Dear Mr. Phillipat:

I last wrote Dum on December 20, 1935, at some length while you were in London and sent you a copy of that letter there. I have since been able to write him only very briefly as I have had a great deal to do and have also been a bit under the weather with influenza which has left me rather flat. In the meantime you have been in London, Paris, and Berlin and have, I am sure, gathered very interesting and valuable first-hand information and impressions. I need not tell you how much I regret that you were not able to get to Vienna and I hope that the trip which you did take was not too strenuous after your illness in London.

I shall endeavor to give you some background which I believe will be of interest on recent developments here, the most important of which have been the Chancellor's visit to Prague and the meeting of the Patriotic Front in Vienna on January 19, where both the Chancellor and the Vice Chancellor, Prince Starhemberg, made very interesting, and in some ways significant, speeches.

One of the most interesting developments in Austria in the last month, and in Southeastern Europe as well, has been the importance which Chancellor Schuschnigg's trip to Prague assumed. As I indicated in some recent despatches and letters, one of the most important things to watch in this part of the world was the developing movement towards better economic and political relations among the states of Southeastern Europe which grows out of the increasing feeling among these states that although their future depends upon the action of the major powers in Europe, they must of their own initiative take steps towards getting closer together and towards solving their own problems. As Chancellor Schuschnigg's trip has
become quite important in this connection and has assumed an importance entirely out of proportion to that which was originally intended, it may be interesting for me to give you the real background.

Early in December of last year the Czech Minister here, Dr. Fierlinger, whom you probably remember from Washington days as he was, I believe, formerly the Czech Minister there, gave an address in Vienna before one of the leading commercial organizations. Dr. Fierlinger is very highly regarded here and is undoubtedly one of the ablest chiefs of mission in Vienna. His address was a very constructive one and aroused a good deal of attention in thoughtful quarters in Vienna. Its result was to so improve the atmosphere here with respect to Czechoslovakia that it occurred to some people here that it would be desirable for an outstanding Austrian to speak before a similar commercial organization in Prague, as it might lead to the same clearing of the atmosphere there. It was arranged for Chancellor Schuschnigg to speak before the Commercial Club in Prague about the middle of December. It is interesting, however, that when this address by the Chancellor was arranged for neither in Prague nor in Vienna was there any intention that it should assume any political importance and, as a matter of fact, at the outset in neither capital was there any particular hope that it might strongly influence the negotiation for the Austro-Czechoslovakian trade treaty.

The Chancellor’s proposed trip to Prague had to be postponed on account of the difficulties which arose in Prague in carrying through the program which had been arranged for the election of the new President, and at the same time there was talk of making some Cabinet changes in Vienna. Both in Prague and in Vienna it was felt that it would be preferable to put off the Chancellor’s lecture until after things had settled down in both countries. The lecture was then fixed for January 16.

In the meantime, however, and this is one of the things which one must always count on in Europe and perhaps particularly in this part of the world, things had happened which gave this visit a completely new significance. The developments in the general European situation, particularly with respect to the Hoare-Laval proposals regarding Abyssinia and
the continued uncertainty as to what attitude Germany may eventually take in case there should be some precipitate action by Italy, increased the unrest in Central Europe, more especially in Hungary and in the states of the Little Entente. The Hoare-Laval proposals were a real shock to the states of the Little Entente and for several weeks made them feel less certain than ever of the support which they could expect in a crisis from France and England. Hungary was in a state of panic and certain elements there were more than ever convinced that they were right in looking towards Berlin. Among the Little Entente the feeling grew that they had to depend more than ever upon themselves, and in Czechoslovakia the fear of some precipitate action by Germany became acute.

Under these circumstances the Czech interest turned towards Austria as it felt that Czechoslovakia and Austria were the two states most immediately threatened. The Czech papers began to give unusual and at the time unwarranted importance to the Chancellor’s visit to Prague. This was eagerly seized upon in the press of central Europe, including Germany. I have already told you how strong the German reaction to the proposed visit of the Chancellor to Prague was as was shown in the extraordinary remarks made by Papen to the Foreign Minister in Vienna, directly objecting to the visit and when he was told in plain terms that it was no business of Germany whether the Austrian Chancellor went to Prague or not, no matter what he went for.

The Hungarians, who look upon any rapprochement between Austria and Czechoslovakia with concern, were also disturbed and I have already reported how precipitately Goemboes and Kanya came to Vienna. One of the important members of the Government here who took part in the conversations at the time Goemboes and Kanya were here, in a confidential conversation said to me "Goemboes did not know what he came for and we Austrians could not quite find out". In Yugoslavia and Rumania political implications were read into the visit which it had not been intended it should have.

In Czechoslovakia the situation was particularly disturbed and the leaders of her Government were concerned out of fear of Germany and because of the internal situation in the country itself. In the Menlein Party dissension was becoming apparent as the more radical wing was in favor of
more direct action in sympathy with German initiative and the more conservative wing was seeing the dangers which the radical wing could bring it into. The economic and financial situations in the country were recognized as growing constantly more difficult. The textile industry, which is the backbone of the country, is in quite bad shape. The prices in the chemical industry are very much too high. The sugar industry, which is so important is maintained at prices much above those among her neighbors. The financial situation is difficult, as there are too many banks, and the credit situation is not good. The deficit in the budget is considerable. Her favorable trade balances were becoming less and less liquid and more in danger due to increasing insolvency of the various states to make transfers. In other words, Czechoslovakia was in a psychological mood to be prepared to go far towards more acceptable arrangements, politically and economically, with her neighbors in Southeastern Europe, and as I have said, her eyes turned particularly to Austria and to this visit of the Austrian Chancellor. Although these two states get on with each other, there has been a good deal of rivalry between them and certainly no great love.

All this explains why the Czech newspapers began to give so much space and importance to the visit, although continuing to emphasize that it was not an official one. The press in Austria responded, at first as a matter of courtesy and then later through interest. The foreign correspondents in this part of the world for the most part began to read into the visit political implications which no one had in mind, but this was due to the fact that there were persistent rumors that Starhemberg would declare himself Regent at the meeting of the Patriotic Front in Vienna on January 19, and that the Austrian Chancellor would use this visit to Prague to prepare the way for a more favorable reception there to this program.

As a matter of fact these developments which I have recited did give this visit of the Chancellor to Prague an importance which neither the Prague nor the Vienna Government had at the outset contemplated. The Chancellor made a very good speech before the Industrial Club in which he emphasized the importance of cooperation between the Little Entente and Austria and Hungary, as well as all the Balkan states, in the economic field. His thesis was that they would have to come to some economic understanding between them and that developments in Europe showed that this was something which they should delay
no longer and in which they should take the initiative. It was a sensible and scholarly address which found a good press all around except in Hungary where comment was reserved, and in Germany where it was hostile. The press comment, particularly in Austria and Czechoslovakia, did a great deal towards bringing about better feelings and in creating a favorable background for the Austro-Czecho-Slovakian trade treaty which has been under negotiation for over eighteen months.

While in Prague the Chancellor had long conversations with Benes and Hodza and did not fail, of course, as a good Clerical, to call on the Cardinal there. I had a long talk with the Foreign Minister a few days ago and he said that these political conversations were naturally unavoidable during the visit and the opportunity for them was welcomed by both sides. Every subject of interest to the two countries, and they were many, he said, had been discussed very frankly, but nothing had been decided for there was nothing to decide and there was no intention of carrying on any discussion with respect to political decisions which could be reached now. The Foreign Minister said that the conversations had been particularly friendly and that the Chancellor had assured the Prague Government that Austria would do nothing to disturb her internal peace or that of her neighbors.

The Foreign Minister said to me for my confidential information that he was not optimistic as to the outcome of the negotiations to be resumed on the Austro-Czecho-Slovakian trade treaty. There was no question now about adequate good will on both sides, but the technical difficulties remained just as great as ever and they could not be settled fully by good will. The balance of trade between Austria and Czechoslovakia was about schillings 100,000,000 in favor of Czechoslovakia. Even if one reckoned on schillings 25,000,000 in favor of Austria through tourist traffic, there still remained an unfavorable balance for Austria of schillings 75,000,000. This in the long run was a much too unfavorable balance for Austria to continue to have with one country. The Czechs had up to now only been willing to talk about arrangements which would reduce this unfavorable balance by about schillings 10,000,000. This obviously could not satisfy Austria. If the unfavorable balance could be reduced to about schillings 50,000,000, an agreement might be arrived at, but he did not see how Czecho-
Slovakia could do this. The Minister said he was a member of the Economic Council in Austria and had studied these matters for months. In spite of the good will which existed now, he said that the industries and economies of the two countries ran so parallel to each other and the sacrifices which the Czechs would have to make were so great that he was quite pessimistic as to the outcome of the negotiations on the trade treaty, which were to be resumed actively in the next few days.

I have given you this background as I know the Department is interested in the Austro-Czecho-Slovakian trade treaty in view of our own negotiations, which I understand are in progress with Czechoslovakia. It is really quite interesting how things change. Just as Turkey was the sick man of Europe before the war and was the cause of so much concern to the rest of Europe, so Austria has since the war because of her political and economic position, been the sick man of Southeastern Europe, constantly requiring nursing and attention. Now, without being brilliant and while still giving concern, the political and economic situation in Austria has improved, and has improved to such a degree that I believe it need give us less immediate concern in some respects, at least in the economic sense, than Czechoslovakia. Czechoslovakia is becoming the sick man of Europe and the Czechs know it. They are a hard headed, capable business people. The Czech population is industrious and they can always raise enough to feed themselves and to keep themselves from starving, but the Czech industrial machine is in a bad way and unless the situation in Central and Southeastern Europe can be improved the Czech standard of living has got to suffer. The Czechoslovakian political and economic and financial situations are going to be more in the foreground and give greater cause for concern in the future than they have in the past few years.

It is because the Czechs are hard-headed business men and "real politiker" that they are going to become more and more those who will push actively this policy of closer cooperation in the economic and political fields in Central and Southeastern Europe. Everybody has been saying that this cooperation is necessary and there has been an ocean of ink and words spilled on the subject, but so far it has been lip service and when it came to doing anything concrete the selfish demands of each state made progress impossible.
Now that such a thing as an active balance of trade no longer means anything in most instances, as transfers of money are becoming increasingly difficult all around, these states with active balances are realizing that they are of little use to them unless some far-reaching and more generous arrangements are made. The Czechs have awakened to this situation and the Austrians have already through more bitter experience learned to appreciate it. In Hungary, as well as in Yugoslavia and Rumania not so much progress has been made and suspicion and fear are strong. Progress in Yugoslavia and Rumania towards the ideal of cooperation will be more rapid than in Hungary where Geomboes, through his strong pro-German inclinations and his fascist attitude, is a stumbling block. My own belief has been that there can be little progress in Hungary in the settlement of her internal problems and in her external relations until Geomboes has been eliminated, just as I have always felt that there could not be adequate progress on collective security in Europe until Mr. Laval disappears from the picture, but from somewhat different reasons.

The other night I had dinner with the Foreign Minister here in his apartment in the Schönbrunn palace and in his drawing room there were two autographed pictures prominently displayed. One was a comparatively small one of Kenya in a business suit, and the other was an enormous picture of Geomboes in a uniform which would make Goering green with envy. Fortunately the indications in Hungary are that Geomboes is losing power slowly and Kenya and the Regent have already taken foreign affairs into their hands. As I have indicated in my previous letters, Geomboes is a small edition of Goering, with all Goering's weaknesses and with none of the few good qualities that Goering has.

It is common in this part of the world to speak of Geomboes as a gangster in politics.

It is not likely that the negotiation of the trade treaty between Austria and Czechoslovakia will make rapid progress, but the Chancellor's visit to Prague and what has developed out of it have created excellent background for it and the Czechs are undoubtedly prepared to make greater concessions than they would have considered in December. I am inclined, however, to share the pessimism of the Foreign Minister here as to a
favorable outcome to the negotiations in the near future.
On the other hand, I am convinced that Austria and Czecho-
slovakia will become the leaders in a movement for closer co-
operation in the economic field among the states of the Little
Entente, the Balkan Entente, and Hungary. The path will be
a difficult one, but it is one of the encouraging signs which
we can see and it will be a great satisfaction to England which
has always felt that the situation should be consolidated among
these states so as to decrease the possibility for the need of
intervention by the greater powers.

The other important event in Austria in the
last month was the big meeting of the Vaterlandische Front on
January 19, in Vienna. Representatives of the Vaterlandische
Front from all over Austria were present and the Chancellor
and Prince Starhemberg both made in many ways excellent speeches
which I am reporting upon at length in despatches. Not since
I have been in Austria has there been so much publicity or so
much conjecture with respect to a public meeting. There had
been for weeks persistent rumors that Starhemberg would declare
himself Regent at this meeting. In Nazi and other quarters
opposed to the Government in Austria rumors of the most fantastic
character originated with respect to the announcement of a plebi-
scite, the declaration of a regency by Starhemberg, and even
the restoration of Otto. In Vienna particularly the reports
that Starhemberg would declare himself Regent were given wide
circulation and many of the foreign correspondents were convinced
that Starhemberg would take some action in this direction at
this meeting.

I have for some weeks in my despatches been in-
forming the Department that I was confident that neither the
Government nor Starhemberg had any intention of taking any action
in this meeting or in the near future with regard to regency or
monarchy. I was convinced that this was so, but there was un-
doubtedly a good deal of concern even among the Little Entente
states, particularly in Yugoslavia and Rumania, that Starhem-
berg were this definite intention of establishing a regency.

The fears of some observers here in Vienna were
so real that they became almost hysterical. The fact is that
no reasonable persons in Vienna had any intention that this
January 19 meeting should assume this form except certain enemies
of the Government, who found it a convenient way of trying to
make trouble in Austria and to add to the uncertainty in the
general situation. There is good reason to believe that the
German Legation here was active in spreading rumors with regard
to the necessity for and the imminence of a plebiscite and also
with regard to Starhemberg's intentions respecting a regency.

The meeting itself on January 19 was an imposing,
interesting, and significant event, but in a very different
sense from that which rumors had indicated. The Chancellor and
the Vice Chancellor both emphasized that during 1936 it was ex­
cpected that every good Austrian would associate himself with
the Vaterländische Front and that they would not tolerate any
making of policy outside of this organization. It was a mani­
faction in favor of a totalitarian state, but in an entirely
different sense from the totalitarian state as it is understood
in Italy and Germany by the Governments in power there. Prince
Starhemberg particularly made interesting and significant state­
ments that the Government was interested in criticism of its
policy so long as it was constructive and meant to be construct­
ive. The Government, he said, had no thought that all good
Austrians should have the same opinion on every subject. It
did, however, insist that any criticism of the Government should
be constructive in the sense of maintaining Austria as a sepa­
rate and independent state. Such a statement coming from
Prince Starhemberg made a very great impression within the country
and found favorable repercussion in most of the European press.

The parts of the speeches of the Chancellor and
the Vice Chancellor which have created the greatest interest and
attention are those in which they speak of regency and monarchy
and the maintenance of Austria as a separate state. Both of
them in no uncertain terms let it be known that their struggle
is one primarily for the maintenance of the position of Austria
as an independent state and that they are definitely against
any idea of Anschluss. This was a direct and unequivocal answer
to the intensive propaganda recently coming from Germany direct­
ed towards the holding of a plebiscite. The Government here
takes the view, and I believe correctly, that a real plebiscite
in Austria is not possible at this time, just as no general
election of any kind is possible. They emphasize the fact
that in those respects in which the Austrian Constitution has
not been completely carried through, action will be taken when
and as rapidly as conditions within Austria permit. They
made it clear that they will not permit pressure from the outside no matter from what direction, to indicate to Austria when elections or any other internal matter shall be proceeded with. These strong declarations by the Chancellor and the Vice Chancellor are, I believe, sincere and should put an end among thinking people to these constantly recurring rumors that both of them are prepared to bargain with Germany on a basis other than that of complete Austrian independence.

The other major point in the speeches and which perhaps aroused even greater attention is what was said with regard to monarchy. Prince Starhemberg was particularly emphatic. He said that monarchy and its return in Austria were an internal matter and that the question was one for Austria alone to decide. At the same time, however, he emphasized that the Government in Austria has no intention of doing anything within the country which would disturb its peace or that of Europe. More startling, however, was the statement that if there was restoration at any time in Austria no one could be contemplated on the throne other than a Habsburg. This statement by the Vice Chancellor was not expected and while it was received by the Legitimists in Austria with great joy and with expectations that will not be fulfilled, it has definitely increased the concern in Yugoslavia and Rumania. It has had the effect of confirming the view of some observers here who in spite of the Government's declarations, believe that it is definitely preparing for the return of monarchy.

I have given you so much background in my despatches and letters with regard to regency and restoration that I am sure I need only comment on this very briefly. Prince Starhemberg made the declaration that if monarchy is restored it must be a Habsburg in order to put an end to the rumors that he himself is contemplating making himself King. Starhemberg wanted to put an end to these rumors, but he has equally no intention of restoring a Habsburg for the present. It is a question as to whether in trying to put an end to these rumors he did not go too far in what he did say, but in interpreting what he said one must know Starhemberg and what is really in his mind. He said that if monarchy returns it can only be a Habsburg monarchy and he means that, but instead of intending to indicate that monarchy is around the corner, it really means that the Government and he have no intention of doing anything in this direction for the present. As I have so frequently
said, Starhemberg has no intention of restoring a Habsburg, even if the time were ripe, and letting them reap all the benefits of what he considers the hard work he has done.

Starhemberg also disposed of the rumors that he was going to make himself Regent by a direct reference to them. Whatever views he may have with respect to a regency and whatever his ambitions may be, he has by his declaration in this speech put regency out of the question for the present unless there should be some catastrophic development in Europe.

Although I have been very busy recently and have not felt very fit, I have had a good many conversations with persons who follow the situation closely and have had particularly close contact with practically all of the leading members of the Austrian Government. I find that it is only among certain Little Entente observers here and among some foreign correspondents, including some of our own, that this idea persists that the Government and Starhemberg are preparing the way for regency and monarchy. Some of the Little Entente observers are so nervous and hysterical on this question of monarchy that there is really no possibility of their approaching this question with reason. As for some of the correspondents here, they have a totally wrong impression with regard to some important members of the Government, due probably to a lack of contact, so that they find it impossible to credit them with any good intentions or with ever interpreting their statements to mean what they so obviously convey.

I have done everything I could and have made considerable progress in improving the position of our correspondents here. I have made it possible for them to have much more direct and frequent contact with the principal people in the Government. Some of them, however, are unhappily such strong holders of personal political convictions and so opposed to the Government that they cannot see anything happening in this part of the world with the proper perspective. All this is an unhappy situation, but it is one which the Austrian Government has to reckon with and which it takes fully into account.
I think I have told you that I enjoy quite friendly relations with the Foreign Minister here and I have the feeling at times that he talks to me more frankly than he does to most of my colleagues. He probably feels that he can do this as our interest is less direct in the situation here. In a long talk which I had with him after this meeting on January 19, I said to him that the references of the Vice Chancellor to monarchy, referred to in this letter, had created many apprehensions and that there was a rather wide-spread feeling that the Austrian Government itself was preparing the way for restoration. I said to him that I had now been in Austria for almost two years and had moved about the country a good deal and knew all sorts of people. I had gathered the impression that a good part of the Austrian people preferred a monarchial government and that I also had the impression that the majority of the ranking members of the Government here really were inclined towards the idea of eventual restoration from the point of view that monarchy was and would be for some years still the most suitable form of government for the country.

I added also that I had the impression that the Government had no intention of restoring monarchy for the present as it considered it under present circumstances a secondary matter. I remarked that I had been very much struck by what seemed to be the patriotic desire of the members of the Government with whom I had more intimate contact to place the definite establishment of Austrian independence first and above all other considerations. I said further that I gathered that in view of this consideration the Government seemed animated principally by a desire to do everything which would avoid trouble in Austria or which could give concern to her neighbors and disturb Europe. Because of these impressions, I remarked, I had the feeling that all this talk about regency and restoration which was so rife now was premature and that the Government had no intention whatsoever of proceeding with the establishment of either regency or monarchy. I commented that from what I could learn the Government considered this question as one becoming actual very rapidly after the danger to Austrian independence was definitely eliminated.

The Foreign Minister said that if he had stated the attitude of the Government on the questions of regency and restoration he could not have done it more accurately or clearly. He said that I was right that most of the members of the Austrian Government were friendly towards a monarchial form of government and had no objections to a return of a Habsburg at the right time.
and under the right conditions. These conditions, however, were not yet present within or without the country. These favorable conditions, he said, might never come. It was in order to slow up the emphasis which some were giving to the legitimist cause within and without Austria that it had been decided to take the legitimists into the Vaterlandische Front. The legitimists were now in the Vaterlandische Front and committed to support the present form of the Austrian Government which most of them were loyally doing. Having the legitimists in the Vaterlandische Front made it possible for the Government to see that they did not do stupid things—stupid things which could hurt Austria and their own cause. This, he said, was not always easy. The Minister then went on to say that what Starhemberg had said—that if there was restoration it would be a Habsburg—meant just the opposite of what some had read into it. He had merely said a very obvious thing and something that ninety-nine out of every hundred thinking people must realize. If there was restoration it would be a Habsburg. Starhemberg's statement, however, instead of indicating that the Government was preparing the way for monarchy and that it was around the corner, meant on the other hand that it had no intention of facilitating the movement. It recognized that the restoration of a Habsburg under present conditions in Europe was impossible and it was not so stupid or so unmindful of Austria's interests or those of Europe as to press a matter of this kind at this time which could only breed trouble.

I am inclined to think that what the Foreign Minister said to me may be taken to express the real situation. There are, however, members of the Government, such as Dobretzberger, the Minister for Social Welfare, and Strobl, Minister of Agriculture, who are not nearly so strongly monarchistic in their fundamental attitude. There appears to be little doubt that for some time and until the repercussions of the Vice Chancellor's speech have died down, the attitude of the Government here on regency and monarchy will be misinterpreted. A Little Entente representative said to me just last evening that he is confident that the Government here is preparing the way for restoration. He is confident that this question was discussed by the Chancellor during his visit at Prague, and he expressed the opinion that in Prague the objections to a Starhemberg regency had almost completely disappeared and that the resistance to a Habsburg restoration is already much weaker there than in the other capitals of the Little Entente.
Another well informed representative of one of the Balkan Entente States said to me a few days ago that he could state categorically that the states of the Little Entente were already prepared to accept a Starhemberg regency if they were assured at the same time that it was not merely a step on the road to restoration. He said that of course if such a regency were established it would only be a step on the road to monarchy and Habsburg restoration, but it would nevertheless be a move to which the Little Entente would no longer energetically object. They realized very well that after regency had lasted for some time the way would be open for restoration, but perhaps by then sufficient water would have run under the bridge so that restoration could be faced with the same complacency with which the Little Entente States were now prepared to face regency. I think he went a little bit far and perhaps too far in saying that the Little Entente States were prepared already to accept a Starhemberg regency, but nevertheless the above mentioned views of this Balkan representative here must be given the credence which it deserves.

There is very close contact between the Little Entente chiefs of mission here and those of the Balkan Entente. The chiefs of mission of the Little Entente in Vienna meet regularly every week for informal discussions and exchange of information. The chiefs of mission of the Balkan Entente in Vienna do the same thing. From time to time, but at no regular intervals, the Ministers of the Little and Balkan Entente have a meeting. There is on the whole quite a good deal of exchange of information between the chiefs of mission here of the Little and Balkan Entente.

My own view is that with respect to regency the situation has changed so far that if regency were declared under certain conditions in Austria, the Little Entente States, particularly Yugoslavia and Rumania, would not be happy about it, but would be prepared to accept it without making serious trouble. On the other hand, all the three Little Entente States still view regency as merely the first step towards Habsburg restoration and on such a restoration they are all officially still united in absolute opposition. The Yugoslav Minister here is said to have stated recently that restoration of a Habsburg in Austria would involve immediate troop movements by his Government and complete mobilization. The Rumanian Minister here is credited with having made a somewhat similar
statement. In Belgrade and in Bucharest there is a deep sus­
picion that in Prague the resistance not only to regency, but
to restoration has considerably abated. Perhaps this may be
so. I think to a certain degree it is so. It would be more
correct, however, to say that in Prague there is a little bit
more liberal statesmanship and perhaps more wise statesmanship
than in Bucharest and Belgrade. Prague, as I have shown in
this letter, even though it may be under the stress of the
Czecho-Slovak position, understands more clearly the need for
real cooperation and realizes that there are bigger things than
regency and monarchy.

Starhemberg has left Vienna for London where he
heads the Austrian delegation to the funeral of King George.
This is a good thing in many ways for Starhemberg will make a
good impression in London. I hear this morning that he is
said to have the intention of stopping in Belgium on his way back
to Vienna so as to spend several days with Otto. I can hardly
believe that this is so and I am inclined to think that if his
English friends hear of this intention they will prevail upon
him not to make this visit at this time. Starhemberg is im­
pulsive, but well meaning. He is a good deal upset because
the Little Entente has been harping so much on monarchy being
a question subject to direct interference by them. He resents
interference as much from the Little Entente as he does from
Germany. The Czechs have been more recently very tactful about
these matters, but the Yugoslavs and Rumanian Ministers here
are not only extremely excitable and irritable, but at times
rather tactless. It shows itself in many, if small, ways and
gets under the skin of more people than the Austrians. The
British Legation is making the arrangements for a memorial ser­
vice for King George to be held tomorrow at the British chapel
here. Archduchess Ileana, who is the daughter of the Dowager
Queen of Rumania and who is married to Anton, a Habsburg, and
of course closely related to the British royal family, was in­
vited by the British Legation to attend. Some of the other
Habsburgs here, mostly old ladies who are related to the royal
family in England, were also invited. The arrangements for
the seating in the chapel are extremely difficult as it is small.
Twice the seating arrangements which the British Legation had
submitted to the Foreign Office have been upset because the Min­
isters of the Little Entente were objecting to the way these ladies
were seated. The last plan was objected to because these
ladies would sit with their backs to the Ministers of the Little
Entente. I am afraid that some of these smaller states make politics just about in proportion to the size of their territory. But the states and the men and their policies may not be big, and yet be very disturbing in an important general situation.

The Germans are keeping their hands in this restoration matter for they see it a means of raising trouble in Austria and in the Little Entente. The other day Papen, who cannot mind his own business, told Best, of the United Press staff here, that "Hitler no longer had any objection to a Habsburg restoration in Austria". And this remark has gained wide currency here. It was made, of course, with the intention of creating trouble. On the other hand, in Belgrade where the Yugoslavs have definitely and consistently insisted that they prefer Anschluss to a Habsburg restoration in Austria, the German Minister tells people that "Anschluss does not come into question for the present" so as in this way to increase the fear of restoration.

There is going to be a good deal of talk about restoration and regency and I think Starhemberg was unwise in emphasizing so strongly that restoration was an internal matter. In this way he has not helped the situation, but he did not wish to make it more acute, through his statement. My own opinion, continuing to bear in mind the keynote of Austria's policy which is not to do anything which would disturb internal peace or complicate the European situation, is that we may continue certain that there will be no move here as to regency or restoration for the present unless there should be some catastrophic development. There is, as I have frequently remarked to you, the notion in Austria, which I believe is entirely mistaken one, that restoration would be an additional bulwark against a coup d'etat from Germany. The fact of course is that the kind of Government there may be in Austria - whether it is a Ständische Staat or a Regency or a Monarchy - will have no bearing whatever on what Germany may or may not do in this direction. Whether Germany undertakes a coup d'etat or any aggressive action against Austria will be determined by altogether different factors and by factors which lie in Germany and without Austria.

The situation within Austria continues remarkably quiet. In spite of the decreased exports to Italy on account of her decreasing ability to pay, the effects on the economic structure here have not yet been felt. They will,
of course, be felt in time. It seems pretty well established that in spite of the attitude of the Austrian Government certain munitions were being produced in Austria for Italy. I am now told on good authority that Mandl, who is the principal munitions manufacturer in Austria and who is the great friend of Starhemberg and, as you know, of Mussolini, recently went to Starhemberg and told him that he could no longer continue to produce for Italy at his two plants and that he was laying off men. He said he could make no further deliveries to Italy unless he got cash. It seems that the Austrian deliveries of munitions and anything in the way of war materials have completely fallen off. Of course even if the Austrian munitions factories worked at full blast it would not help Italy much as the output was not large. From the point of view of principle, however, it is important that Austria should keep her word and it seems now that Italy’s failure to pay has relieved her from the possibility of getting into any embarrassing position with regard to munitions.

Trade generally with Italy is going down and is bound to have eventually a rather bad effect here. Then, too, we are having in Austria an extremely mild winter, practically no snow and people who came here in shoals from England, France and elsewhere for the winter sports have had to go away disappointed. It was the winter and summer tourist traffic last year which helped Austria so much and kept up her morale. The tourist business is good in spite of the weather, but the drying up of trade with Italy and the less remunerative tourist season are bound in a small country like Austria to have their effect. The dangerous part of this situation is that as soon as things get worse economically the mass of the people here are more influenced by Nazi propaganda, which in the last weeks has again assumed unusual proportions and has undoubtedly been stimulated by direct action from Germany. You know of the press attacks which have again appeared in the German newspapers, and the German Legation here has been extraordinarily busy in spreading rumors that a plebiscite is imminent. In this case, of course, the wish is father of the thought for there is no real sentiment in Austria whatever for a plebiscite in the sense that the Nazis have in mind.

I am appending to this letter a National Socialist handbill which was given a certain amount of under cover circulation in Austria, principally by being dropped at night into letter boxes.
It is a Nazi demand "on behalf of the Austrian people" that they be given a right to vote on the form of the state and on external relations. This is the handbill concerning which the German newspapers carried sensational articles and gave the impression that it had been widely circulated in Austria and created a sensation in the country. As a matter of fact it is doubtful if more than a few thousand copies found circulation in Austria and it has had no effect or significance here other than to show that in spite of all declarations in Berlin the attitude and activities there with respect to Anschluss remain the same.

It is quite interesting in this connection that there are such different reports in the French and the German press with respect to the interview which Hitler gave on January 25 to a correspondent of the PARIS SOIR. The German Nachrichten Büro in the report given to the German press says that Hitler declared that the Anschluss question "was not acute". The correspondent of the PARIS SOIR in her interview says that Hitler stated that Anschluss "was not for the present on the agenda". There is a wide difference between the two. While it is quite obvious that Anschluss is not on the Berlin agenda for the present, it is just as much as ever a part of the program.

So far as the changes in the cabinet are concerned, which had been contemplated, they are very much in the background and nothing of any importance is likely to happen in this direction in the near future. There is a possibility that the former Minister of Finance, Dr. Burlesch, who now is Minister without Portfolio, may be appointed as head of the Savings Bank and lose his Cabinet rank, but this has no particular significance.

So far as the major policy of the Government is concerned, the line which I have indicated in my despatches and letters during the last months of less and less leaning on Italy is becoming constantly more apparent. There is a definite orientation towards closer dependence on the League and on England and France, and particularly on the cultivation of the closest possible relations with the little Entente and the Balkan states. The failure of Germany as well as Italy to be able to pay has helped along, and will help along further, Central European cooperation. The declaration of Hodza, in Prague the other day following the Schuschnigg visit, is significant. The announcement of the visit of Hodza to Paris is also particularly significant as he will broach there a question which means a lot to England and France - that is, this matter of pushing cooperation in Southeastern Europe in the economic and political fields.
Although the relations between Vienna and Budapest have been very close and friendly and are still so, the Government here could hardly view with delight that the Hungarian Minister of Commerce felt it necessary to go to Berlin just at the same time that Schuschnigg went to Prague. The carrying of water on both shoulders is a very difficult operation under all circumstances and particularly so when the Hungarians try it who are not particularly agile in political maneuvering.

The death of King George has been the occasion here through which the population, and to a certain extent the press, could show their friendly feeling for England. My Italian colleague, who used to be so omnipresent and very autocratic here, one sees less and less and there is a decided decrease in Italian influence here which is obvious even to the less astute observers. Austria will join as actively as she can prudently in a movement for close cooperation in this part of the world and this, as I have indicated, is the principal line which has to be followed for the present in developments in this part of the world.

I have referred in this letter to some of the rather pessimistic press reports which come from some of our own correspondents in this part of the world. Gedye, of the TIMES, continues to be an offender, but I think the best way to settle this matter will be to wait until I have an opportunity to discuss it with you and the Department when I return in the spring for a brief visit, as I now hope to be able to do. We may find it advisable that I should take it up with the TIMES in New York, as I fear that the situation is one which requires attention. To my surprise Markham, of THE CHRISTIAN SCIENCE MONITOR, who is an American and usually very well informed, sent in an article which appeared in the MONITOR early this month, which gives an entirely distorted picture of the situation here. The intelligent reader would gather the impression that people walked the streets of Vienna and other towns of Austria ready to cut each other down and that economic breakdown, as well as political chaos, were imminent. The trouble is that for some inexplicable reason most of our correspondents here are strong Socialists and feel that they can run the Government better than the Austrians
themselves, and are against the Government merely because it is not a Socialist Government. A correspondent, like everyone else, can have his own views, but there is too much of this policy making creeping into what our men are sending out from here. It is the first post where I have been where we faced this situation with respect to our men. I have very good relations with all of them and I try to keep them in line, but the trouble here is that they have become through their own political convictions strong partisans. I am not mentioning this with the end that something should be done, by the Department, at this time, but rather so that if you see some news from our correspondents over here which does not seem to be in line with what I say in my letters and despatches, you will appreciate why they give a picture which to my mind is more gloomy than is justified.

On the other hand, I am glad to say that Frazier Hunt, who was here for several weeks recently, seems to be very clearly picturing the situation in the articles he has written since he returned home.

January 29, 1936.

In view of the fact that you have been in London, Paris, and Berlin so recently and have gathered some valuable first-hand information, I shall refrain from detailed comment on the general situation as seen from Vienna. There is, however, some comment which may be of interest to you.

The general situation seems to be developing along the line indicated in my letters during the last months and is, I believe, on the whole in the right direction. The British attitude has, I believe, become clearer and more steady and if it will be affected in any way by the death of the King it will be in the direction of even greater emphasis on the policy of collective security and on the recognition of the importance of maintaining the position in Southeastern Europe. Whatever influence King George had on the foreign policy was always in the direction of endeavoring not to antagonize Germany, while the possibilities are that King Edward will be more inclined to take the views and advice of Eden and the younger men grouped about him.
The developments in France, while still uncertain, I believe indicate an even stronger position back of the League and of collective security. The Sarraut Government may not last, and there is obviously a great deal of fear that it may not even get its first vote of confidence. Mr. Straus was planning to come with Mrs. Straus, who wanted to consult a doctor, to Vienna and they were to arrive last Saturday. He has put off his visit to Vienna, I think very largely as he was not sure that the Sarraut Government might get its first vote of confidence. If it should last through the elections, and I think the chances are that it will, Flandin, who knows Southeastern Europe as few French politicians do, can be depended upon to use every effort to maintain the status quo. He has a particularly intimate knowledge of all of the Southeastern European countries and when Hodza goes to Paris with the main idea of talking about economic cooperation in this part of the world, as he will in the near future and as already outlined in this letter, he will find an unusually receptive and understanding listener, and I believe supporter, in Flandin.

Whatever the outcome of the elections may be in March in France so far as the respective strength of the parties is concerned, the probabilities are that it will emphasize and solidify the French position on external policy principally in the direction of support of the League, collective security, and cooperation with England. This will imply also an even stronger French attitude on the maintenance of the status quo in Southeastern Europe and it will have a very calming and beneficent effect in this part of the world. It looks as though separate conversations with Berlin by either London or Paris, are definitely out of the picture and there are indications that the British interest in an air pact is less than it was since the British Admiralty has reason to believe that the Naval Pact with Berlin is already being violated.

With the probabilities therefore of even greater Anglo-French cooperation and the movement in Southeastern Europe for closer economic and political cooperation, which I have referred to at length in this letter, and the likelihood that the long delayed ratification of the French-Soviet pact will come, the road is open for a keeping of the peace and even for a probable return to more normal conditions. The fact that London may be for the present less interested in an air pact with Berlin is not an indication that either there or in Paris German air armament is underestimated. On the other hand the extraordinary progress made by Germany in this direction and its striking power are recognized and, as I am sure you know,
feared. While you were in Berlin I am sure you gathered very definite evidence of the extraordinary stage at which German armament has already arrived, especially in the air. It is in the air that Germany is prepared to strike, but her armament in other directions has not kept stride. The Germans have always had the idea that they should concentrate on air armament as this was where they could make the most rapid progress and at the outset deliver the most telling blows. The fact remains, however, that in spite of the progress which has been made, the armament program is somewhat slowed up on account of the exchange difficulties, and it is going to meet constantly greater difficulties.

The general situation in Germany has in the meantime certainly not become any better in any sense. A friend of mine who makes occasional visits to Berlin and who is one of the most intimate friends of Schacht, has written me recently that he saw Schacht early in January and had several long conversations with him. Schacht was extremely pessimistic and reiterated that they would meet constantly greater difficulties. He is still hoping to overcome the resistance in London and that when it is gone we will fall into line also. This appears to be the only hope which he has left. You have better information on the London situation in this respect than I have, but I don't believe that London is prepared to do anything for German credits as long as the present regime remains in power.

I have been following with a great deal of interest the statements which have been made in the press about the alleged German-Japanese agreement to which I referred in several letters toward the end of last year. My information that such an agreement had been initialed came from an unusually good, reliable, and well informed source. Both German and Japan spokesmen have made emphatic statements that no agreement exists and I think that this is interesting, but proves nothing. What is much more interesting is that a friend of mine saw Bulow in Berlin recently and referred to these reports about a German-Japanese agreement. Bulow remarked somewhat to the following effect: "We do not need any agreement with the Japanese. When the Japanese are ready we will be ready and that is all we need to know." When one realizes that Bulow is one of the Junkers with his advanced Pan-German views as the most radical Nazi, one can realize what this means.
One of the things which is causing a good deal of speculation in Austria is the report with reference to Hitler's health. There have been these persistent reports here and elsewhere that he is suffering from a cancer of the throat. Whether these reports are correct I think it is impossible to say. Dr. Seuerbruch, who is the leading German surgeon of today, recently told a friend of mine that Hitler was suffering from a harmless growth on the throat. On the other hand, there is pretty definite information here that Dr. Neumann, of Vienna, who is considered the principal throat surgeon in Europe, was recently approached as to whether he would make an operation on Hitler. He is a Jew, but his reply was that if he were requested to perform the operation he would consider it his professional duty to do so. I am informed by well informed persons that the real situation is that Hitler has been advised to undergo a throat operation but has refused to do so. Whatever the situation with respect to his throat trouble may be, it is, I think, clear that his general condition has grown worse and that he and his friends are disturbed about his health. His nervous condition, which has not been helped by developments either within or without Germany, has grown worse.

The NEUE ZURICHER BILDUNG of January 17, carried a very good and I understand accurate report of Hitler's Detmold speech. This is the speech in which he made the statement that "Sie können mich noch nicht". That is to say, "they don't know me yet". The context indicates that by "they" he means the so-called enemies within and without the country. It was in this speech that he referred in a most pessimistic way to his own successor, and it is significant that these remarks which he made concerning his successor in the Detmold speech did not appear in any of the German papers. The report is that Hitler's concern over his own condition and his mental state has not been helped by the insistence of some of those around him that he should make some more definite provision in this respect. I am only mentioning this question of Hitler's health and condition as background for other information which you may get on this subject. The throat affection is certainly there, but whether it is of a serious character or not I don't know. In professional circles in Vienna it is believed to be of a serious and malignant character. That his general health and condition are worse and the cause for concern to those in his entourage is, I believe, also certain.
I think the remark of Goebbels in his speech in Berlin on January 17 or 18, has already been brought to your attention. This is the speech in which he said "Our opponents in spite of the fact that they have been heretofore vegetarians, all at once want to eat pork and they act as though we were hens which were not laying any eggs. Without butter they say we will be finished, but for example we would not be finished if we were without cannon. I say that we cannot defend ourselves with butter, but with cannon. There are those who work themselves into a patriotic fervor when they see a company of soldiers marching by, but they do not want to give up their quarter of a pound of butter and do not wish to recognize the services of those who have carried through our rearmament. Without colonies and raw materials we cannot exist."

With the general situation shaping up as it has been and with the iron ring around Germany becoming stronger instead of weaker, and with the possibility of its breaking down more dim, and all this accompanied by a difficult situation within Germany itself, the position of the Berlin Government is certainly not any stronger. There are those who fear, and this fear seems to be very strong in England, that the ratification of the French-Soviet pact will lead to counter action by Germany in militarizing the Rhineland. Unless there is a demarche of an energetic nature by England and France before the ratification of the pact, such action by the Berlin Government is not at all out of the question, but I am very strongly of the opinion that in view of the developments in Europe and if adequate representations are made in Berlin, the German Government is at present in no position to take such a step. If they think they can get by with it there is no question but that they will take it.

One of the most interesting developments of the last few days which indicates the way the wind is blowing are two statements coming from Italy. The first of these is repeated declarations that the Abyssinian war is not in any way interfering with Italian cooperation in Europe, more particularly with reference to the maintenance of the status quo in Southeastern Europe. The other is a declaration carried in the Austrian press of the last few days that Italy will accept oil sanctions in the same way that she has accepted the others. There is no longer a question of war as at first, no longer a question of a more dangerous step, but it is now
a step of collective action which will be accepted in the same way as the commercial and financial sanctions.

I have followed the press reports with respect to our own neutrality legislation very closely and I am deeply gratified that they seem to indicate that the legislation will be of a character leaving sufficient discretionary power to the President and to the Department to really protect our interests and to achieve the desired ends.

Since writing the first part of this letter a few days ago (I was obliged to interrupt through some pressing duties here) I have received very interesting information to the effect that when Chancellor Schuschnigg went to Prague on his recent visit the British Government informed the Prague Government that it was greatly interested in a favorable outcome of the conversations there. I have this from a very good source and I am confident it is dependable information. It is a distinct recognition of the increased interest which London has in these problems and of the concrete evidence which it is giving it. What is of even more interest is the equally reliable information which I have that London is bringing real pressure to bear in Budapest. Budapest has been pretty active in trying to sabotage any agreement between the Little Entente and Austria, particularly between Austria and Czechoslovakia. She can be expected as long as there is Goemboes influence there to try to sabotage every effort towards closer cooperation in this part of the world. The German touch is very clear. London, I understand, has been in the last days bringing very real pressure at Budapest. The Hungarians have been reminded that they have debts and that they need friends. I don't think London expects to get any money, but it is in an apparently very definite way letting Budapest know that the dog in the manger policy may be dangerous for her. This will strengthen the hand of the Regent and of the Foreign Minister, Dr. Kanya. It is all in line with the definite interest which France and England have in strengthening the position in this part of Europe through mutual cooperation of the states concerned.

I need not tell you how delighted we all are here that the Department and the Foreign Service Buildings Commission have decided to buy the house in which I live here
as a permanent residence for our Minister. I have completed the sale and will be able to send the documents to Washington shortly. Ample provision seems also to have been made for the repairs and alterations which are necessary and desirable and for the furnishing of the house. I am deeply grateful for what you all have done in this matter and I am confident that it is going to prove one of the most satisfactory purchases which we have made.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.

Enclosure:
1. Nazi handbill.