Dear Secretary Hull:

I last wrote you on July 31, and August 14. I was very glad to have your letter of July 29, acknowledging mine of July 12, and that of August 1, acknowledging mine of July 20, and to know that you found them of interest.

Since I last wrote you there is nothing of specific importance from within Austria on which to comment. The Austrians take their holidays seriously and most of the Ministers, including the Chancellor, have been away on holiday. The Chancellor has just returned to Vienna and it is Austro-German relations which will principally concern him. I have told you that he intends to keep up his fight for Austrian independence and to resist German pressure here, and I am sure that this is so, but since the accord of July 11 his position is very much more difficult and he realizes it. It was much easier for him and the Austrian Government to struggle against the German pressure before the accord, and I have every reason to believe that he is considerably discouraged. He is following closely developments outside of Austria which viewed in the most favorable light he can only see as still strengthening the German position and therefore making his struggle against German penetration more difficult.

The Honorable
The Secretary of State,
Washington, D. C.
I have covered in my despatches and in my letters to you the preliminary negotiations between Berlin and Vienna for the improvement of trade relations and the failure, as we expected, to arrive at any favorable results. The conversations for the negotiation of a definite trade treaty between Germany and Austria are to begin at the end of September and I think the Austrians look forward to them with a great deal of misgiving. I had a talk a few days ago with Dr. Wildner, who headed the Austrian delegation to Berlin and who is the head of the Economic Section of the Foreign Office. He is a good friend of mine and seemed to wish to talk about his recent experiences in Berlin. He confirmed all that I have said in my letters and despatches, and it was clear that he had instructions from the Chancellor when he went to Berlin not to give way one inch. He said the Germans had wanted everything during the conversations and were not prepared to give anything. It was particularly interesting that he should say to me that all I had told him during the past two years about the individuals he would meet in Berlin was more than substantiated. He said that a few of the people with whom they had to deal, like Dr. Bitter whom you probably know, knew what they were about and one could have dealt with them, but they had no authority, or at least could not carry any of their own ideas into effect. Most of the people with whom they had to deal were party men without experience and without knowledge of economic considerations and who were governed only by political objectives of the present Government.

He intimated that what I had told him in the past had proved to be of considerable help to him and his associates. In speaking of the definite negotiations for the trade treaty to begin at the end of September, he was rather gloomy, for while he indicated that the Austrians would endeavor to maintain their stand, he knew that the pressure would be greater and he only hoped that they would be able to withstand it. I am mentioning this at this time for I believe that in the negotiations which will begin at the end of September between Berlin and Vienna the Austrian position will already be somewhat weaker and although the Austrians will endeavor to maintain their
stand and the negotiations will undoubtedly be protracted, the indications are that the German pressure will result in the negotiations being much more to their advantage than to that of Austria. This is almost inevitable in view of the way things are still going here in Europe.

I have referred in my dispatches and letters to the resignation of Rost van Tonningen as the League of Nations Financial Committee representative in Austria. The financial control in Austria, as you will remember, was exercised through van Hengel, a Hollander, as the head of the Credit Anstalt and in this way over the private financial structure of the country. He was more or less the representative of the International Committee in London, representing the creditor banks. The financial control over the Government finance and budget was exercised by the League through Rost van Tonningen. Mr. Maurice Frere, a Belgian, was in the National Bank as its advisor and his presence there gave added confidence in foreign financial circles. Now, through the death of van Hengel, his principal Austrian subordinate has been made the head of the Credit Anstalt with the consent of the International Committee representing the bankers. Rost van Tonningen will shortly disappear and it is almost certain that the League will not try to appoint a successor. Frere, as advisor to the National Bank, has also intended to resign so as to forestall a polite invitation to do so. But as this would remove the last of the financial control, I have reason to believe that British financial interests as well as other European financial interests, are advising him not to do so. These interests have aided Austria a lot in reaching the comparatively good financial position which it enjoys, and it is felt by them that it is not yet desirable that all control disappear. While Frere's position was the least responsible of the three and is purely advisory to the National Bank, he has rendered very good service and is a very sound man. These financial circles outside of Austria would feel much happier if Frere will remain, and there is reason to believe that they are bringing pressure to bear in that direction both on him and in the way of friendly suggestions to the Austrian Government. Whether
he will remain or not is still uncertain, but it is al-
ready clear that if he does, his position and influence will
be much diminished. We can take it that in any event the
external financial control over Austrian public and private
finances is practically gone.* I am not at all sure that
this is a good thing, and I think a good many responsible
Austrians in government and financial circles feel that way,
as they are of the opinion that it weakens their power of
resistance against this German economic and financial pres-
sure which is bound to increase, as I have already indicated
in this letter.

A curious situation has developed out of the
resignation of Rost van Tonningen which I think is of suf-
cient importance to bring to your attention. When he
resigned he said in his letter of resignation that he con-
sidered the Austrian financial position was now such that
League control, and therefore his services, were no longer
necessary, and he put in the letter what seemed to many of
us a strange statement, but which in some ways was character-
istic of him - that he felt that he was needed in his own
country. To Austrian friends he said that he was return-
ing to Holland in order to head a Fascist party. I have
just seen a report from Holland which has as yet had no
publicity in the Austrian press, to the effect that Rost
van Tonningen has written to the head of the Dutch National
Socialist Party, offering his services to them and that
he has received a warm letter of appreciation from the
Party accepting his services and placing high value on
them on account of his knowledge of the European situation.

I am not at all surprised by this development.
Rost van Tonningen is still a young man and is very over-
bearing, exceedingly ambitious, didactic, and within recent
years embittered. He made an unfortunate marriage and
ever since he started to get his divorce last year has be-
come exceedingly bitter. I have recognized his capacities
and the good work which he has done here as the League's
representative, but I have always felt that he was a man
of such ambition and in political matters so unstable that
he was not to be trusted. He suffers from that disease
which has attacked so many people in Europe, and I feel to a degree in our own country, which leads the patient to believe that he is a super-man and has a mission to fulfill. It is a disease which can flourish, as you know, in times like these.

I am of the opinion that Roest van Tommningen, stimulated by the success of Degrelle in Belgium, believes that he can rapidly make himself the head of the National Socialist Party in Holland and therefore play an important role not only in Holland, but in Europe. I have had reason to believe in recent months that he is convinced that the authoritarian regimes in Europe are going to have the best of things and he has therefore cast his lot with them.

I have commented on what may seem this unimportant individual circumstance because I think it is worth while to keep it in mind for it may form important background for developments in Holland. When Degrelle started his movement in Belgium no one paid any attention to him, just as no one paid much attention to Hitler in Germany at the beginning. Degrelle, just as Hitler, promises everything to everybody privately, and his public utterances are in no sense to be trusted. In one of my letters to Mr. Phillips, written immediately after my visit to Belgium this summer, I pointed out that I had definite information that in the Belgian election early this summer in which Degrelle had such success, German money and German agents had been sent to Beveren and Hulshorst, where he had his greatest success. I think we must see, in spite of Degrelle's denial, the beginning of a Fascist and poorly concealed National Socialist movement in his activities in Belgium.

Roest van Tommningen has sufficient confidence in himself and in his political and other capacities to rapidly become the head of the National Socialist-Fascist movement in Holland and to cooperate with that movement in Belgium, headed by Degrelle. I have reason to believe that he is particularly encouraged in this idea because of his opinion that the Franco-Belgian military alliance
is practically gone; that Belgium is correspondingly closer to England; and that England will withdraw from the French further and go closer with Germany. He may be wrong about the latter part of this, but that is how he sees it; and we have seen here in Europe enough of how these personal ambitions can become disturbing international factors so as not to disregard them.

The Austrian newspapers this morning carry an item to the effect that the Hungarian Regent Horthy has come to Austria on a hunting trip which has a purely private character. I am informed on very good authority that Horthy has been planning this trip for several weeks and that he is to shoot on the estate of Count Festetics, a Hungarian in the Tyrol. I was told in the utmost confidence by a very well informed person that it was Horthy's intention to slip quietly over to Bereschebaden one evening to see Hitler, as the estate of Festetics is only a very short distance from Bereschebaden. I am informed, as a matter of fact, that this shooting trip is planned solely so that Horthy can make this call on Hitler unobtrusively and without any information getting into the press. I am told that Horthy wishes to tell Hitler that although the sympathies of Hungary are very much with Germany, he and his friends are of the opinion that the German policy of fait accompli may yet bring about a European catastrophe which will not do Hungary or anyone else any good. He wants to say that while Hungary's sympathies are so much with Germany, Hitler must not misunderstand this and that in case one of his faits accomplis provokes a war, complete dependence on where Hungary would stand must not be taken for granted.

This information, which is in some respects very interesting, comes to me in such a way that I can pass it on in the greatest confidence to you as reliable.

Within Austria the situation is extraordinarily quiet and, as I have already said, on account of the serious way the holidays are taken, there has been practically no political activity. Now that the Chancellor is back he will have to give thought to further changes in the Cabinet
and on these I have already given you in previous letters all the information which is available. I only wish to point out here that if things keep on going as they are in Europe the situation here, so far as German penetration is concerned, cannot be expected to improve. There is every reason to believe now that it will be a slower process and that the Germans themselves, in order not to disturb England and France at this time over Austria, will proceed with great caution. The Austrians, however, in responsible positions have no illusions. They know that in Germany at the top of the Party the objectives with regard to Austria have in no sense changed and that the complete absorption of the country is still the objective. They know that the word has been passed down that the recognition of Austrian independence does not really mean anything and that now in Germany already pretty generally the people look upon the ultimate absorption of Austria as merely a matter of course. Most of the German press is fairly careful, but the VOLKISCHEN BEOBACHTER breaks out once in awhile and the SCHWARZE KORPS, the organ of the S.S., does not hesitate to come out openly and does not seem to be interfered with. This is a very great difference over the situation before the accord when the great mass of the German people were uninterested in the absorption of Austria.

Now, quietly within the country the word is being passed that the accord of July 11 is really another Party victory, represents the surrender of Austria, and is the forerunner of her absorption. This is already a new disturbing factor because the German people are beginning to accept as almost an accomplished fact something in which before they were uninterested. All this can only have its slow, but gradual effect in Austria where the pressure of sixty-eight millions against six and a half millions cannot be ineffective in view of the way things are going in Europe.

I think we must recognize that Germany has continuously been winning the war since she signed the humiliating treaty of Versailles and the others. The post-war
structure so painfully built up on these treaties has been gradually, but steadily, disintegrating. Reparations have been gone so long that they are practically forgotten and, unfortunately too, with this forgetfulness, what was behind them. The Saar has been reincorporated into Germany. Germany and Poland have reached an agreement the exact nature of which no one seems to be sure. The occupation of the Rhineland is now complete and since August 1 Hitler is practically free to send troops there in any number. The fortification of the Rhineland has been commenced and is steadily in progress and aims to immobilize France and England, giving Germany a freer hand to the South and East. The fortification of Helgoland has been begun and is steadily in progress, and Britain has not even made a protest. The Montreux agreement permits Turkey to fortify the Straits. The new agreement between England and Egypt puts an end to the capitulations. The Austrian financial control has just disappeared. The League's position is possibly the weakest since its formation, and certainly everybody recognizes that it has no power to enforce peace. The policy of collective security, which was devised to replace the League in this respect, has had bad blows and no one can tell if it will survive with the growing power of the authoritarian states definitely opposed to it. The Little Entente is shaky.

So much is gone, or practically gone, and more is on the way. In Danzig the League Commissioner is now practically impotent. The opposition papers have been suppressed and the way is slowly but gradually and definitely being prepared for a new election which will be the precursor of bringing Danzig into the Reich under conditions which will make opposition by France and England almost impossible and even Poland will almost certainly not move. The League control over Hungarian finances remains, but the Hungarians are restive as a result of its disappearance in Austria. Covert and even some overt attacks are being made on the international control of Danubian navigation and the disappearance of the Commission, or at least of its principal powers, is already to be envisaged.
And the prospect for even major changes is not good. With the Little Entente disintegrating, Czecho-
slovakia practically stands alone except for France and
Russia, and things are moving fast towards the disintegr­
ation of that support. We cannot forget that although Hen­
lein's power in the Sudetendeutsch group in Czechoslovakia
is somewhat weakened, his international position is strength­
ened. He has already made two trips to England and has
received aid and comfort in not unimportant quarters there.
He was present at a supper party which Hitler gave, to
which the Czech Minister in Berlin was apparently not in­
vited. The Franco-Belgian military agreement formed
immediately after the war and which has never been popular
among a good part of the Belgians, especially the Flemish,
is in a precarious state as the recent statement in July
of Speak, the Foreign Minister, showed. The French-Polish
agreement has been in a precarious state for some time as
a result of the German-Polish agreement, and the recent
visit of the head of the French General Staff, General Gam­
elin, to Warsaw showed France's preoccupation. The Franco-
Soviet agreement is under attack, as is the Soviet-Czech
agreement.

German policy, sided by Italy, is definitely
directed against both of the above agreements. Ribbentrop's
appointment to London is a definite indication that Ger­
many has not given up her hope of separating England from
France, and although the British Government and even the
TIMES may give warning to Germany that Anglo-French friend­
ship is still fundamental, among the masses in England there
is, under the fear of German air invasion, a constant ex­
pression of the sentiment that England must make friends
with Germany.

And of less importance in some ways, but of
major importance in others and indicating the trend of
things, even the Austro-Italian agreement and the Rome
Protocols are shaky. I have in despatches and letters from
time to time pointed out that Mussolini's good and intimate
friend, Mr. Morreale, who is nominally the Press Attaché
of the Italian Legation here, is really Italian Minister. He published an article in a new paper which has just appeared here, which is in some ways most extraordinary. He says that there is no reason to suppose that the German Government in recognizing the sovereignty of Austria did not act in a spirit of frankness, when as a matter of fact we know that Mr. Mussolini has no illusions whatever that the agreement of July 11 meant anything ultimately so far as guaranteeing Austrian independence went. Morreale says further that National Socialism in Austria as a result of the agreement becomes a purely Austrian matter and that it will be "the affair of Austria to frustrate National Socialist efforts and to suppress them." He says that the question of National Socialism in Austria, which was before the agreement a question of international politics, has now, as a result of the agreement become a matter of national politics. It looks almost as though this here-fore recognized and responsible spokesman for Mussolini was serving warning on the Austrian Government that National Socialism in Austria is now no longer a concern of Italy, and it is certainly the most that has ever been said by an Italian spokesman indicating such a decreasing interest by Italy in Austria. I don't think this article must be taken too seriously as yet, but there is increasing evidence that the Italian-German cooperation has passed from the negative to a positive stage. Should a Fascist Government in Spain evolve out of the situation there, which the attitude of Germany and Italy so clearly indicates as a devout hope, not only the position in France, but also in Holland and Belgium will become much more difficult and Mr. Degrelle and Mr. Rost van Tonningen may become important factors.

In Greece already the position of the King has become practically that of Victor Emmanuel in Rome and the setting up of the new Government and the dissolution of Parliament has already been followed by the suppression of parties and now by that of political groups and organizations.

I know that the picture which I am painting is a depressing one, but I have tried briefly to give at
least some aspects of the European developments as we have
to face them. The dictatorships are certainly increasing
their power and under the circumstances increased coopera­
tion between certain of them becomes almost inevitable.
The scope of the dictatorships is increasing through new
accretions and as their number increases, the danger of
the dictatorships being divided into two camps becomes
greater. All this makes the Austrian position more dif­
ficult and is bound to have its slow but sure effect. As
I have so continuously pointed out, we must so far as Austria
is concerned, recognize that developments here in the future,
as heretofore, will be dependent upon external more than
internal factors.

The only bright spots are that the English re­
armament is real and progressing rapidly and further
that the responsible statesmen there realize the real situation in
Europe and its fundamental dangers and are not yet prepared
to sacrifice democracy in England. In France the military
position is still strong and there is still every reason to
believe that the very real internal social troubles would be
rapidly appeased and the situation consolidated in case of
real danger to the country. Russia, in spite of appearances,
prefers peace in Europe and is opposed to the dictatorships
aiming at territorial aggrandizement in the smaller countries
of Europe. There is uncertainty concerning the general
situation which is aggravated in some cases by uncertainty
in the internal situation. Such countries as Poland, Czecho­
slovakia, Austria, Hungary, Rumania, Bulgaria, Yugoslavia,
Greece, and Turkey are still more or less on the fence wait­
ing to see what will happen.

The result of the convulsion in Spain will be
an important factor in determining events in this part of
the world and in Europe. Then, too, in Germany we have
reason to believe that the conviction has pretty well gone
through in the top of the Party that the country is not yet
prepared for a war and that a war now would almost certainly
result in the collapse of the present Government. All
its hopes are in delay for time so far on the whole has been
working in the favor of Germany.

Whether this extraordinary situation over here, which in all the forms in which it has developed certainly no one could foresee, can be settled without a catastrophe war no one can tell. Certainly for the present there is nothing that we can do to help, and while we have our own troubles, we are in this disordered world a comparatively happy country and can look forward to the future without those misgivings and fears that certainly predominate, and with reason, in every country over here.

The visit of the King of England in Yugoslavian waters is not without its significance and the diversion of his original plans so as to bring him to this part of the world was undoubtedly governed by major political considerations. The Yugoslavs are enormously pleased that they should have been singled out in this way. While Yugoslavia has been pretty well counted as being in the German camp and has certainly veered in that direction under economic and political pressure in the last six months, the Yugoslavs are not happy and they see in the increasing cooperation between Germany and Italy no great cause for ultimate satisfaction, although they do believe that for the time being Italian-German friendship does make overt action by Italy against them improbable for the present. There remains, however, for the Yugoslavs the fear from the North which means more to them than even the fear of Italy, and if they see Germany fostering a Central European combination of Austria, Hungary, and Czechoslovakia, even without a Hapsburg, they will swing rapidly away from Germany. There are conversations in progress between Prague and Berlin, perhaps vague and still not between the Governments or the accredited Ministers. The Czechs are disturbed for they feel that they are the first lamb which may be sacrificed on the altar since the Austrian situation is temporarily out of the way. They can't depend on France for the present, and in her extremity she may prefer to sacrifice a bit of territory to Hungary and Austria, and perhaps even to Poland and Germany, in order to become a part of a Central European
combination of Austria, Hungary, and Czechoslovakia in which combination every country would maintain a symbolic separate existence, but be definitely under the control economically and politically of Berlin.

There are those who believe that this is the solution which Berlin is envisaging, as it would make possible the maintenance of friendship and cooperation with Italy. There are indications that we must watch for action along this line. Count Bethelen gave an interview the other day in which he envisages it and hails the Austro-German accord of July 11 as paving the way for it, as now Hungary can cultivate her close friendship for Austria without offending her other good and great friend, Germany. It is, I believe, not improbable that it is to talk over considerations of this kind that Horthy has left Hungary for the first time in sixteen years and come to Austria to hunt within so short a distance of Berethesgaden.

The English, realizing this position, have sent the King to Yugoslavia, for in case this Central European combination should come into being Yugoslavia and Turkey, and almost certainly Rumania, would grow cold to Berlin and to Rome, and Greece be kept in line. Empire communications are so definitely threatened that all this is of most vital importance to England.

The President's recent Chautauqua speech was a great one and we all here read it with the greatest appreciation and satisfaction.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.