Vienna, January 16, 1936.

No. 666

SUBJECT: DEVELOPMENTS IN THE AUSTRIAN INTERNAL AND EXTERNAL SITUATION.

CONFIDENTIAL.

The Honorable

THE Secretary of State,

Washington.

Sir:

I have the honor to refer to my despatch No. 667, of January 10, 1936, and to supplement it with the following information on developments in the Austrian internal and external situation.

Although rumors persist with respect to certain changes to be made in the cabinet, they are less prevalent and, as forecasted in my recent despatches, it is less likely that any important changes will be made in the near future. Within the Government here the advisability of certain changes has been seriously
seriously considered. There is an increased feeling that this is no time to make any changes.

There have been persistent recurring reports within Austria and there has been considerable comment in the foreign press to the effect that Prince Starhemberg was planning to make himself Regent towards the latter part of January. I have in recent reports indicated that I do not believe credence should be placed in these reports, and developments within the last week have indicated that they are without foundation. A meeting of the Patriotic Front is to be held in Vienna on January 19, and reports have been put out, definitely traceable to sources unfriendly to the Austrian Government, to the effect that Prince Starhemberg at this meeting would be declared Regent. The rumors were so persistent that they caused a good deal of concern in Prague and in Budapest where they were given at least a certain amount of credence. As reported in my despatch No. 657, of January 10, the Austrian Government sent a telegram to its most interested missions in Europe to the effect that these reports were without foundation. As the meeting on January 19 approaches it is more than ever evident that it will be concerned with matters of importance for the Patriotic Front, but having no relation whatever to the establishment of a regency or restoration.

The situation in this respect remains as I have already set it forth to the Department. Prince Starhemberg is unquestionably interested in the establishment of a regency when and if such a step may become desirable and possible, and his present
present determination is that if there will be a regency he will be chosen as Regent. His present position and power are such that there is no question that within Austria he would be in a position to establish a regency and to make himself Regent if he considered it desirable or wise. This does not mean, however, as is so generally presumed by a part of the press outside of Austria, that it would be a forerunner of restoration. Prince Starhemberg is not interested in the restoration of a Habsburg monarchy at this time. If a regency should be established through him it would be with the intention of maintaining it and not of turning it within a short period into a Habsburg restoration.

The Prince, while not opposed to the Habsburgs, has no intention of turning over what he considers the fruits of his labors and those of his associates for the benefit of the Habsburgs. He is besides convinced that the opposition to restoration is so great among most of Austria's neighbors that for years it would be a step which could only interfere with internal order in Austria and with the peace of Europe.

As an indication of the degree to which these rumors concerning the establishment of a regency are current in Austria, I may say that a four-page pamphlet, illegally printed and supposedly issued by the Patriotic Front, was circulated through the mails yesterday. It purports to come from the Headquarters of the Patriotic Front and states that at the meeting on January 19 above referred to, Prince Starhemberg will be declared Regent and gives considerable detail concerning the actual procedure which will be followed in this connection. Specific directions are given in this forged order to the various local leaders of
the Patriotic Front throughout Austria as to the procedure which they are to follow when they arrive in Vienna for this meeting. In Vienna it was immediately recognized by those who received this alleged order that it was a forgery and came from enemies of the Government. It was, however, given wide distribution throughout the rest of Austria for since late yesterday and during the day, the headquarters of the Patriotic Front have been receiving scores of inquiries from various parts of the country with regard to the order. I mention this forged document, a copy of which I am unfortunately unable to send to the Department, as it is an indication of the manner in which propagandists work within the country to disturb public order and to give a wrong impression with respect to the intentions and actions of the Government.

There is reason to believe that some of the advisors of the Prince Starhemberg, believing that his position is very strong and that it may become weaker through the diminishing prestige and difficulties of Italy, have advised him that his chances of establishing a regency and of making himself Regent are greater now than they may be in the not distant future. Because of selfish and short-sighted interests, it is unquestionable that some of his advisors have brought a certain amount of pressure to bear on Prince Starhemberg. There is every reason to believe, however, that the Prince himself and his more trusted advisors, interested as they may be in the eventual establishment of a regency, do not believe that it is a step which should be taken at this time. The Prince himself is, in the opinion of many informed observers, a real patriot who places the interest of his
of his country above any personal advantage. Although he exchanged New Years greetings with Mussolini, he has refrained from making public speeches within the last few weeks and in line with the action of the Austrian Government has as a whole refrained from comment on the Italian, League, Abyssinian, or general European situation which would emphasize his attitude as a partizan or supporter of Italian policy.

The Chancellor, Dr. Schuschnigg, left today for Prague on the visit referred to in previous despatches. He will return on Saturday. The Austrian press and the press of Central Europe have given unusual space to this visit and it has led to an unusual degree of speculation. As a matter of fact the visit was undoubtedly originally arranged in December as a means of creating favorable sentiment for the negotiation of the Austrian-Czechoslovakian Trade Agreement which was experiencing a good deal of difficulty. There has been increasing sentiment in both countries in favor of bringing these negotiations to a favorable conclusion as a means of bettering the trade relations between the two countries. This, I believe, was the real object of the visit. While it is probable that the visit aroused a certain amount of concern in Budapest, this has since been allayed and the reported visit of the Foreign Minister Baron Berger-Waldenegg to Budapest during the latter part of January will, I am informed in the Austrian Foreign Office, not take place.

The situation within Austria continues quiet, but there has been within the last few weeks an increase in National Socialist propaganda which is, however, no indication of increased strength of this group in the country. This group has reported in recent despatches, is completely dis-
organized and for the present powerless in Austria, with its adherents thoroughly discouraged. This, however, does not prevent the circulation from National Socialist sources of the most fantastic rumors which almost all center now on the insinuation of a plebiscite. There are indications that the stimulus of these rumors with respect to a plebiscite came from the German Legation in Vienna. As an indication of the nature of these rumors the following may be cited. There was a report which gained wide currency throughout the country that the British Minister in Vienna had stated that a plebiscite was necessary and could no longer be postponed and that his Government was prepared to send several regiments of troops to Austria in order to supervise the election. Another rumor which gained wide circulation was to the effect that a prominent British politician had recently been in Vienna and declared that a plebiscite must be held in the near future under British-French supervision. Fantastic as such rumors may seem to informed observers and to intelligent people in Austria, it will be appreciated that they have a disturbing effect among the less educated peasantry and workers in the rural districts and smaller cities in the country where such rumors are rapidly circulated.

The Austrian Government and Austrian business circles are concerned with the effect which the increasing inability of Italy to receive Austrian exports may have on the Austrian economic situation. No one places any confidence in the recent agreement signed by Italy and Austria with respect to payments. The facts speak for themselves and payments by Italy are becoming increasingly slow and difficult, and exports
are falling off. Austrian exporters are skeptical with regard to future business with Italy and are not accepting orders except for cash payment. The amount of frozen Austrian credits in Italy for goods already delivered is variously estimated from fifty million to eighty million schillings. This feeling that the Italian market can less and less be depended upon is one of the reasons for which interest is so definitely centered now on the visit of the Chancellor to Prague and on the favorable outcome of the negotiations for an Austro-Czechoslovakian Trade Agreement.

The situation may be stated briefly in resume to the effect that the internal situation is quiet, with no indication of any disturbance from within. The Government is following carefully the external developments and is maintaining at least every appearance of confidence in the future. The fear that Italy may provoke a serious situation through some desperate action still exists here within the Government, but this fear has grown less acute in the last ten days.

Respectfully yours,

George S. Messersmith.

File 800
CSM-WJP