Vienna, December 13, 1938.

No. 636

SUBJECT: DEVELOPMENTS IN THE AUSTRIAN INTERNAL AND EXTERNAL SITUATION.

STRICTLY CONFIDENTIAL.

The Honorable
The Secretary of State,
Washington.

Sirs:

I have the honor to refer to my confidential despatch No. 685, of December 3, 1938, and to supplement it with the following further information on developments in the Austrian internal and external situation.

I have in my despatches continued to refer to how definitely internal developments in Austria are controlled by
developments in the general European situation over which the Austrian Government has no control. I have also continuously referred to the delicate situation in which the Austrian Government finds itself as a result of the situation within the country and in the face of the constantly changing situation in Europe.

This situation has in no sense changed, but has become even more aggravated and there is no question but that the Austrian Government is fully conscious of the extremely delicate and difficult position in which Austria finds itself and that there is a keen realization that the delicacy of this situation has been accentuated recently.

The principal preoccupation of the Austrian Government is to use every endeavor to so shape its internal and external policy as to not destroy the status quo within Austria or to take any action which would be disturbing in the general European situation.

There are persistent rumors of the further impending changes in the Austrian Cabinet following the reorganization already reported. I indicated at that time that further changes were not unlikely. As reported in my despatch No. 626, the probabilities are that the Minister for Foreign Affairs, whose position was seriously shaken, will be undisturbed. Although there are elements which still desire a change in this position, the favorable reception of his speech on foreign policy, already reported to the Department, and the fact that he has so far weathered the storm of criticism now lead objective observers to the opinion that whatever other changes may be made in the Cabinet, the Foreign Minister will not be disturbed. There are, however, definite plans that the Minister of Commerce, Dr. Stockinger, shall retire completely from the Government. He has been under criticism within the Government.
Government for connection with various business ventures from
which he is said to have personally profited, but there has been
no hint of this in the press. He was in favor of the contin-
ueance of certain subventions to business and industry which it
has been necessary to eliminate in the new budget, and his stand
on this question will probably be the reason which will reach
the public for his retirement. The probabilities are that the
announcement of his retirement from the Cabinet may be made at
any time and the most likely action in that case will be that the
Minister of Finance, Dr. Brehm, will also take over the Minis-
try of Commerce. Another solution is being considered that one
of the ranking officers in the Finance Ministry who has been in
charge of budgetary matters shall be appointed Minister of Finance.
The probabilities, however, are greater that the solution will
be in the form of the Minister of Finance taking over also the
Ministry of Commerce. If this change in the Ministry of Com-
merce takes place it will not indicate any change in Austrian
internal or external policy, as the question of whether the
subventions to business has already been decided through
the acceptance of the new budget.

There are increasing indications of a rift between
the Burgomaster of Vienna and the Cabinet. As Vienna has
practically one-third of the population of Austria, the position
of the Burgomaster of Vienna is important and is practically
equivalent to membership in the cabinet. The Burgomaster has
not shared the pro-Italian attitude of the Cabinet and has
emphasised the necessity for cultivating Anglo-French support.
This has led to differences on other subjects, although the
Government itself has shifted its policy towards a more definite
cultivation
cultivation of Anglo-French support. It is not likely, however, that any immediate change may take place in the position of the Burgomaster of Vienna.

There are evidences that the Government is deeply preoccupied over developments in the general European situation. The Government here has reason to know that the attitude of the present German Government with respect to Austria has in no sense changed and it fears that Germany will take the first favorable opportunity to take action towards bringing Austria definitely within its sphere of influence, if not actual annexation. This fear of German action is fundamentally the principal reason why the Austrian Government did not participate in sanctions, is interested in maintaining Italian friendship and support, and views with the gravest concern developments in the Abyssinian conflict which would bring about conflict with England and France and Italian withdrawal from the League. Conversations with ranking members of the Austrian Government show that their greatest concern is that Italy may not be driven to extreme measures as they believe that this will result in complete Italian withdrawal of support from Austria and that this will be followed by immediate action by Germany which France and England are not in position to counteract in time.

One of the principal reasons for the Austrian concern in this connection are the reports which are reaching Vienna of increased construction of permanent barracks along the Austro-German frontier. In Bavaria alone permanent barracks for 20,000 troops are said to be under construction within striking distance of the Austrian frontier and are supposed to be completed within two months. These reports seem to be well substantiated and according
to reliable French sources the French General Staff is taking into definite consideration that within two months 30,000 men of the German Army will be stationed in these completed barr- racks. While I am without definite direct confirmation of this barracks construction, the Austrian Government and French observers here are considering it as a fact. In an informal conversation with the Federal President last evening he spoke of the necessity for Italy's not being driven to extreme meas- ures as it would undoubtedly result immediately in a German advance into the Tyrol to join up with that section of the Tyrol ceded to Italy, where the German troops would be hailed as a deliverer. This would cut off, he said, Eastern from Western Europe and would present a fait accompli which would have disastrous consequences.

French observers here remark that the possibility of such German action must be faced and that in case of German occu- pancy of Innsbruck and that section of Austria, the Government in Vienna would unquestionably fall. These same French ob- servers point out that very recently Mr. Morreela, who is the Press Attaché of the Italian Legation but who is in reality the real representative of Mussolini in Austria, had a conversation with Dr. Walter Kiel, who is the head of the so-called nationally minded Austrians who have been favoring closer cooperation with Germany, but who latterly claim to have had no direct contact with Berlin. I am unable to say how definitely these Austrian and French fears of German aggression are grounded in fact. What is clear, however, is, I believe, the definite recognition by France that a German advance into Austria will mean the break down
down of the whole of the Central European situation so care-fully built up during the past years and the fear of being faced by a fait accompli in Austria is undoubtedly one of the reasons which has influenced the attitude of the French in its efforts to reach a compromise with Italy on Abyssinia. In a conversation with a particularly well informed French observer here, he stated that during the recent talk which the French Ambassador in Berlin had with the German Chancellor, the latter referred to the fear and to Alsace-Lorraine as offering no fur-ther difficulties in the relations between France and Germany, but most carefully refrained from any mention of Austria during the conversation.

As indicated in my despatch No. 384, of December 9, reporting on the speech on foreign policy given by the Minister for Foreign Affairs in the Bundestag, this speech has created a good impression within and without Austria. While endeavoring to maintain the most friendly relations with Italy, Austria has come to realize that her real dependence in the future must be on the League and on Anglo-French support. The Government is shaping its policy in this direction, but the conviction remains in Government circles that the withdrawal of Italian support would create a situation here which they could survive with dif-ficulty. Anglo-French support, no matter how sincere, can be less directly and immediately exercised, and as already pointed out, the Government here fears precipitate action by Italy or disaster there which may result in another German fait accompli through the occupation of the Tyrol. These preoccupations of the Government here have not been decreased through an incident in the Foreign Office on December 11, which is of sufficient im-portance to be recorded in this despatch.

It is
It is customary for the Foreign Minister to receive the chiefs of mission in Vienna every Wednesday morning. They are received in the turn in which they arrive. On the morning of December 11 I arrived early and was one of the first to be received and had therefore left fairly early. It seems that the German Minister, who for reasons of his own has as a rule preferred not to call on the Foreign Minister on his usual reception day, but who has invariably sought special interviews with the Minister, appeared on Wednesday morning and was received towards noon. He in very direct language informed the Foreign Minister that the German Government looked upon the visit which Chancellor Schuschnigg was planning to make to Prague as an unfriendly act and that his Government would prefer that this visit should not take place. The Foreign Minister was so non-plussed by the practically giving of an order to the Austrian Government by the German Minister that he called in the Secretary General of the Foreign Office, Mr. Peter, to be present during the rest of the conversation.

The Secretary General is an old man who has spent his whole life in the Foreign Office. When the German Minister repeated in his presence his observations with regard to the visit of the Chancellor to Prague, the Secretary General replied that such comment on the part of the German Minister with regard to an action which concerned the Austrian Government alone was unheard of and inexcusable interference. He said to the German Minister that he could not understand how his Government or he could permit themselves to take such unfounded action. As this was not the first time that Secretary General Peter had to
deal with a similar situation created by Mr. von Papen, he is said to have become exceedingly angry and the conversation became so heated that when Mr. von Papen left the office of the Foreign Minister it was quite obvious to the other chiefs of mission in the anteroom that he was laboring under extraordinary excitement.

The circumstances which led to this incident are briefly as follows. The Austrian and the Czechoslovakian Governments, as the Department is aware, are working on a trade agreement. Definite action on this has been postponed until January. There is a very real desire in both countries to arrive at an agreement. In fact there is a very definite feeling in both countries that the economic as well as the political relations between them should be improved. The internal situation within both countries, as well as the growing idea of the necessity of common action in face of the danger from the common enemy Germany - for this is the light in which both countries are beginning to look upon their northern neighbor - has improved the atmosphere for better Austro-Czecho-Slovakian relations. There have been a number of concrete evidences of this desire in Vienna and in Prague recently. The Austrian Chancellor therefore accepted an invitation from the industrial group in Prague to make an address and the visit was scheduled to take place during November. The Czechoslovakian Minister in Vienna had already delivered before a merchants' association in Vienna an address which was very well received here.

As soon as the news appeared in the press of the Chancellor's planned visit to Prague notice was taken of it in the political correspondence in Berlin, which showed disapproval.
It was quite obvious that any improvement in Austro-Czecho-Slovakian relations would not be pleasing in Berlin. Informed observers here believe that Mr. von Papen's representations to the Foreign Minister on Wednesday concerning the Chancellor's visit to Prague were made under instructions from Berlin. Whether the imperious and direct form in which Mr. von Papen chose to make his representations was under instructions of Berlin is of course not known, but that it was done in a most objectionable form is clear.

It is interesting to observe that this interference in Austrian affairs is not altogether new. Some years ago when it became desirable through a combination of circumstances for Chancellor Seehofer to retire and it was intended that Dr. Seipel should replace him, the German Minister here sent Dr. von Claudius who was the First Secretary of the Legation, to the Federal President at midnight to inform him that under no circumstances could Dr. Seipel become Chancellor. It is further interesting that the same Dr. von Claudius is at present attached to the Foreign Office in Berlin.

I have deemed it advisable to relate this incident in this despatch as it gives background for these fears which are felt in the Government here that the intentions of the present Government in Germany with respect to Austria have in no sense changed and that any favorable opportunity might be seized to bring about a fait accompli.

The visit of the Chancellor to Prague, it is announced in the press today, has been postponed. The reasons given for the postponement are that the impending changes in the Czecho-Slovakian Government have not yet been carried through. In informed circles of the Government here it is also felt that as certain changes in the
in the Cabinet here are still impending, it would be well to postpone the Chancellor's visit until after the changes in Prague and in Vienna are completed. This I believe is the real reason for the postponement of the visit and I do not believe that the representations of the German Minister above referred to have in any sense influenced the change in the Chancellor's plans.

The Government has finally accepted the budget and the Minister of Finance, Dr. Brasler, and the President of the National Bank, Dr. Kleinbock, are now in Geneva discussing it with the Finance Committee of the League. As indicated in my despatch No. 620, the ordinary and extraordinary budgets have been consolidated. Extraordinary efforts have been made to cut down expenditures. The budget shows a deficit of 33,000,000 schillings. To this, however, must be added a deficit of about 33,000,000 which may be expected for the State Railways and Post. There will further be a deficit of probably 34,000,000 schillings in the budget of the city of Vienna, which must be considered as a part of the increase in internal indebtedness.

I shall not enter into an analysis of the budget in this despatch as this will be covered when the Finance Minister returns from Geneva. It is sufficient to say here that a very real endeavor has been made to bring the budget into equilibrium and this is generally recognised. The effect in London will be good. Some of the budgetary reforms will cause serious hardships in Austria, especially among certain classes of pensioners.

In view of what is expected to be falling trade with Italy and Germany as a result of inevitable developments in both countries, the Government here is deeply preoccupied that there may not
may not be unfavorable reaction on the tourist business. There
is already some indication that the English tourists whose coming
in such numbers has been of so real importance to Austria, may be
unfavorably affected as the results of the unfavorable reaction to
Austria's attitude on sanctions. Everything is being done by
the Government here within its power to prevent such unfavorable
repercussions on its tourist business, for any decrease would un-
do doubtedly make its task within the country more difficult.

In résumé therefore it may be said that the Austrian
situation internally remains quiet with no reason to believe that
there are impending developments within the country which could
cause concern. On the other hand, the delicate position in which
the Austrian Government finds itself has been greatly accentuated
by developments in the general European situation and the concern
of the Government is correspondingly greater. In the meantime
the Austrian Government is endeavoring to so shape its policy
as to retain the friendship of Italy, but more definitely culti-
vating the support of France and England. Every effort is being
made to maintain the status quo within the country and to put
its house in order and to strengthen the friendly relations with
Hungary and with the states of the Little Antente.

Respectfully yours,

George S. Messersmith.