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Vienna, November 16, 1934.

Personal & Confidential

Dear Mr. Phillips:

I last wrote you, I fear at much too great length, on November 8. The situation, however, in Europe and particularly in this part of the world remains fundamentally so dangerous and disturbed that you will appreciate that I feel I must give you as intimate a picture as I can of all the changing factors which come to my knowledge. If I venture to give you in these letters my personal impressions, they may have some interest together with what you get from other sources, in appraising the situation. No one realizes better than I do, I believe, how difficult it is for even an experienced and conscientious officer at a post like this to evaluate correctly the information which comes to him. If I err on the side of giving you too much detail it is because I feel the situation fundamentally so disturbing that every changing factor must be examined.

At the outset I should say that internally in Austria the situation remains fundamentally unchanged, and is comparatively good and that no untoward developments have taken place within the country recently or, I believe, need be anticipated in the immediate future. Direct attack on Austria or active interference from the outside in her internal affairs need not from the present outlook be feared until January when major developments in the Saar situation will be more clear.

Internally the most significant development since I last wrote you has been the practical break down for the time being at least of the conversations with the so-called Nationalists or National Socialists, which I referred to at length in my last letter. In our despatches and in my letter I indicated that even in well informed circles there was a feeling here that Papen had nothing to do either with the initation or conduct of these conversations. Even the French Chargé who was keenly interested, was under this impression. I felt from the outset there must be some connection as most of these men whom the Chancellor received have during the last years been in touch directly or indirectly with the National Socialist Party or with the Government in Berlin. Some of them have not. From a conversation which I have had with the Chancellor I gathered the impression that he at least did not exclude the probability that Papen was in touch with some of these people. As a result of a conversation which I had with Papen the other day I feel there is no doubt that he has had touch with some of them and has been offering advice and counsel. Whether he has had

The Honorable William Phillips,
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anything to do with the conversations or not and whether he has been acting on his own initiative or under orders, I am now convinced that he has been in touch with at least Reinthaller and several others of those who participated.

The concern which was felt with regard to these conversations in London, Paris, and Rome, the increasing feeling that Papen was indirectly mixed up in them, the encouragement which radical National Socialist groups in the Tyrol showed through increased activity, and the inability of the various people who participated to agree among themselves, and particularly the indications of the Government that there could be nothing like a recognition of a Nationalist Bloc, have discouraged these people. The Chancellor may continue to receive, and I think will receive, these people, but all that he has said publicly and privately would indicate that nothing will come out of these conversations for the present except the adherence of some former National Socialists to the Vaterlandische Front through the feeling that they have more personally to gain that way.

Therehave been reports to the effect that Papen is directly negotiating with the Chancellor and the Foreign Minister on a rapprochement. Papen himself gives the impression indirectly that such negotiations are in progress. He was the guest of the Anglo-American correspondents at lunch about ten days ago and left that impression and expressed himself as hopeful and encouraged. The only actual negotiations, however, that I can learn of are for an exchange of Austrian apples against German coal which actually took place. The Chancellor was present at a luncheon of the Anglo-American correspondents and the direct question was asked of him whether negotiations were taking place and he practically stated categorically that what had taken place had been conversations on some commercial matters. He said that with respect to other matters Austria had not been the aggressor and therefore had nothing to negotiate, and that his stand on the question of Austrian independence was sufficiently well known to not require constant restatement.

The fact that the Church so definitely distrusts Papen and that he is getting no support from it here whatever has considerably cramped his style, for one must not forget that Austria is a Catholic state. The influence of the Church was felt very strongly in a development during this last week.

A director of the Railways, Mr.Neuaekh, had been appointed as the head of the Council of State on November 1 and although a very worthy person, one doesnot have to be on the inside to realize that his appointment was a compromise between various

groups in the Government. His tenure of office, however, was even shorter than was anticipated for it developed that some years ago he remarried without a proper annulment of the Church and the Catholic influence was sufficient to force him out. The new man who has been appointed, Count Hoyos, is a young man and he is probably a much better man for the post for he brings more prestige to it. There is a general tendency to underestimate the importance of this Council of State and the other Councils which were appointed on November 1. But as I have already told you, the majority of the people in the Austrian Government will really welcome a gradual return to a more democratic form of Government. The influence of England and France and of Austria's friendly neighbors is definitely in the direction of encouraging this trend, and the only opposition from her friends comes from Italy. I think that while these Councils will play a very secondary part for awhile, they will be gradually brought to the forefront and become the nucleus of a return to a form of parliamentary Government and elections.

Apropos of the too great importance which is sometimes given by correspondents to certain developments, this particular incident is of interest. Some of the correspondents felt that the short tenure of Nouackh was significant as an indication of the direct influence of the Church and of its direct interference in the Government. As a matter of fact, the incident is more significant of the power of Catholic opinion in Austria than showing direct Catholic interference. Those who know the situation here realize that several of the most charming and best situated women in Vienna have no place in so-called Viennese society because they have remarried without an annulment of their previous marriage by Rome. These religious prejudices are very strong here.

I think I should refer briefly to the Jewish situation here for it is not unlikely that the Department may have some inquiries in this connection. To meet these I sent a confidential despatch, No.189, several weeks ago in which I was able to give a rather encouraging picture. The Chancellor had listened carefully to the specific instances of discrimination which the officers of the Jewish community brought to his attention and had given them very far reaching assurances as to the attitude of the Government and its determination to control discrimination. This went a long ways towards alleviating the fears which had arisen within and without Austria as to his own attitude.

There were developments, however, which came to my attention which made it appear that the discriminations were continuing and that the attitude of the Government was not clear and that there was some ground for fearing that the Jewish question

might come to the forefront in Austria and become an international problem. I had the opportunity of discussing this matter informally and, of course, unofficially with the Chancellor and was able to give him some information in which he was quite interested. I also had several opportunities to discuss this problem with the Foreign Minister and with other members of the Government, also of course unofficially and quite informally. I happen to know that my British colleague here was somewhat disturbed with regard to the situation as the Chancellor's attitude on the Jewish question at the September meeting of the League in Geneva had made a rather poor impression on the English, French, and Italian representatives who, it is said, were even inclined to doubt his sincerity.

I am inclined to believe that the Chancellor and some of the people in the Government did not understand all of the implications of the Jewish question as thoroughly as Dollfuss did. I think their rather inept handling of the problem after the death of Dollfuss was largely due to inexperience and to a lack of adequate knowledge of the international aspects of the matter. The important help which they got from financial interests in the conversion of the League Loan of 1923 which has been such an alleviation on the Austrian budget, and the friendly advice which various members of the Government have received from sources which they know to be friendily disposed, and what they have learned from the German experience in this respect, have had their effect. I have been in touch with the leaders of the Jewish community here and these have recently assured me that they are confident that the Chancellor's assurances that the rights and privileges of the Jews will be protected are sincere. MacDonald made a hurried visit here the other day and saw the Foreign Minister who assured him that the Jewish question would not be permitted to become a problem in Austria. I have therefore in a confidential despatch, No. 209, of November 13, supplemented my No.189, and it gives, I believe, a full picture of the situation as it stands.

There was a great deal of fear in London, Paris, and Rome that the Jewish question might come to the foreground in Austria through the inexperience of the Government and because of the pressure which was undoubtedly brought to bear upon it from anti-Semitic sources within the country. It is not unlikely that our Jewish organizations at home were disturbed about this. I think it would be quite helpful if Judge Mack or some representative of the Jewish organizations could be given as much of the information in my despatches Nos. 189 and 209, as the Department may think advisable. After having gone into the matter carefully, it is my considered opinion that the Government is going to try to not only control discrimination, but to stop it and to endeavor to ameliorate the distressing situation created by some of the discriminatory acts

which have undoubtedly taken place. In this latter respect one cannot expect too much for the Government has a difficult problem to face as there is a Jewish problem in Austria as there is in other countries. The major thing of interest to us now is that the Government here realizes more definitely all the implications and has definitely determined that Austria shall not make the same mistake in this matter as was made in Germany. My own personal belief is that theChancellor and the Foreign Minister are sincere in their declarations in this matter.

Montgomery in Budapest sent me a copy of his confidential telegram to the Department of November 13, 11 a.m. in which he states that the Chief of the Political Section of the Hungarian Foreign Office, who accompanied Goemboes to Rome, told him that prior to the Rome trip Goemboes had conferences with von Papen regarding the Italian-German rapprochement; that on arriving in Rome Goemboes reported these conversations to Mussolini; but that the latter refused to accept anything but written assurances from the German Government, agreeing, however, pending further negotiations and conditioned upon Austria's being unmolested, to support Germany in the Saar and on disarmament. According to the telegram, further, the Austrian Government is supposed to have told Goemboes that while suspicious of Papen on his arrival, it now believes that he is working for peace and is disposed to accept his good intentions.

The information which we have here does not quite support all the implications in the telegram. That Papen saw Gomeboes before he went to Rome is unquestionable, and I referred to this meeting in one of my letters to you. The so-called shooting trip to Hungary which I told you about was undoubtedly planned so that Papen could talk with Goemboes and it is generally believed that the Wilhelmstrasse tried to use Goemboes and Kanya to bring about better relations with Italy. That certain propositions were made by Germany to Italy, I am sure you know from various sources, and that Papen was used in this connection is more than likely. It is understood that Germany was prepared under certain conditions to leave Austria unmolested for the time being, but I have not been able to get any information here to the effect that Mussolini agreed, pending further negotiations, to support Germany in the Saar and on disarmament.

With respect to the statement that the Austrian Government had informed Goemboes that while suspicious of von Papen on his arrival, it now believes that he is working for peace and is disposed to accept his good intentions, I am inclined to thank that this must be accepted with a good deal of reserve. All the information which I get here is that Papen is thoroughly distrusted and that he has not been able to make any headway. In his

conversations with the Chancellor and the Foreign Minister Papen has continuously referred to the statements made that he is an intriguer, and has emphasized his good intentions. I know that to the British and Swedish Ministers he has deplored this general impression that he is engaged in intrigues and professes his deep desire to bring about peace and good relations. In a conversation which I had with him the other day he referred very strongly to this poor impression which people have of him and how unfortunate it is as he is really honestly trying to bring about good relations. I have found no where, however, in official circles or among my colleagues anyone who has any faith in these protestations. The trip which Papen made to visit German consulates in Austria and his meetings with German groups and, it is generally believed, his contact with the National groups which have been talking with the Chancellor, have not increased any confidence in him and have strengthened the conviction that he is primarily an intriguer who cannot be trusted and who may be depended upon to engage here in activities in which he may, for the present, not be directly encouraged from Berlin.

I think the Austrian Government sincerely desires good economic relations with Germany and is willing at any time to negotiate with Germany on economic relations, but I see no grounds for believing that the Austrian Government at this time is negotiating on any political matters with Germany. That Papen has been in close contact with Goemboes and Kanya and that he is being used by the Wilhelmstrasse for various purposes other than his immediate position here in Austria, is clear. That he has made any progress I am inclined to doubt.

Chancellor Schuschnigg and Foreign Minister Berger-Waldenegg went to the Semmering on November 9 to meet Goemboes on his way back to Budapest from Rome. The Chancellor in public and private has insisted that during the few hours they had with Goemboes there was no question or mention of negotiations with Germany regarding Austria of a political nature. The only way in which Germany entered into their conversations was in connection with the extension of the economic provisions of the Rome Protocols. I am inclined to put faith into these statements in so far as they mean that Papen has made no progress in any political negotiations he has undertaken in Austria or indirectly with Italy regarding Austria. Certainly not in the form of any direct assurances from Italy with regard to the Saar and on disarmament.

According to the press reports we get here the definite program in German rearmament and the definite determination of Germany to use this force are more fully recognized. While the

conviction is increasing in well informed quarters in Europe that the National Socialist regime per se is weaker and that it is faced by extraordinary difficulties in the next months in economic and financial fields, and while even friends of the regime are more and more coming to the conviction that it cannot last, there are indications in England and France particularly, that a war may come before the end of the regime. In other words, Europe has been hoping that disintegration of the National Socialist regime would in time remove the dangers of war and German rearmament, now although the conviction remains that the regime will eventually disintegrate, thereis a recognition that this developing force in Germany can only be met and stopped by the threat of greater force. Press reports indicate clearly French and English rapprochement in the face of this danger. Benes pointed out in his really fine speech a few weeks ago that the only hope for Europe is in Anglo-French rapprochement and common action, and although hehas a very selfish interest in this, he is, I think, expressing a very deep truth as well as a personal conviction, and Benes is one of the best men in Europe today. I gathered by inference from what my English colleague tells me that the English and French Governments in the face of this common danger are working closer than they have since the war and certainly both England and France are rearming. It is the only safe answer to German rearmament and German aspirations and I think we may be very much relieved by this apparently well established development in the situation.

Schuschnigg left for Rome yesterday accompanied by the Foreign Minister, and they will stay there three or four days. I think they have really nothing in particular to talk about and that the conversations will be largely directed towards widening the scope and effects of the Rome Protocols. The Austrians will undoubtedly emphasize the community of interests between Austria and Hungary and the desire of Austria and Hungary to work closely together. It is interesting that Hungary and Austria are more friendly today apart than they were under one Government during the Empire. Whatever happens during the visit of Schuschnigg to Rome will be influenced by the closer English-French rapprochement and I feel that this will have a very definite restraining influence on Italy and increase the hopes for good results from the visit of Laval to Rome. Another encouraging factor in the situation is that Flandin should head the new French Government. I knew him years ago and I found him an extraordinarily well informed man. It is said that he has had some undesirable connections with some financial schemes in France, but it is unquestionable that he is one of the most broadminded and reasonable Frenchmen today. It is particularly interesting that he knows the Central European situation probably better than any other Frenchman. I happen to know that he has always been opposed to those groups in France

which have felt that Germany could be excluded from close economic relations with Austria and Hungary and the Southeastern European states. While definitely opposed to anything like German political expansion to the Southeast, he is a realist and thinks that any policy tending to exclude Germany from such economic relations as are natural can only lead to trouble. Because of his close knowledge of the situation in this part of the world and the liberal views which he holds, there is reason to believe that it is fortunate that he should head the French Government at this time.

I wonder whether the articles on Austria in the issues of the LONDON TIMES of November 8 and 9 were brought to your attention. The one in the issue of November 8 is entitled "The Fate of Austria", and the one in the issue of November 9, "Rival Forces in Austria". These were written by Douglas Read who is the assistant of Ebbut, the principal TIMES correspondent in Berlin. Read came to Vienna about six weeks ago to temporarily take the place of another man and he wrote these articles just before returning to his work in Berlin. They are, in my opinion, two of the best articles, if not the best, that have been written on Austria and they have created a very real impression in England. The first article particularly has had a tremendous effect in England. I had a good deal of contact with Read while he was in Vienna and his conclusions with respect to the Austrian situation were particularly sound. He is definitely of the opinion that Austria is the crux of the European problem and that unless England and France get together now and with Italy put a stop to the German program, England will be faced inevitably by a European war in which she will have to participate. This is my own definite conviction, but I believe that a war can still be averted but that it depends principally on England whether or not it will be. It now looks from the speeches of Sir John Simon and Eden that therewill be no more wavering by England.

The economic situation in Germany is according to the news which I get, developing along the lines of my letter of November 8. The correspondent of the CHICAGO DAILY NEWS in Berlin is of the opinion, and I think has reported, that trade and credit negotiations have been going on between Berlin and Moscos on the basis of German credits to Russia in return for raw materials. According to him the German General Staff is in favor of these agreements for various obvious reasons. I have not been able to get any confirmation of these negotiations which, according to the correspondent, are quite far advanced and have given some concern in Paris.

The rumor to which I referred in the closing of my last letter regarding the resignation of Schacht and his replacement by Funk, and in which I did not place any credence, has not been confirmed and my own opinion remains that Schacht is a prisoner

in his job. His present attitude is evidently deliberate in order to create a situation so hopeless that we will be moved to offer Germany credits and other compensations. He is now playing England against us and trying to use Germany's creditors in the United States against our exporters and agricultural interests and both of them against the Jews. He hopes to hit both England and us so hard and so long that we will give in. Any proposition which he has to make would put our trade on a barter basis and as it is practically on a barter basis now, there is nothing to be gained by any agreement.

Mooney, the President of the General Motors Export Corporation, came in to see me a few days ago. Hehas long been interested, as you know, in our making barter arrangements with Germany. I have known Mooney for a long time and he is a very good friend of mine. He is a very capable man in many ways, but I cannot quite see what his object is in trying to further these barter arrangements for he knows that our trade is on such a basis already. He seems to think that we ought to make some arrangement with Germany as there is no reason why we should let our moral indignation over what happens in the country stand in the way. He says that we make arrangements with other countries where conditions are practically as bad, and such asto arouse our moral indignation. I pointed out to him that there was a real difference, for in the case of Germany it was not merely a question of moral indignation, but that we could hardly be expected to trade with a country only so that it can get those articles which it wishes to use against the peace of the world and when they have no intention of making any agreement with mutual advantages, but with all of them on their side.

Mooney pointed out that in spite of the moral indignation of England they had just reached an agreement with Germany out of which a good deal of good might come and which formed the basis for an increase in British-German trade. I told him that this agreement was bound to fail. The Germans entered into it with the sole object of getting some more cotton yarn. The English went into it for the sole purpose of trying to get paid for the yarn already delivered. I said that it would work for a little while, in my opinion, when it would break down for the Germans had no intention of really paying for more than a part of the yarn delivered and that the English spinners were not going to increase their risk. Mooney replied by saying that the agreement formed the basis for a greater exchange of goods between England and Germany and this would enable the Germans to pay for the yarn already delivered. He seemed to think that if we made a similar agreement our mutual trade might increase. To this I replied that I could see nothing in the German situation

to warrant this assumption.

I don't know why Mooney came to see me. Of course we are old friends and he knows my views. He told me that he was going to see Schacht a few days after he saw me. I asked Mooney whether he thought any confidence could be placed in any agreement with Germany. He said that he felt asmuch confidence could be placed in an agreement made with them as with anyone else, that he had had enough experience to know that recently one could place little confidence in any agreements. I said that unfortunately this was so, but that we had to reckon with the more definite fact that no confidence could be put in any agreement with Germany and that I thought he should bear this in mind when talking with Schacht.

Mooney seemed to be of the opinion that this Government will stay in Germany and that it is well established. It is curious thing that he and Colonel Behn and some other factories in Germany give this opinion. The factories owned by the I.T.& T. in Germany are running full time and in double shifts and increasing their capacity for the simple reason that they are working almost entirely on Government orders and for military equipment.

The Opel works, owned by the General Motors, are working very well, for the Germans for their own purposes want the Opel factory to go on, but the I.T.& T. and the General Motors have not been able to take any money out of Germany for several years, and will not be able to take any out and the fact that their factories are going well does not mean a thing for the American investor whose capital is in them. They fail utterly to realize that their capital is no safer than that which we have found other investements to be, but that they are let alone simply because it is to Germany's advantage to let them alone. I would not like to think, however, that this is what may be influencing their attitude towards German-American trade relations at present, but I think it is a consideration we have to keep in mind in evaluating what they may say with regard to German conditions and with regard to the making of trade agreements with Germany.

I have told you about this conversation with Mooney as he may be in touch with the Department when he gets back regarding the conversation which he was to have with Schacht who will undoubtedly try to have him use his influence to get some sort of agreement through which Germany can secure raw materials from us for that is what is at the root of all their efforts. I think Mooney has some contact with Mr. Peek. I need not tell you my own views for I have given them to you so often, but I am definitely

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convinced that no useful object could be gained by entering into any arrangement with Germany now, and I was delighted to see in the reports of the press conferences some time ago an indication to this effect.

I returned Papen's call a few days ago and I am appending to this letter a resumé of our conversation. If I had any doubts about Papen's sincerity, which I need not tell you I had very strongly, they were confirmed by this conversation. At the close, after protesting that Germany did not want Anschluss and wished to see Austria remain an independent and sovereign state, he said that "what Germany really wanted was to be sure that Austria followed Germany in matters of European policy rather than France". I felt that what had been rather a difficult conversation was well worth while to draw out this almost naïve admission from him and I did not think it worth while to remind him that very little was left of Austrian sovereignty if Germany could be so sure of her lead being followed. Papen is supposed by some to be a very clever man, but as I have said several times in my letters, he isreally very stupid, and I think this naïve statement of his you will agree is a pretty good indication. It is a happy thing that recent developments in England have shown that we are getting a definite recognition of how little faith can be placed in any protestations which come from Germany. It is a situation which we have to look squarely in the face, for to rest under any illusions is too dangerous.

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Cordially and sincerely yours,

George S. Messersmith.

Enclosure:
1. Resume of conversation with von Papen.