counsellor at His Majesty's Embassy, Berlin.

“THE severe deflation following the crisis of 1931 has in some respects cleaned up and strengthened the commercial and industrial position in Germany. Debts have been cleared off, costs have been reduced and the beginnings of liquidity have set in, weaker members have passed away and unsound elements have been consolidated. Foreign indebtedness has also been substantially reduced, aided considerably by the depreciation of certain other currencies, and the fact that the service of foreign loans is now endangered is due in some degree to international as well as national reasons; shipping is in a distressed condition on similar grounds, as, indeed, it is elsewhere. Banking is awaiting a reform, shortly to be announced. As regards industry, however, it was, as stated above, in a good position to deal with a gradual improvement, though whether it can stand the pace which has now been set is another matter. Be that as it may, the injunction which has been laid upon it to spend the majority of its resources in providing work is causing firms to re-equip themselves yet again, after having already done so on an extensive scale with borrowed foreign money during the period 1926-29. This, it is said, is not aimed at greater productive capacity, but at yet higher efficiency, which, combined with wages and prices kept low by control, would make Germany a very redoubtable competitor under freer international trading conditions. . . .

“It is, therefore, no wonder that the restriction and shrinkage of foreign trade is Germany's most pressing anxiety. It has brought her face to face with serious exchange difficulties, not only as regards her note cover, which control has deprived it of much of its practical importance, but also in relation to her foreign indebtedness and to her supply of raw materials; she can help herself to some extent by the conclusion of bilateral commercial treaties and by the use of various forms of cheap marks, but these cannot be more than palliatives, for an effective remedy she is dependent upon others. There are, in particular, two internal dangers which this state of affairs creates. One is that her large and efficient industrial apparatus running at high speed absolutely needs an outlet beyond the home market if it is not to be choked with its own products, and the other that, if some means of financing raw material imports cannot be found, the machine will run down for want of fuel and the whole scheme for the provision of work which has been built up with so much care, energy, devotion and sacrifice will be jeopardised. . . .

Restriction of foreign trade and consequent necessity of outlets.

“Work has been provided not only by a variety of public schemes, but also directly by trade, by industry and by individuals, acting under the persuasion and with the aid of the Government. Due weight must be given to the private effort put forward which is liable to be underestimated, because less is heard about it than the public programmes. By far greater sums have been expended by trade, industry and the people in general on the provision of work than by the Government and public bodies. The sum actually paid out for plans of the Reich Government during 1933 was about 1,200 million reichsmarks, while the depreciation reserves of industry which have no doubt been largely used on orders for renewals, repairs, extensions and re-equipment may be put at some 3,400 million reichsmarks. . . .

“As the funds used for the provision of work must for the most part be invested for long periods and the requirements could not be met on the money market, the Reich had to provide the necessary resources. In order to make the co-operation of the Reichsbank possible, a method had to be found which was acceptable to it, and accordingly the short-term bill was chosen; as long as it outwardly maintains the character of a commercial bill and is provided with the necessary endorsements, it furnishes the Reichsbank with sufficient security for advancing the required credits. The Reich has given the assurance that it will redeem the bills within a given period, at first one to two years, later five years. . . .

"The obligations of the Reich for meeting the bills during the five years in which they are to be redeemed, 1934 to 1938, will amount to several thousand million marks and various ways of dealing with this charge will have to be considered. The resuscitation of the capital market is one of the most important factors and this again will depend largely on the ultimate effect of the provision of work on German trade and industry; if a true revival of the latter can be achieved, new capital will be formed and the market correspondingly strengthened. It has already been helped by the measures which have been taken to deal with the short-term indebtedness of the municipalities and to relieve them of unemployment burdens. The Reichsbank may be able to give further aid by its open market policy and by taking the initiative in bringing down interest rates. In this way it might be possible to create conditions which would permit of the issue of a consolidation loan for the redemption of a substantial part of the bills. . . .

"It would be a mistake to assume that Germany has become negligible as a competitor on account of the difficulties here enumerated. She will make herself felt partly because she will help her exporters with cheap marks on those markets which are of value to her, partly because she will do the same with regard to large and important international orders and partly because her forward drive in production has caused the latter in many respects to outrun internal purchasing power and manufacturers prefer to sell the excess output very cheaply abroad than to lock up capital in stocks. Should Germany, at a later date, when general stabilisation of currencies has been achieved and when her foreign indebtedness is lower, decide to devalue the mark to the level of the pound and dollar, her competitive power would be very formidable indeed, as she has passed through the rationalisation of deflation, which will prove of much greater value to her than the so-called rationalisation (which was merely unnecessary expansion of productive capacity) carried out with the aid of borrowed money."

No. 26.

Extract from a Department of Overseas Trade Report on the Foreign Trade of Germany in 1934, prepared by Mr. E. C. Donaldson Rawlins, Commercial Counsellor to His Majesty's Embassy at Berlin.

(a) *German Commercial Policy in 1934.*

The tendency towards a passive trade balance, which became evident early in 1934, engaged the serious attention of the authorities in Germany. They had embarked on a programme of work creation and revitalisation of industry which depended on the maintenance of the supply of raw materials from foreign sources, and, indeed, necessitated increased imports; and it was realised that for many years to come Germany must be dependent on overseas countries and her European neighbours for many commodities necessary to maintain her position as a great industrial nation.

Throughout 1934 the difficulty facing those in charge of Germany's industrial, financial and general economic policy was to find a synthesis of two propositions which are with difficulty, if at all, reconcilable. On the one hand, the work creation programme was of such urgency that economic considerations had at all costs to be made to conform to it. On the other hand, the Reich is on balance a financial debtor, and, despite diminishing export trade, has to maintain a favourable balance of trade if her national economy is to remain within the bounds normally set by the observation of domestic and international obligations.

The story of Germany's commercial policy in 1934 is a recital of the efforts made to stem the drift towards an economic situation in which imports of raw materials would not meet industrial needs. The results of the measures adopted or foreshadowed are, of course, only partly reflected in international trade returns in respect of 1934. The figures for 1935 will be more closely connected with 1934 decisions, but the course of foreign trade in the final quarter of 1934 was influenced by the decisions and shows considerable changes from earlier months of the year.

Control of foreign exchange was the instrument by the aid of which the authorities endeavoured to adapt the requirements of international trade to the needs of Germany's domestic policy. The ration of foreign exchange allotted to firms licensed to engage in import trade fell from 50 per cent. of the basic quota in January to 5 per cent. in July. At that point German payment in foreign exchange for imports may be said to have ceased to be a normal practice. Commercial debts accumulated until active measures were taken by foreign Governments in response to pressure from the creditors of Germany, including manufacturers and merchants who went so far as to declare sellers' strikes in important export trades to Germany. While a series of clearing, transfer, or payment agreements was negotiated with various foreign countries, especially Germany's European neighbours, there was also an attempt to regulate German foreign trade relations by internal administrative measures. This was the New Plan, which came into operation on the 24th September. By this scheme twenty-five Control Offices were put in charge of the whole range of commodities needed or dealt in by German industry, and foreign exchange for imports was made available (to firms already licensed) only in respect of a given transaction in a given commodity to be imported from a given country. The Ministry for Economic Affairs in fact claimed to visa every single invoice in respect of imports to Germany, and payment could not be made in foreign exchange by the importer unless such a visa in the form of an exchange certificate (*Devisenbescheinigung*) had been obtained in advance of the importation. From one point of view a great improvement was thereby effected, for foreign exchange certificates were thenceforward only issued by the Control Offices in accordance with the Reichsbank's expectation of available foreign exchange, and thus payment was secure in respect of such transactions as were authorised. Simultaneously a series of orders and restrictions was issued by which the use of imported raw materials was rationed, or prohibited. Thus the maximum use, by the criterion of nation interest as interpreted by the Government, is being made of such imports of raw materials as are possible under present exchange circumstances.

The "New Plan."

While German imports were thus closely regulated and restricted by the operation of the New Plan, the importance of the other side of the foreign trade account was not lost sight of, and the export trade continued to be supported not only by Reich guarantees in respect of credit insurance and discount facilities to the extent of 100 million reichsmarks, but by the grant of facilities for payment for German goods in blocked or other such special forms of marks.

Another remedy for exchange difficulties which was tried to an increasing extent in the latter part of 1934 was barter. A variety of forms of barter was evolved, ranging from direct barter through triangular exchange up to the maintenance of special reichsmark accounts by foreign firms in Germany, fed by the mark proceeds of imports and emptied by use in part payment for (guaranteed greater) exports of German goods. A criticism levelled at this form of business was that it tended to induce German purchases of inferior goods in a dearer market and sales of German goods in exchange at low prices, and so adversely to affect the trade position.

Barter.

The volume of exchange of goods on the world market itself absolutely diminished; the competitive ability of German goods on the world market steadily declined; the ease with which profitable business was to be done on a rising domestic market was attractive in comparison with the difficulties of recouping export losses; the bonds and scrip methods of subsidy became more and more difficult of operation—these factors all combined with the bad showing of the trade returns to make it appear urgently necessary to supplement the New Plan for rationalisation of imports by a correspondingly drastic plan in furtherance of exports in 1935.

In sum, therefore, the import half of the foreign trade situation was at the end of 1934, thanks to a planned economy, reasonably well in hand; whereas the export half was so unsatisfactory as to be a distinct cloud on the economic horizon of 1935.

Sir E. Phipps to Sir John Simon.—(Received April 26.)

(No. 390 E.) Extract.

Sir,

Berlin, April 25, 1935.

* * * * *

3. Briefly summarised, the financial position of Germany is that some 12 milliard reichsmarks of debt in the form of unemployment work bills and armament bills, together with 2 milliard reichsmarks in the form of tax certificates, are outstanding, and will have to be covered or consolidated probably in the next four or five years, say at the rate of at least 3 milliard reichsmarks a year, of which 1 milliard is for unemployment works and 2 milliards for armaments. These figures may of course be increased if the level of armaments is carried yet higher. The improvement in the budget revenue due to the stimulation of industrial activity, and the accumulation of savings seeking investment due to the same cause, will help towards covering these charges in the next few years. The Government has already started borrowing on long term from the savings banks, insurance institutions, &c., to an amount of over half a milliard reichsmarks, and borrowing at home is, of course, greatly facilitated by the strict exchange control which prevents capital from leaving the country. But an additional charge of at least 3 milliards a year on the Reich budget of about 6 milliard reichsmarks is, nevertheless, stupendous. Further, the original unemployment work programmes have now been nearly completed, and rearmament has taken their place as a stimulus of industrial activity. But rearmament, or at least the first equipment of the new forces, will presumably be completed in a year or two years, and this stimulus to industrial activity will disappear, budget revenue will diminish, and savings will dwindle, just in the middle of the period of the greatest strain on the budget. Taxes can hardly be increased materially. If, to avoid this difficulty, fresh unemployment work programmes of further armament is undertaken, this will only postpone the time at which the ever-growing snowball of debt has to be paid off or consolidated. If the whole of this special debt were consolidated, it is quite true that it would not make a burden of long-term Government debt out of proportion to Germany's resources, but the problem is whether the debt can be raised and consolidated at this enormous speed.

4. The financial adviser to this Embassy had discussed this subject recently with a number of different Germans in business, banking and official circles. To his question how these enormous charges on the budget were to be dealt with, they all answered: "That is just the question." One or two said they hoped that before matters became acute world conditions would improve, or confidence would be restored by an armaments agreement in such a way as to improve Germany's economic position and her credit. One rising official in the Reichswirtschaftsministerium thought that if armament expenditure could be stopped now through an armaments agreement the problem would be much more manageable, but he was obviously apprehensive of the position if armament expenditure continued. Mr. Pinsent asked him whether the danger on the financial side was likely to be a matter which would weigh with the German Government in the question whether they should seek or avoid agreement with the other Powers. His reply was that as Hitler did not understand these questions, he did not think that financial considerations would weigh very much with him. (It is, however, certain that Schacht and Krosigk must have called the Führer's attention to the financial risks involved, and, if only the auspices for an armaments agreement were good in other respects, financial considerations probably would weigh to some extent with the German Government.)

5. Thus, on all sides, among those who are aware of what is going on, there is considerable apprehension as to the outcome of the Government's financial policy. The concealment which is being practised now as regards the budget position is a significant and dangerous feature. No 1935 budget figures have been published, and it is possible that none will be. If the public had been aware all along to what extent the Government were proposing to borrow from the savings banks, insurance institutions and every other organisation to which the public entrusts its savings, its confidence would very likely have been in no way

Great
increase
in internal
indebtedness.

disturbed; but if this information is withheld at first and leaks out later, the effect may be more serious.

6. When Mr. Eden was here last month, he asked Mr. Pinsent whether he thought that Germany's "heel of Achilles" might lie on the financial and economic side. Mr. Pinsent replied that he did not think that it would be safe to assume this. The finance of the country is already being carried on almost on a war basis and, so long as the Government continues to command the confidence of the population as it does at present, I do not think that a breakdown is to be expected. But financial questions, like many others, are very often in essence questions of confidence, and if something occurred to shake the confidence of the population, it is quite possible that a financial crisis might rapidly arise, in which the Government would have no resources but borrowing from the Central Bank—one of the most dangerous types of inflation. The size of the financial problem which the Government has set itself for the next few years is so enormous that the possibility of a breakdown of this kind cannot be ignored; but I do not think that one can in any way prophesy at what stage the risk of breakdown would be greatest. The solution of the whole problem depends on confidence. It is a bad sign that the German Government should begin so early as now to conceal the facts from the public. But, on the other hand, the German Government has invented many ways of commanding the confidence of its population other than telling them the truth.

Confidence essential.

7. The risk of financial breakdown has, of course, another side. If a weakening of confidence on the financial side began to assert itself, that alone might tempt the Government to seek some warlike adventure in order to re-establish its hold over the country. But it must be added that—apart from the private apprehensions of the business and official world—there is not the slightest sign at present of any weakening of confidence.

8. On the other hand, the foreign trade position is an "Achilles heel" in another sense. The essential supplies of foreign raw material and food-stuffs have been maintained last winter, and will probably continue to be maintained, though (I believe) under conditions of slowly increasing difficulty. But the difficulty as regards raw material supplies may effectively prevent Germany for some time to come from making anything but a very small or very short war. As compared with 1914, war requires much greater supplies of raw materials, Germany's stocks of these materials must be lower, and—above all—her reserve of foreign assets with which to buy bread has practically vanished. The conditions for a successful blockade by Germany's enemies are also probably more favourable. It seems that, without command of the sea, Germany must either secure rapid success in war or else suffer defeat.

I have, &c.

ERIC PHIPPS.

[C 4172/635/18]

No. 28.

Sir E. Phipps to Sir John Simon.—(Received May 24.)

(No. 502 E.)

Sir,

Berlin, May 22, 1935.

YOU will have observed that the majority of my recent despatches on economic subjects have dealt with measures taken by the Reich to cope with the increasing difficulties of the raw material situation. The continued supply of imported raw materials necessary to the survival of German industries is indeed the most pressing problem facing Dr. Schacht at the present time. Barter and clearing procedures have been fully exploited in the interest of this dominant need, and experience is bringing home to the German authorities any conviction which may have previously been lacking as to the ineffectiveness of such make-shifts in the long run. Attacks on the general problem of raw materials are at present being developed chiefly from two angles. One is the continuation and development, but in a half-hearted spirit, of the essentially Nazi policy of subsidies for research and manufacture of domestic substitutes for certain imports, and the other is a vigorous effort to apply the obvious and orthodox remedy for a shortage of foreign exchange—increase of exports. In the present

Raw materials.

despatch I have the honour to summarise the course of recent developments and to report on the present situation of Reich policy with regard to export trade.

2. Last March, in his speech at the Leipzig Spring Fair, Dr. Schacht said that the prevailing boom in German industry could only be sustained if industry remained aware of the necessity of foreign trade. He went on to point out that even those branches of industry which were not actively engaged in export depended often on foreign sources of supply for their raw material and were, none the less, heavily, because indirectly, dependent on German exports. A surplus of exchange was necessary to pay for imported materials and must come from exports. Ever since this speech, the subject of exports has been foremost in the minds of those directing German economic policy. The tendency towards a permanent passivity, which German trade balances in the last six months have shown, has pointed relentlessly to a recurrence of a situation whereby a heavy accumulation of commercial debts to firms abroad would lead to reluctance on the part of foreign traders to send goods to Germany at all.

3. About a month ago, Reichsbankdirektor Dr. Blessing, one of the closest collaborators of Dr. Schacht, published an article in an economic journal which was at once and rightly seized upon as an authoritative indication of the trend of official policy. The article was republished in the daily press throughout the country, and excited considerable interest. Dr. Blessing's chief point was that, as a temporary and provisional measure, industry must accept not merely a diminution of dividends, but also smaller estimates in respect of depreciation, less carry forward to reserve and considerably reduced expenditure on new or improved plant. These sacrifices would be necessary, he said, to make provision for export business at a loss without raising domestic prices. The effect of this declaration by a person in such an authoritative position as Dr. Blessing was immediately reflected by a drop in industrials on the Berlin Stock Exchange; and a speech made a few weeks later by Dr. Blessing's colleague, Dr. Brinkmann, a director of the Reichsbank, the Gold Discount Bank and the Ministry for Economic Affairs, did nothing to alleviate the impression that the Ministry for Economic Affairs saw no possibility of avoiding a heavy levy on industry. Dr. Brinkmann quoted nine obstacles to German exports. Seven of these would have been listed by any speaker deploring the difficulties facing the export trade of any country at the present time. One of the two remaining obstacles he mentioned is peculiar to Germany—propaganda against German goods in certain foreign countries based on political arguments. But he frankly admitted that the chief obstacle to German exports was the fact that German prices were not competitive. He concluded his analysis of the situation by the statement that German industry could not avoid the necessity of devising means whereby the gap between domestic and export, or world, prices could be bridged, and German prices made competitive abroad. Dr. Brinkmann repeated Dr. Schacht's argument that domestic industrial prosperity depended directly on the continued provision of raw materials from abroad, which, in turn, depended more than ever on German exports.

4. Before these semi-official pronouncements were made, Dr. Schacht, as was reported in the London press some six weeks ago, had summoned a number of leading representatives of German industry and had explained that he must raise about 1,000 million reichsmarks from industry to create a fund for the stimulation of exports, but that the expense of raising this fund could not be passed on to the German public in the shape of increased domestic prices. Dr. Blessing's article was, of course, written in connexion with these discussions. The resistance offered to Dr. Schacht's proposals by the German industrialists was, by all accounts, very strong, and, in particular, those interests such as the chemical and electro-technical industries, which already are the mainstay of Germany's supply of foreign exchange, protested against a further burden on their already heavily laden financial capacity. It is reliably reported that a deputation of industrialists actually went to the Führer over Dr. Schacht's head and that a modification of the original proposals of the Ministry for Economic Affairs had to be promised.

5. But the necessities of the case were clearly on Dr. Schacht's side, and several weeks ago it became known that industry had had to submit to the prospect of providing immediately a fund of some 700 million reichsmarks for use in the subsidy and stimulation of exports. This money is not being raised by a general levy on industry for the benefit of a central pool, but by a levy on

each particular industry for the benefit of an export pool specially to be created by that industry. Such export subsidy pools already exist in the case of the coal, iron and steel, brass, glass, artificial silk and motor-vehicle industries. It is not possible at present to give details of the export subsidies in contemplation, for only incidental references to the existence of the scheme at all have been allowed to reach the daily press, and, indeed, one Nazi paper took the *Frankfurter Zeitung* very severely to task for daring to mention the subject even in general terms. The communication of information to a foreigner on the subject might, indeed, result in a charge of treason. It is clear that detailed knowledge in foreign countries of the methods and extent of the subsidies might provoke the application of anti-dumping and similar protectionist laws. Some measure of the burden which the new policy must represent in individual industries may be gathered, however, from the fact that a levy of 4 reichsmarks per ton on total production is reliably reported to be the extent to which the Raw Steel Cartel is expected to contribute to the AVI export fund.

6. One result of the severe measures to which Dr. Schacht has been obliged by circumstances to resort is that his political position is much less secure. He has always been an object of suspicion and dislike to the economic purists of the National Socialist party, and his strength hitherto has been in the fact that he enjoyed, comparatively, the confidence of German industry and finance, as well as that of the Führer. Although the interests which have hitherto looked to Dr. Schacht as a sort of brake on radical measures of the National Socialist party doubtless recognise the cogency of the arguments which have led him to insist on these export contributions, they are so severely stricken financially by the scheme that Dr. Schacht, as its proponent, is in great danger of losing his status of *persona grata* to big business. At the present time, therefore, he is being shot at from two sides and is reported to be very depressed. The National Socialist press has shown great indignation at the reported unwillingness of industrial interests cheerfully to bear the burden required of them for the sake of the commonweal, but gives no sign of any gratitude to Dr. Schacht for the resolution with which he has imposed this burden on his friends.

7. A copy of this despatch has been sent to the Department of Overseas Trade.

I have, &c.
ERIC PHIPPS.

[C 6990/635/18]

No. 29.

Sir E. Phipps to Sir Samuel Hoare.—(Received October 11.)

(No. 1011 E.)

HIS Majesty's Ambassador at Berlin presents his compliments to His Majesty's Secretary of State for Foreign Affairs and has the honour to transmit to him copy of a note on the German exchange position, October 1935, by the financial adviser at this Embassy.

Berlin, October 10, 1935.

Enclosure in No. 29.

Note on the German Exchange Position, October 1935.

SINCE midsummer 1935 there have been no conspicuous technical developments in the exchange position. Further observation has, however, in every way tended to confirm the unfavourable view of exchange prospects tentatively adopted in paragraph 10 of that memorandum. Many of those who in the summer were hoping for a materially improved harvest in 1935 now admit that the 1935 cereal harvest is not likely to be very materially better than that of 1934, while the potato harvest, for which no reliable estimates are at present available, may quite possibly be worse than that of 1934. That the expedient of importing goods without paying for them has now been exhausted was openly admitted in Dr. Blessing's recent article, of which a copy was forwarded with Berlin despatch No. 968 E of

the 30th September. No other expedients or reserves of any importance seem to be in sight. The completion of the repayment of frozen trade debts due to the United Kingdom will release some 30 million reichsmarks per annum, and the Reichsbank has in the last few months increased its gold reserve by some 20 million reichsmarks; but these are small sums in relation to the volume of Germany's requirements. It is also the case that balances on "foreigners' special accounts for inland payments" (Ausländer-Sonderkonten für Inlandzahlungen, or "Askiz") represent the value of goods imported which have not been paid for in exchange and have not yet been paid for by exports; but I understand that the volume of these balances is less than 20 million reichsmarks, and there is no evidence that this volume is increasing.

Shortage of
food-stuffs
and its
effects.

The recent shortages of butter and pork were reported in Berlin despatches Nos. 971 E of the 1st October and 990 E of the 4th October. These shortages are due less to the immediate lack of exchange than to the long-range effect of the exchange position. Butter can at present be imported without payment over the exchange from countries with which Germany has Clearing Agreements, only one of which, viz., Holland, is actually restricting her exports to Germany. Accordingly, additional orders for butter have been placed in Denmark. But such purchases are limited if the Clearing Agreements are not to break down, and these extra imports represent little but a palliative—except in the event of Germany being able to force more exports on the countries concerned. The facts behind the present position are that the consumption of butter has been increasing owing to the rise in the wages bill and to the restriction of imports of margarine (or of the raw materials from which it is made) and of lard through the shortage of exchange. Meanwhile, up to 1933 home production of butter had also been increasing, and the proportion of imported butter to total consumption fell from a peak of 27 per cent. in 1929 to 14 per cent. in 1933. But the increase of home production was checked in 1934 by the dry weather and by the consequent shortage and inferior quality of fodder, which again could not be made up fully by imports, and which led to increased slaughtering of cattle and reduced butter content of the milk produced. The result of this seems to be working out largely in the present year and has come to a head at the season when butter production normally falls and consumption increases. The truth is that an adequate supply of fats in the coming winter is not assured under present conditions.

The position as regard meat is broadly similar. Owing to the fodder shortage last year slaughtering increased. A full supply of meat was thus available last year, but this year the stock of animals is correspondingly low, and the supply of pork in particular, which represents nearly two-thirds of the meat consumed in Germany, is at present estimated to be about 10 per cent. below requirements. The position may improve towards the end of the year, but some shortage seems likely to persist through the winter and there is no surplus of other kinds of meat to compensate.

Efforts are being made to increase the home production of fodder, and the imports of fodder were greater in the first half of 1935 than in the first half of 1934 (though imports of certain food-stuffs, such as fruit, lard and oil seeds, were less). But this help is either insufficient or comes too late, and the maintenance of the food supply in the coming winter will be difficult unless more exchange is allocated to the purchase of food-stuffs and less to the purchase of industrial raw materials, including those intended for armament manufacture.

It seems indeed possible that, in view both of the exchange position and of the position of the public finances, some effort will be made to slow down the rate of armament expenditure. It is reported that expenditure on air armaments is already being slowed down, and that the heads of the German War Office now show more understanding for Dr. Schacht's difficulties than formerly. The position is, however, not altogether clear, since it is rumoured that a reduction in the rate of expenditure on the air force and the army may possibly be balanced by an increase in expenditure on the navy.

The shortages of pork and butter are not the first that have occurred—there were temporary shortages of eggs, vegetables and beef in the spring and summer—but they are the most serious. They have, it is true, been exaggerated by defective distribution and by panic purchases by the public. But in spite of appeals by Ministers for discipline and patience, and assurances that the shortage is only temporary and local, the ordinary people who stand in butter-queues are comparing the present position with that during the war or during the inflation

of 1923. There is fresh talk of the possibility of the introduction of ration cards for meat and fats. Events of this kind do more to bring the weakness of Germany's position home to the people than any revelations about the technical position of the exchange or of public finances.

One feature of the exchange position which seems to have been growing considerably in importance recently is the increasing desire to export capital. The new measures which are being taken against the Jews have started a fresh pressure to emigrate on their part, and there are many others who, in the general uncertainty, would like to be able to transfer some property abroad as a reserve. But for the present, in spite of the high pressure, flight of capital is still impossible except on a small scale, *e.g.*, through the smuggling of Reichsbank notes out of the country, which is on the increase. This position has, however, an important bearing on the prospects of a devaluation of the reichsmark. If that measure were to be taken, the pressure for the export of capital would make it necessary for a long period to maintain control at least of capital movements; and since partial control of this kind might well prove impossible in practice, it might be necessary to maintain full control, including that of trade transactions, for a considerable time. Thus, the chief benefit to be expected from devaluation, *viz.*, the removal of the burdensome exchange restrictions, would be lacking. This difficulty would not be removed, *e.g.*, by a central bank credit at the time of devaluation, which would serve only as security against short-term pressure on the exchange. In fact, behind the wall of Germany's exchange restrictions, the pressure of disequilibrium has been raised through political and other measures to such a height that the restoration of equilibrium and the abolition of the exchange wall may be a long and painful process. This has now become in itself a further reason against devaluation, although it is not to be concluded that Germany could maintain the present nominal parity of the reichsmark if the gold block countries were to devalue their currencies.

Difficulties in the way of devaluation.

G. H. S. PINSENT.

Berlin, October 9, 1935.

[C 7648/635/18]

No. 30.

Sir E. Phipps to Sir Samuel Hoare.—(Received November 14.)

(No. 1163 E.)

Sir,

Berlin, November 13, 1935.

I HAVE the honour to report that Count Schwerin von Krosigk gave an address at the university at Frankfort on the 8th November on "National Socialist Financial Policy." Official apologia.

2. After a review of the events leading up to the deflationist policy that preceded the National Socialist régime, the Minister defended the policy of deploying State credit and of making use of future reserves as the only means of restoring industry and employment. The policy of the National Socialist Government had reduced the number of unemployed to 1½ million. Of this number, ½ million might be reckoned as unemployables and another ½ million as temporarily unemployed, leaving only ¾ million who were really still a problem to be dealt with. As a result of National Socialist policy, taxation receipts had risen by 2½ milliard marks, and a further surplus of 1 milliard marks might be expected for 1935; on the other hand, expenditure for public assistance to the needy had fallen from 1·8 to 1·4 milliard marks. Further evidence of the efficacy of the "German Miracle" was not necessary, but it should be remembered that this miracle had not just happened of itself, but was the result of a conscious plan made up of components, each of which was a necessary part of the whole. He himself was an opponent of the so-called "Pyramid Theory," according to which any kind of work creation was to be welcomed regardless of the economic value to be attached to it. He held the theory that preference should be given to such projects as would gradually provide their own sinking fund, but other projects such as road making and canal building must also be considered because of their direct help to industry. As in the days of Frederick the Great, so to-day

it was important that frugality should be practised down to the smallest detail in order that great schemes could be financed. The limit to the work creation programme was to be found in the German ability to save. The Government had put an end to deficits and had enabled departmental budgets to give considerable current orders to industry. On the completion of the work creation programme there would, therefore, be no slackening of industrial activity because a considerable proportion of these industrial orders which had been placed as part of the work creation programme would in future be part of the departmental budgeting programme. The rearmament of the German people and the expenses associated therewith had been dealt with on the same lines as the work creation plans. That is to say, armament expenditure was being more and more taken over by current budgets, and expenditure that had not yet been taken over by a budget was being raised on short term for the present with a view to consolidation in a long-term loan at an early date. Rearmament was only made possible by the use of two financial methods—the current budget and the capital market. There had had to be a ruthless concentration of all other expenditure on a budgetary basis just as the capital market must be the first resource for the consolidation of State expenditure. The gigantic work which had been begun must be worked for and paid for by savings.

Significant
conclusion.

3. The Minister then turned to questions of foreign trade, and made sharp reproaches to the "old women of both sexes" who were guilty of hoarding and nervousness generally because supplies of certain commodities were temporarily restricted. If Germany could not extend the volume of its exports it must fall back on one of two solutions—the production of domestic raw materials, not possible in respect of every commodity, or, alternatively, the assertion of her right to participate in the exploitation of territories from which Germany could draw raw materials. Shortage of supplies should not give Germans cause for despair, but should only encourage them to raise their voice in a demand for that to which they were entitled by Divine and human justice. (This passage of the Minister's speech was vigorously applauded.)

4. In conclusion Count Krosigk issued a warning to industry lest they should hope for too much from the State. The Third Reich needed a private enterprise which did not sit in idle expectation of crumbs from the table of State subsidy, but which went forth in search of responsibility and profit to the advantage both of the enterprise itself and of the common weal. Germany must help itself, must work for and pay for all that had been achieved so far. The Third Reich would not give malevolent foreigners the satisfaction of seeing a financial and economic collapse. Not only the leadership of the Reich, but the actions of each individual were important to this end. History would later weigh Germany according to her behaviour in these days. All must help the Leader and Chancellor in his great work of valour and faith.

5. A copy of this despatch has been sent to the Department of Overseas Trade.

I have, &c.
ERIC PHIPPS.

[C 7918/635/18]

No. 31.

Sir E. Phipps to Sir Samuel Hoare.—(Received November 28.)

(No. 1231 E.)

Sir,

Berlin, November 26, 1935.

Comparative
Failure
of "New
Plan" and
barter.

WITH reference to the general question of the part played by barter in German foreign trade policy, I have the honour to report that a pronouncement was recently made by Direktor Karl Blessing, who, as you are aware, is a close collaborator of Dr. Schacht in foreign trade matters, in the form of a signed article in the *Völkischer Beobachter* of the 24th November. This article is a very clear as well as authoritative review of the results of German barter policy during the past year. It also contains an intimation of restrictive measures on barter business which is in some degree an admission that the high hopes entertained by

some quarters when the policy was launched have not been fulfilled. An interesting feature of the article, a summary of which follows in paragraphs 2-5 of this despatch, is the emphasis placed on the effect of the barter, as hitherto practised, in deflecting more foreign exchange from the Reichsbank than the authorities consider justifiable.

2. The basic principle of the New Plan of the 24th September, 1934, is: "Not to import more than can be paid for, and as far as possible import only such goods as are essential to the maintenance of export trade and domestic business." Owing to the shortage of available foreign exchange, barter transactions were almost the only means of effecting imports when the New Plan went into operation and, eventually, three distinct applications of the barter principle developed:—

- (a) *State Clearing Agreements*.—These regulate German commercial exchanges with all European countries (except Great Britain, Belgium and Russia) and with some Latin American countries.
- (b) *Foreigners' Special Accounts for Inland Payments (Aski)*.—These accounts can be sub-divided into bank Aski and company Aski. Bank Aski are similar to State clearing agreements, but naturally on a smaller scale. For example, the total German trade with Brazil is conducted by means of two or three banks Aski. Bank Askis are also playing an ever greater part in German trade with the United States.
- (c) *Individual Barter Transactions*.—Such transactions are only exceptionally feasible in trade with clearing countries or countries with whom Germany has some special agreement, e.g., United Kingdom, Belgium, the Irish Free State and Japan. Generally speaking, they are only permitted in the trade with countries overseas other than the Latin American clearing countries, Japan and South Africa. (In the case of South Africa all foreign exchange accruing from German exports to South Africa is used for payment of imports of wool and certain other South African products.)

Experience has shown that barter transactions meant to encourage so-called "additional exports" to European countries have not been successful in their purpose; they have usually resulted in the extension of barter to current export business. As imports were also found to be more expensive when effected by this means, it became necessary to limit the extent to which such transactions can be sanctioned. In most barter transactions at least a part of the foreign exchange arising from the sale of German goods abroad must be turned over to the Reichsbank, and an active balance of this kind is insisted upon in the case of all less urgent imports, but is sometimes waived in respect of imports of essential raw materials. Regulations have also been made forbidding the payment of a premium by the German importer to the German exporter, this prohibition having the double purpose of preventing an increase in the price of imports and the inclusion in the barter procedure of exports normally shipped for foreign exchange.

3. Although it is true that barter has effected "additional exports" and has brought in "additional imports" of raw material to Germany, a number of disadvantages have become evident in the course of practice. The chief of these are:—

- (a) Barter transactions limited still further the flow of foreign exchange, already reduced by the existence of clearing agreements and Aski. In the first nine months of 1935 foreign exchange was only used for payment in respect of 20 per cent. of Germany's foreign trade; a further 20 per cent. was conducted through individual barter transactions and Aski accounts, and the remaining 60 per cent. was effected through national clearing agreements. Of the foreign exchange available through the 20 per cent. of Germany's total trade alluded to above, about half was required for interest, standstill payments, long-term loans which are still being serviced, and for the incidental expenses of international trade. It follows that German imports in this period could only be paid for to the extent of 10 per cent. in foreign exchange, whereas 90 per cent. were paid for by clearing accounts, whether on a national or other basis.

- (b) Many German exports are included in barter transactions which could be sold for foreign exchange. This is particularly the case in barter to countries which have no foreign exchange regulations or with whom Germany has no clearing agreement.
- (c) The object of the prohibition of the payment of premiums by the German importer to the German exporter has been defeated by the transfer of the venue for payment of premiums to the foreign countries trading with Germany. The exporter of goods to Germany often pays a premium to the importer of German goods which he has already included in the price of the goods he is exporting to Germany, and which evades even the most detailed price control of the German authorities. In this way there have arisen a premium on imports to Germany and a discount on German exports which, needless to say, are regarded with the utmost antipathy by the German authorities.

While it is true that certain less essential materials which cannot be produced in Germany can be imported through barter transactions from abroad provided one pays high enough a price, the experience of the past year has shown that this practice limits Germany's ability to purchase those essential raw materials which for price reasons are less attractive to promoters of barter transactions, because the counter-vailing exports are depressed in price by the competition of such exports as are backed by a premium paid for imports less capable of strict price control.

- (d) In foreign trade undesirable elements have obtained a footing and have often been successful in including current—as distinct from “additional”—German exports in their barter schemes. Their object is to import to Germany those goods on which most profit is to be had by sale in Germany regardless of national or economic utility.

4. In view of these findings the German authorities have taken steps to limit the extent of barter transactions. Foreigners' Special Accounts for Inland Payments are only being sanctioned after very careful examination of applications. A list has also been prepared of German goods which cannot be included for export in any transactions of a barter or Aski nature, for they are goods which experience shows to be always salable for foreign exchange. Even in the case of authorised Aski and barter exports, each individual item of trade will be subject to close control with the object of excepting from the transactions such exports as might have been sold for foreign exchange. The payment of premiums in foreign countries will be countered by a stricter price control on imports. Further, the authorities are seriously considering the restriction as far as possible for the use of Aski accounts, and, indeed, all barter transactions, to imports of really essential raw materials.

5. In conclusion Dr. Blessing expressed the hope that German companies engaged in foreign trade will exercise the self-discipline which the National Socialist State expects from them in order to ensure the success of the administrative measures described above.

6. A copy of this despatch has been sent to the Department of Overseas Trade.

I have, &c.
ERIC PHIPPS.

[C 149/99/18]

No. 32.

Sir E. Phipps to Mr. Eden.

(No. 34 E.)

Sir,

Berlin, January 8, 1936.

TOWARDS the end of last November the Department of Overseas Trade asked the commercial secretary to this Embassy, at the request of a London business man with interests in a factory in Germany, to comment on press reports in England to the effect that unemployment, food shortage, rise in food prices, &c., in Germany had taken a turn for the worse.

2. In compliance with this request Mr. Magowan wrote a short memorandum on economic conditions in Germany at the end of November 1935, a copy of which I enclose, herein, as being of some general interest.

I have, &c.
ERIC PHIPPS.

Enclosure in No. 32.

Economic Conditions in Germany—End of November 1935.

“PRESS reports to the effect that unemployment, food shortage, rise in food prices, &c., in Germany have taken a turn for the worse recently” are correct—but need to be read in their proper context and given their proper perspective. Dangers of present situation.

The *Sunday Express* article of the 10th November to which attention has been drawn has no inaccurate statement in it from beginning to end, but it is, nevertheless, a tendentious article. It presents selected facts in somewhat alarmist fashion. For instance, the head-line “Germany’s Army of Workless up another 144,000” obscures the equally official and no less reliable statistical reports that there are now 16·6 million Germans in employment as compared with 11·5 million two and a half years ago, and that unemployment returns are now 1·8 million, as compared with 6 million two and a half years ago. Actually, what has happened is that there has recently been a seasonal retrogression in employment which may continue and eventually turn out to be more than normal. The figure of 144,000 may increase to 1 million before the winter is over.* Even then the unemployment situation will not be so bad as two years ago.

Undoubtedly it seems that the peak of Government orders for work creation and rearmament, on which German recovery has been almost exclusively based, has been reached and may have been passed. An important industrialist hinted at that state of affairs recently at a shareholders’ meeting (Kloekner concern). The State Railway Company is cutting down expenditure on the work creation and plant-renewal programme it had set itself. It has also been reported that shortage of raw material has been the cause of dismissals. Stocks of raw material have admittedly declined heavily, but reports that they have declined to the point of causing unemployment are not likely to be so correct as that dismissals which are taking place as a result of lack of orders have been ascribed to the more popular scapegoat of exchange difficulties and starvation of Germany by the malevolent “Ausland.” Producer goods industries have been busy, and threaten to stagnate; consumer goods industries have been stagnant for some time, and threaten to slump.

A butter and meat shortage is undeniable, but the other side of the picture is that the authorities are standing up to the admission of failure implied by food queues at the shops rather than forsake their marketing regulations with maximum prices, and allow the forces of supply and demand to rule. It is ridiculous to quote tea and oyster prices in Germany as a guide to anything, but there is no doubt that the major consumer commodities—food and clothing—have risen in price since 1933 despite all efforts to prevent and disguise such a rise. Such rises and the corresponding fall in real wages have been more accelerated this autumn. The fall in the value of mark notes outside Germany is another symptom of the same malady—namely, that Germany has been and is living beyond her means and is continuing to execute the political and economic programme of her present rulers only at the ultimate expense of the standard of living of the German people. How long the process will continue is a matter of conjecture. Some competent observers rate the docility of the German people and their fear of the violence by which the present régime is prepared to maintain itself very high, but would, nevertheless, not be surprised any day to hear a public admission regarding the state of Government finance and the national economy (details of which have been so carefully kept secret, while the rearmament programme has been ruthlessly pushed forward) which *might* (but not *must*) bring drastic political measures or happenings as an inevitable consequence of the revelation.

* German unemployment increased by 522,354 in December 1935, and at the beginning of 1936 stood at 2,506,806.

With regard to industrial undertakings with foreign interests or background there is no sign of any relaxation of the extremely nationalist, almost confiscatory, policy represented by the foreign exchange regulations. Losses can be made up from abroad, but repayment from profits, if any—is very problematical to say the least of it. Any profits that are made will be regarded as a perquisite of Germany and not of the foreign investor. The Germans have now come to accept almost as a justifiable and natural development the quasi-confiscation of foreign holdings on German soil. An international agreement might alter the present complexion of things, but should be regarded as a remote rather than immediate hope.

To sum up, the economic situation of Germany is bad, but it might grow even worse without entailing appreciable political effects; the standard of living of the population and the activity of industry might just continue to decline. Until what point? Here economic diagnosis ends and political conjecture begins

Berlin, November 26, 1935.



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