No. 645

Vienna, December 28, 1938.

SIR:

I have the honor to refer to my strictly confidential despatch No. 636, of December 13, 1938, and to supplement it with the following further information on developments in the Austrian internal and external situation.

The internal situation has continued quiet and the principal developments have been the passing of the
Austrian budget by the Bundestag; the offer of an apparently satisfactory settlement of the so-called live claims against the Credit-Anstalt; and the announcement of a Christmas amnesty by the Chancellor. As these have been referred to in the Weekly Notes submitted by the Legation, no detailed references thereto will be made in this despatch.

After the satisfactory conferences which the Minister of Finance, Dr. Breslau, had with the Financial Committee of the League of Nations in Geneva, the budget in its final form was submitted to the Bundestag and formally accepted by it on December 29. The discussions in the Bundestag on the budget were particularly interesting as they indicate that this legislative body, although without full powers, is an important part of the governmental machinery in Austria. The part of the budget which had been most criticized in the press was that relating to the curtailment of certain pensions to which the recipients had been contributors over a number of years under the Austrian laws. The Government recognized the validity of this criticism as the proposed changes would affect legal obligations heretofore assumed by the Government. In its final form the budget provided for further examination of this question in individual cases to eliminate hardships and to maintain the full legal effect of former pension laws.

The consolidation of the extraordinary and the ordinary budgets into one budget and the real savings effected in the expenditures of the Government created a very favorable impression before the League Committee at Geneva and on the whole in Austria. While balance has not been achieved, very considerable
considerable progress has been made in that direction and
the budget in the form that it has been passed by the Bundestag has increased confidence internally and externally in the
Austrian financial position.

A settlement of the live claims against the Credit
Austalt has been offered to the International Committee in
London after consultation with members of the Committee in Gen-
eva and in London. The total of the live claims, which are
principally held by British and American bankers, was approxi-
mately 300,000,000 schillings. The arrangement which has been
offered to the International Committee is the immediate payment
in the equivalent of 60,000,000 schillings and annuities of
2,000,000 schillings a year for twenty years, beginning in 1887.
The payment of 60,000,000 is to be in the form of a long term
credit operation. This arrangement involves further sacrifices
for the creditors which, however, were anticipated by them and
while the creditors cannot be pleased, it is believed that on
the whole it is a more satisfactory settlement than was expected.
It is intended that this settlement shall be in the nature of
a definite liquidation of the live claims.

I have not been able to determine that the formal
acceptance of the International Committee of this arrangement
has been received by the Austrian Government, but I am informed
that the principal members of the Committee have indicated that
the acceptance will be forthcoming. The settlement is con-
sidered an improvement on the original offer made by the Austrian
Government through the National Bank and which had created a
very unfavorable impression in international banking circles.
There is reason to believe that the arrangement which has now
been
been arrived at will go far towards removing this unfavorable impression and maintaining the credit of the Austrian Government. This is exceedingly important in view of the fact that the Government may need during the coming year the benevolent attitude of banking circles in various European capitals towards financial obligations it may be obliged to undertake.

In his Christmas message to the Austrian people the Chancellor announced a very wide Christmas amnesty which, as anticipated in my previous despatches, covered a very considerable number of persons who had been involved in the Social Democratic revolution of February, 1914, and in the National Socialist putsch in July of the same year. The desirability of such a Christmas amnesty had been brought to the attention of the Austrian Government by various influential persons within the country, as well as by some of the diplomatic representatives here. It is interesting in this connection that immediately before the issue of this Christmas amnesty a deputation of three important Labor Members of the British Parliament came to Vienna and an interview was arranged for them with the Chancellor. I am reliably informed that they left Austria with an unexpectedly good impression of the general situation in the country and of the attitude and procedure of the Government. The figures covering the amnesty are given in detail in the Weekly Notes of the Legation and they show that a very small number of those who have been given sentences for participation in the February and July events are still in prison. The favorable press comment abroad on the amnesty has been, however, quite disappointing to the Austrian Government and this comment has brought out
the fact that a considerable number of persons still remain in confinement through police action which have not been affected by this amnesty.

One of the most significant features of the amnesty is the statement of the Chancellor that the trials of certain important Social Democrats will not take place. Among these is the impending trial against the former Burgemeister of Vienna, Mr. Seitz. This announcement will give particular satisfaction not only in Austria, but in England, France and Czechoslovakia.

The announcement of this wide amnesty is considered a further indication of the strength of the Government within the country. It will facilitate the task which the Government is undertaking under the leadership of the new Minister of Social Welfare, Mr. Dobretzberger, of conciliating to as great a degree as possible the former Social Democrats.

In other respects the situation within the country has been unusually quiet and as anticipated in my recent despatches, there has been no further active discussion of the changes in the Cabinet contemplated. It is not improbable that during January certain changes in the Cabinet already brought to the attention of the Department, may be made, but these will have no further significance than that already reported.

With respect to the external situation the attitude of the Austrian Government remains as set forth in my despatch No. 686, of December 15. The appointment of Mr. Eden as Foreign Minister in England has created a very deep impression.
impression in Austria as it has in other countries of Central
and Southeastern Europe. It is believed that this appointment
indicates a definite policy by England of support of the League
and of the doctrine of collective security with all that this
implies.

Among the Austrian population this apparently
definite orientation of British policy has caused deep satis-
faction. By the Austrian Government it has been received
with mixed feelings. It recognises that recent events in
England will make a definite decision by the French Government
essential and it believes that this decision will be in the
line of the closest cooperation with England in this League
and collective security program. The Austrian Government
appreciates that this program is the strongest guarantee for
Austrian security and independence, but it also realises that
it may increase its own difficulties through the fear that
Italy in desperation may precipitate a conflict. The Govern-
ment here views with the greatest concern the consequences
which such a conflict may have for Austria in the form of some
precipitate action by Germany. The situation, however, is
on the whole viewed with calm as leading members of the Govern-
ment are of the opinion that no matter what the developments
may be with respect to Italy, Germany will for the present
refrain from any overt action against Austria on account of
her own internal situation and of her fear against undertaking
action in the face of definite Anglo-French cooperation in a
policy of collective security having behind it most of the
countries of Europe.

It is
It is interesting, as reported in the Weekly Notes transmitted with my despatch No. 649, of December 27, that during the past week the first real criticism of the Italian Government has appeared in the Austrian press since the beginning of the Abyssinian conflict. The placing of guards before the palace of the Bishop of Brixen in the Italian Tyrol, formerly Austria, as a consequence of a letter which he addressed to his priests, has aroused active criticism in one of the leading Catholic newspapers which is also an important organ of the Government - the KAINIKATS-WELTBLATT - which comments that this is hardly consistent action of a Government which claims to be carrying on a civilizing war in a barbarous country. It is not unlikely that this is the beginning of further comment of this kind which will begin to appear in the Austrian press which has so far, while very restrained in its tone recently, continued to show a sympathetic attitude towards Italy.

Respectfully yours,

George S. Messersmith.