Vienna, October 6, 1936.

Dear Secretary Hull:

I last wrote you on September 18, and very briefly on September 25. I was absent from Vienna for a week on a motor trip to Hamburg where I put two members of my family who have been spending the summer with us on the steamer for home. This gave me an opportunity for some rather interesting conversations while I was in Germany.

The summer internal political truce in Austria seems to be at an end and there has been more activity in the internal situation recently. As you know, the Government decided to dissolve the various para-military organizations in Austria as such and to incorporate them into a militia similar to our National Guard at home. All of these organizations, with the exception of the Heimwehr which is the strongest and at the head of which is Prince Starhemberg, have shown willingness to coordinate themselves to this Government program, but owing to the resistance of the Heimwehr the formation of this new militia has gone slowly. All such private armies of course depend mainly for their strength on a few individuals who are interested in using such organizations for their own political prestige or private ends. To complicate the situation differences have grown up within the Heimwehr in which the authority of Prince Starhemberg has been going down steadily and the Vienna Heimwehr has shown a tendency to insist on retaining Major Fey as its leader in opposition to the desires of Prince Starhemberg, whose strength lies outside of Vienna, to eliminate him. It has been feared during the summer that these Heimwehr difficulties which were quiescent during the tourist season, might come to a head in October, and some feared that these difficulties would lead to open clashes between different sections of the Heimwehr.

The Honorable
The Secretary of State,
Washington, D. C.
I have, in the despatches of the Legation, given adequate background from time to time with regard to the developments in this connection and can confine myself here to more intimate observations. The Government does wish to get rid of these para-military organizations as it considers them dangerous and having served their major end. They were useful in order to maintain the Austrian position when the struggle with Germany was most difficult. Since the accord of July 11, 1936, between Vienna and Berlin the Austrian Government has no illusions that Germany has given up its objectives against Austria, but it does believe that the independent position of Austria is much stronger through that accord and through the developments in the general European position since then. It believes that the para-military organizations have served their purposes and are now becoming a nuisance since the personal ambitions of individuals are coming more to the fore. The Chancellor took the lead in bringing about the incorporation of his own private army, the Sturmscharen, into the militia. All the others, except the Heimwehr, have followed. Prince Starhemberg has been loath to coordinate the Heimwehr and to give up its military character, as it is all that he has left. Major Fey, who is in some respects a rather sinister personality and who by most informed observers is considered rather irresponsible, is nevertheless popular in the Vienna Heimwehr and among the Vienna police.

During the last six weeks a quiet struggle has been going on between Starhemberg and Fey with the advantage apparently shifting from one to the other from time to time. Starhemberg has been showing less energy and less interest, but he staged a come-back some ten days ago and at a Heimwehr meeting in Vienna Major Fey and his principal supporter, Vice Burgomaster Lehr, were read out of the Heimwehr. Starhemberg made a statement very damaging to Fey, saying that Fey’s behavior during the Dollfuß murder, which I fully covered in my letters at the time, had never been cleared up. Fey met this challenge and issued a statement to the effect that he remained the legal head of the Vienna Heimwehr and that he was putting the Starhemberg charges in the hands of his lawyers. The Government issued a statement that the dissensions in the Heimwehr were of no interest to it so long as they did not interfere with unity in the Vaterländische Front, which is supposed to unite all good Austrians.
I am informed on good authority that the Government looked with certain complacency on this struggle in the Heimwehr and intended neither to side with Prince Starhemberg or Major Fey, hoping that these dissensions would weaken both, as well as the Heimwehr. This, I think, was unquestionably the Chancellor's attitude, but it would appear from recent developments that because of Prince Starhemberg's greatly decreased prestige and the more combative attitude of Major Fey that the Government may be temporarily giving certain countenance to Major Fey hoping that Starhemberg will be eliminated and that Fey, who is in reality the weaker personality, may then be more easily dealt with. Of the two personalities Starhemberg is by far more admirable, for he is really a patriot in spite of his faults and shortcomings. Fey is an unstable character, very ambitious, with a still more ambitious wife, and somewhat stupid. He has no real principles and has always been under suspicion of having contact with Berlin.

I have gone into this detail with regard to the Heimwehr situation as it is important, being the major internal factor for the present in Austria which could cause concern. The fears that the Heimwehr situation would cause actual clashes in the streets in October, which have been entertained during the summer, now show less signs of realization. It looks like these dissensions in the Heimwehr were the last flicker of its activity and the prospects are that the hopes of the Government that these dissensions will lead to the complete loss of power will be realized. If the Government's hopes are realized Starhemberg certainly, and Fey eventually, will disappear from the political horizon here and this will open the way for the Chancellor to eliminate Dr. Draxler, the Minister of Finance, and Baar Bearnfels, the present Vice Chancellor, from the Government. This would completely end the Heimwehr influence within the Government and I am inclined to think that most good Austrians will be glad to see all these people disappear from the scene, with the exception of Prince Starhemberg, whose patriotism no one has questioned even if his wisdom has been in doubt. Prince Starhemberg has rendered very real service to the country and next to Dollfuss has been the most important element in establishing the present Austrian position of independence.
The most important development has of course been the complete lifting of the financial control over Austria exercised by the Finance Committee of the League. When Most van Tonninga, the League's representative controlling the budget and government finances, offered his resignation and recommended that the control was no longer necessary, it was obvious that the League could not well appoint a successor, as the Austrian financial position had improved and the Government had followed a very conservative financial policy consistently. Dr. Kienbock, the head of the National Bank, as a matter of prestige, felt that if the control in the Ministry of Finance was removed the League's advisor in the National Bank, Mr. Maurice Frere, a Belgian, must go too. The Minister of Finance, Dr. Brazier, therefore went to the last League meeting authorized by the Government to request the lifting of both controls. The Chancellor and others in the Government were not so enthusiastic about the removal of all control. They were willing to see the control in the Ministry of Finance go because they saw it adding to Austrian credit and prestige. They would have viewed with complacency the retention of Mr. Frere as the advisor in the National Bank. Dr. Kienbock, the head of the National Bank, is, however, a very important figure in Austria and as a matter of prestige he insisted that the advisor in the Bank go if the advisor in the Ministry of Finance left. The Chancellor and others in the Government realized that this League control was a very fine thing for Austria internally as it gave them an additional brake on demands on the Treasury and externally the reports issued by the League gave confidence in financial centers abroad.

The real weakness of the League and its timidity and, for the present, its real ineffectiveness were shown by the way it dealt with this matter. As I have pointed out in this and in previous letters and reports, the Austrian Government went to Geneva asking for and wishing the final lifting of both controls, but hoping that in fact the Committee would insist on maintaining certain controls. The English and several others of the guarantor states in their own and in the Austrian interest were prepared to insist on the continuance of some form of control, but Mr. Avenol and others in the League Secretariat were disinclined to take any positive action. They are still smarting under the insults to the League by Greiser during the Danzig
incident this summer and they were glad to drop the Austrian control as a possible further source of irritation. The French did not give the British and others any support in maintaining some sort of control, for they were backward in view of their own internal financial situation in insisting that Austrian control be continued. The control has therefore been completely lifted and the Australians came back from Geneva with more than they really wished.

The Austrian Minister of Finance in his speech to the League stated that in spite of the lifting of the control the Austrian Minister of Finance would continue to appear before meetings of the League Finance Committee from time to time to give information on the state of Austrian finances. He also offered to permit representatives of the League Committee to have access to all information concerning the financial position when they might come to Vienna. I am informed that the League intends to continue to issue some sort of report on Austrian finances from time to time, but these reports will not have the same reassuring and good effect that the reports issued by the League's financial advisors have had. The lifting of the League control is therefore a rather empty victory for Austria and it can only be hoped that it will not lead to the weakening of the Austrian financial position.

Since I last wrote you Dr. Buresch, former Chancellor, former Minister of Finance, and at the time of his death President of the Postal Savings Bank, committed suicide. He was one of the leading figures in Austrian political life since the end of the war. He was a clever, resourceful, cultured, and in many respects useful public servant who was very generally liked and respected. In the post-war years there were two financial adventurers in Austria, Castiglione and Bosel, who played a very important part but whose transactions in many respects were shady and both have come to grief. Both of them were in trouble from time to time with the fiscal authorities of the Government. Bosel was recently arrested and old charges against him revived through the activities of a zealous official of the Government. The consequent investigations led to the door of Buresch as it appeared that when he was Minister of Finance he had stopped proceedings against Bosel for tax evasions. The office of the prosecuting attorney undertook a house search in the country home of Buresch to examine his papers and that evening Buresch
took a dose of veronal and died the next day. His death was
certified as due to diabetes and in the public interest it was
deemed advisable not to have anything appear in the papers.
I have from time to time in my letters indicated that Dr. Buresch
in spite of his good qualities and real services to his country,
was not above suspicion in having used his public positions from
time to time to his personal advantage.

An interesting sidelight on the foregoing and illus­
trative of the inflexible and austere, and in some respects
admirable, character of the Chancellor was brought into relief
by the above. The public funeral of Dr. Buresch took place
in Vienna which I, like all the other members of the diplomatic
corps and thousands of important people in Vienna, attended.
The actual burial was in a suburb of Vienna the following day,
which was the home of Dr. Buresch. Cardinal Innitzer, who had
celebrated the mass at the public funeral the day before, de­
ivered a funeral oration at the private burial in which he
warmly spoke of the personal qualities of the deceased. He
ended his remarks by saying "Of his public services I will
not speak as there are others here better qualified to do so and
who will follow me". The Chancellor and other high ranking
members of the Government were present and it was expected that
he or one of them would speak, but a dead silence followed the
Cardinal's remarks and the funeral ended without any reference
to his public services. This is illustrative of the character
of the Chancellor. In the public interest he was willing that
Dr. Buresch should be given these last honors at his funeral
and that the circumstances of his suicide should be covered by
a Catholic burial with the presence of the Cardinal and himself.
His principles, however, did not permit him or any other member
of the Government to laud the public services of Dr. Buresch.
I mention this incident because it is illustrative of the char­
acter of the Chancellor, as I have so frequently pictured it in
my letters. It is also interesting as it shows why he is
painsstakingly and in many respects very cleverly endeavoring to
eliminate from the Government men like Starhemberg, Draxler,
Baar Damrenfels, and Stockinger, whose private records he be­
lieves are not such as to warrant their staying in the Government.
The Austrian Government has been frequently characterized and criticized as a black, Catholic Government, but at the same time it must be admitted that it has had a succession of Chancellors such as Seipel, Dollfuss, and Schuschnigg, who have consistently translated their religious convictions into political action.

The devaluation in France was welcomed in Austria as inevitable and as a desirable step. The devaluation in Holland and Switzerland were considered as a natural and inevitable consequence. The Czechoslovak devaluation was also not unexpected. The devaluations which have taken place recently have decreased the Austrian external debt in these devaluated currencies by Schillings 160,000,000. Austria hoped, and still hopes, not to follow this action, but the position has been made more difficult by the Italian devaluation which was not expected. Although Austria's trade with Italy has assumed considerable proportions, the Italian devaluation does not affect Austro-Italian trade relations as much as some believed, for the principal export of Austria to Italy is timber and the countries which have devaluated are not in a position to export timber to Italy. The principal concern here for the moment is whether Yugoslavia will devaluate, for she is in position to export timber to Italy and should Yugoslavia take some action towards devaluation, it may influence the Austrian action.

Austria prefers not to devaluate at all, and it is not likely that she will take any action for the immediate present unless her hand is forced. The Conference of the Foreign Ministers of the Rome Protocol States will take place in Vienna, as I have already indicated in my letters, in November. The Secretary of State for Foreign Affairs, Dr. Schmidt, has stated that the devaluation of the Italian lira gives a new significance and additional importance to this Vienna meeting. The decision of Austria will be largely influenced by this meeting and by the action which Yugoslavia may take.

My own impression is that the Austrian Government will endeavor to avoid devaluation, but may be obliged to resort, because of the tourist and export situation, to put into effect tourist schillings and either give export premiums to exports to certain countries or establish fixed premiums on certain currencies. It is impossible for the present to say what action the Government here will take, for it does not know
itself, but it is not likely to make any immediate or precipitate decisions. Both the Austrian and the Hungarian Governments have issued several strong statements that they will not devaluate, but we know how much these statements mean not only here, but in other countries. I remember one time someone saying to Dr. Schacht in my presence, "Are you going to devaluate the mark?" To this he replied, "Do you think I am an ass? If I intended to devaluate the mark and knew I was going to do it at a given hour I would say emphatically up until the last minute before that hour that I was not going to do so." The general impression here is that Austria will either eventually make a definite devaluation or resort to the measures above outlined.

It is interesting that there is an important inner political factor which the Austrian Government has to bear in mind at this time in connection with possible devaluation. The recent speeches by Hitler to the effect that Germany will not devaluate under any circumstances and that she will continue to protect the interests of the German people against foreign action must be given consideration by the Government here. The masses of the Austrian people do not understand the real situation in Germany, the precarious situation of her finances, and the growing economic pressure on the masses. The Government has a real fear that devaluation here might have a bad inner political effect among at least a part of the masses and strengthen Nazi sentiment. They fear that these people would say to themselves "Now you can see how much better Hitler protects the interests of the German people". While this is a political factor which the Government must consider, it would be a secondary one so far as influencing the decision of the Government when it is actually faced by it.

Internally I should say that the Austrian position has continued to grow stronger and certainly the position of the Chancellor continues to become stronger. There are no factors in the internal situation outside of the Heimwehr dissension to which I have called attention in this letter, to give real concern. Externally Austria has reason to feel satisfied with developments. The Government here feels that the balance of power is so strongly against Germany for the present and likely to remain so that there is less danger of war. The Government feels too that the independent position of Austria has been strengthening steadily and that developments recently and which may be looked forward to, will further strengthen
that position. The meeting of the Foreign Ministers of the Rome Protocol States in Vienna in November, it is obviously more evident than ever, will be used in the endeavor to build a bridge for closer economic cooperation among the Danubian States. The former Czech Minister in Washington, Veverka, and who has been appointed to Vienna, is at present acting as the Czech representative at the League meeting in Geneva. He made a speech there yesterday which is given a good deal of prominence in the Vienna press this morning, in which he emphasizes the necessity of increased economic cooperation in the Danubian States arrived at through bi-lateral economic pacts among these states, which will preserve the independence of each but which will lead to the breaking down of the artificial barriers which have been erected. The Vienna press this morning, too, and recently has been emphasizing the increased tendency evident in Belgrade and Prague towards economic cooperation with the Rome Protocol States.

Austria is in favor of the breaking down of these barriers. As I pointed out in my letter of September 18 and in several recent despatches which you may have seen, Italy is going to further in every way she can this Danubian cooperation. Germany is going to continue to do what she can to sabotage it for she only wishes that cooperation to take place under her leadership and direction. The circumstances at present are not favorable towards her assuming that initiative or leadership because of the distrustful attitude of all of Southeastern Europe towards her, with the possible exception of Hungary. I might say here that it is doubtful, in my opinion, whether the death of Goemboes will make much difference in the Hungarian attitude. He was, of course, decidedly pro-German and under the spell of Hitler. His disappearance from the scene in Hungary will, on the whole, be for the best. He was a vain, selfish, dictatorial, and in many respects uninformed person. The attitude of Hungary will probably be a little less strongly pro-German under the Government which will be formed, but the position of Hungary is such that she is practically forced to continue this carrying of water on both shoulders and playing with both Berlin and Rome. The death of Goemboes, however, will to a degree weaken the German position in Hungary.
It is interesting to note that the Austro-German negotiations for a permanent trade agreement, which were to begin at the end of September, have been postponed and may not take place until November. Neither side was very keen to begin these negotiations, realizing the difficulties of arriving at anything for the present, and the approaching meeting in November of the Rome Protocol States made it practically impossible to begin negotiations for the present. Now the devaluation of the currencies in so many countries has made these negotiations further impossible, and it is officially stated here that they will not take place before November. It is likely that they may be even further postponed. The major inference to be drawn from this is that the German influence here in Austria is much less strong than some suppose, for it was the original hope in Berlin after the accord of July 11, 1936, that Berlin could impose on Austria practically any trade agreement that might please her.

The situation in Germany is undoubtedly growing more difficult. I had the opportunity between September 26 and October 3, while I was in Germany on the trip to Hamburg which I mentioned at the outset of this letter, to have some very interesting conversations. Several of the well known correspondents, including Birchall of the NEW YORK TIMES, who were present at the Nuremberg Party meeting, had told me that they had a distinct impression of anti-climax. Every day they expected Hitler to say something and were led to believe that he would, but instead merely came these attacks on Communism and Russia. While I was in Berlin I learned the reasons for this anti-climax. Hitler had prepared a very definite speech which he intended to make and which had the approval of Goebbels and Rosenberg and his more radical advisers. Ribbentrop, von Neurath, and I am also told von Papen, succeeded in dissuading him from making this speech, or at least from putting forward the major propositions which he intended to give in his main speech. These propositions which he was going to put forward I learned from a very responsible source (within the Party) were as follows: Hitler was going to propose

1. That Germany was prepared to enter into a system of European solidarity on an anti-Bolshevik basis in which the member states would agree not to have any treaties with Russia.
2. On this basis Germany was prepared to enter, with member states, into a disarmament program and to reduce her armaments materially. In this reduction of armaments she would be willing to go far to meet the wishes of France.

3. Colonization outlets for Italy and Germany were to be demanded of a kind and degree sufficient to enable the absorption of surplus population in both countries. A program of reduction in armaments would involve making idle large numbers of men in industry and who are now in the Army in both countries and these colonies must be adequate to absorb this surplus population.

4. Dismemberment of the Little Entente, or at least modification of the arrangements between the Little Entente States and with France. The Little Entente must give up all its relations with Russia so as to bring the attitude of these states into complete line with the idea of a European anti-Bolshevik solidarity contemplated under Point 1.

5. All of the states entering into this European solidarity against Russia would forbid definitely all communist parties within their frontiers, all activities of the Third International, and all communist activities and propaganda.

Although I am informed by this responsible source that Hitler was persuaded principally by Ribbentrop and Neurath to abandon making these propositions at Nuremberg, he nevertheless holds to them and a compromise was reached that they would be embodied in a note to be sent to England, France, Italy, and Belgium as a part of the German proposals and conditions for participation in the Locarno meetings. I was informed in some quarters that these proposals had actually been embodied in a note sent to the above mentioned powers, but I was unable adequately to substantiate this. You may have information from other sources about this alleged note.
I learned through well informed sources in Germany having the closest contact with the Party that the feeling within Party circles is very low. They feel that the anti-Bolshevik, anti-Russian campaign has fallen pretty flat. The agreement with the Vatican, which I referred to in one of my recent letters, I learned in Berlin had practically fallen through. On my return to Vienna I was told by a well informed source in the Austrian Government that the Vatican had decided not to go through with the planned agreement with Berlin by which the Vatican would have lent all its forces to the anti-communist movement Germany hoped to foster and lead.

The Franco-Polish rapprochement has been a very great blow to the Party hopes as well as to Party prestige and while Berlin has not given up hope of breaking up the Franco-Soviet agreement, it feels very pessimistic. There is real disappointment about Italy, and in Party circles they speak openly of how Italy is "doublecrossing" them. They say that she is double-crossing them not only politically, but is trying to counter German political expansion in Southeastern Europe. In the Party it seems to be sinking in, just as the Army has always known, that Germany cannot look upon Italy as a dependable partner. Perhaps it is well for them to learn that Italy is playing her own game.

Perhaps the most important thing I learned is that the Party and Hitler have slipped recently a lot with the Army. The Army feels that the stupid and mistaken foreign policy recently has brought about the tightening instead of dissolution of the Franco-Polish and Franco-Russian ties. The Franco-Polish rapprochement recently came as an even more severe shock to the Army than to the Party. The Army had built all of its fortifications and all of its military plans for the Eastern frontier on the basis of a neutral Poland. The Army sees that the tightening of the Franco-Polish relations and the violent anti-Russian attitude of Germany have made a complete change in its plans for the Eastern frontier necessary and the work which has to be done as a consequence will retard the refortification of the Rhineland for at least eight months. The resources which the Army can command which had been concentrated on refortification along the Western
frontier will now have, to a considerable degree, to be concentrated for some months on the Eastern frontier. This, the Army says, sets back the whole program. I learned this from the best informed sources, and I think it may be taken as not only dependable information, but a factor of very great importance which will have to influence German foreign policy in the next months.

I learned from a very responsible Army source that the Army is very much disturbed over the Russian situation and the anti-Russian policy of the Government. You know that before Hitler came to power the German Army was following a policy of fostering the closest cooperation between the Russian and German Armies and the Army policy looked forward to very definite Russian-German cooperation. Hundreds of German officers were with the Russian Army and the Germans were giving the principal technical advice to the Russian Army and to Russian industry in those branches having to do particularly with armaments. When Hitler came in the anti-communist and therefore anti-Russian attitude of the National Socialists destroyed all this work which the Army had done and all the German technicians and officers had to be recalled. The Army has had to follow the Party program to a considerable extent, but it has never been in sympathy with the Nazi attitude towards Russia. More recently a tremendous difference has developed between the Party and the Army on Russian policy, or to be more exact, these differences have been tremendously increased. Men like General von Seeckt are coming to the fore and von Seeckt is one of the officers who has always said Germany must have no war with Russia. The Army now more than ever does not want any war with Russia, and I am informed that Goering is entirely with the Army in this attitude and that this accounts for the recent attacks which have been made within the Party against Goering.

There is every indication that the Army is growing more and more dissatisfied with the Party and, to a degree, with Hitler himself. As I have pointed out on several occasions, the Party has lost prestige almost steadily for months in Germany, while the prestige of Hitler rose with the masses.
The Army feels not only the Party, but possibly Hitler, may have served their purposes. It has become increasingly evident since the reoccupation of the Rhineland on March 7 of this year, that Germany is stopped in practically every quarter and that her policy internally and externally is simply tending towards making further progress more difficult. The Army, I am told, is beginning to feel that with March 7 Hitler made his major delivery and that as his real sympathies remain with the radical elements, little further progress can be expected through him. There are therefore who believe that the Army will steadily use its influence to decrease the power of radical elements in the Party. It is of interest in this connection to point out that by a recent decree Army uniforms must contain partly substitute materials and this is the sort of thing for which the Army cannot forgive the Party.

I am informed by one of my friends in close touch with German industry and finance and who has close touch with the Party, that a meeting was held at Karlsruhe shortly before the Nuremberg Party meeting of leading industrialists and financiers in order to take stock of the situation. Most of the industrialists and financiers who were at this meeting were at least favorably disposed toward the Party. I was given quite full information concerning what passed, but it is sufficient for me to say here that the net results of their deliberations were that Hitler must be advised that the economic policy of the Party internally and externally, as well as the foreign policy, must be considered a failure; that Germany had reached a dead end and was approaching a crisis in internal and external policy; and that the only hope was through securing the cooperation of England.

In industrial and financial circles the attitude is extremely pessimistic. The raw material situation is getting worse, with no relief in sight. The recent devaluations in contiguous countries can only make this position more difficult. Within the last ten days Reinhardt, of the Treasury, who has a certain cleverness but is completely ignorant of industrial, economic, or financial matters, stated that within
eighteen months Germany would be producing sufficient gasoline to make her independent of external supplies. He did not mention that at the present rate of production costs gasoline would cost the consumer in Germany 1 mark or 1.20 marks a liter, as against the present 40 pfennigs, including tax. He also did not refer to the huge cost of installation to produce so much artificial gasoline and where the already hard-pressed Government would find these sums for capital outlay. He made no reference to how much this increased cost of gasoline would cut down automobile production. He also failed to mention that practically no progress whatever has been made in the direction of lubricating oils, which are just as important as the driving fuel. This is the sort of intoxicating doctrine the German people are being given.

Hitler, also, during the last few days, and particularly during the big annual farmers’ day, has spoken glowingly of the progress made by the German people in the struggle for self-sufficiency. Within a few years, he told the German people, Germany would be self-supporting. This comes to the German workers and to the German city and town dwellers at the same time that he finds it difficult to buy any beef even if he has the wherewithal to pay for it, and almost impossible to get his favorite pork cutlets. The difficulties which Germany is having with her clearing agreements in Southeastern Europe have slowed up deliveries of cattle and swine from those origins to Germany, and the pinch is being felt.

I made careful inquiries in informed quarters concerning the progress in the production of substitute materials and I find that the progress has been very unsatisfactory and that her substitutes have been produced at a cost anywhere from two to seven times as high as the imported raw materials.

An incident which was brought to my attention will, I think, give you an idea as to the situation which is developing between the Army and the Party. You know that Höchling is the great industrial overlord in the Saar. About a month ago one of the leading German Generals having to do with the refortification in the Rhineland, went to Höchling and complained that certain deliveries of materials to come from the Saar were being much retarded and asked him to speed them up. Höchling said to him: "My dear General, you have come to the wrong man. If you want deliveries you have got to see Dr. Ley, (the head of the German Labor Front) and
not me. He is the boss of these plants in the Saar and not I." This incident, for which I can vouch, is illustrative of the situation which I have constantly pointed out, and that is that the Party circles still control the industrial and financial machine in spite of the brave words which Dr. Schacht and others of more liberal views may use.

When I asked a well informed person what the sentiment in the Party really was and on what it was placing its hopes now that it recognized the balance of power was still against Germany and might grow stronger, he summarized the situation as follows: "We believe the Western Democracies will crumble. We are encouraged by developments in Spain. The difficulties in France are going to increase and France will go communist or establish a Fascist Government within six months. Belgium and Holland will go Fascist and Austria will have a Nazi Government. This will increase the strength of our position tremendously". This same person emphasized that the Party would try to seek its way out "through the victory of National Socialist ideology".

On the other hand another well informed Party adherent bitterly complained that all the information given by German diplomats to Berlin had been too optimistic, while the Army was too pessimistic with regard to the German striking power. It was true that the Army was not ready, but that it was much stronger than the Army believed and advised. I can quite understand how this ardent National Socialist would believe this. On the long road from Dresden to Hamburg, and by another road from Hamburg back to Passau, via Wiesbaden, I amused myself by determining the ratios which Army automobiles and trucks bore to private cars and trucks on the road. I did not count the cars in the cities and towns, but on the highways one out of every four cars and trucks I passed was in some way or other an Army car. This gives you an idea of the militarization of the country and this naturally impresses the German who does not know wherein the real weakness of Germany lies. This German sees only these outer forms of military power, but he does not know the lack of raw materials, the desperate financial position of the Government, the increasingly difficult external situation, and the complete lack of German credits.
The German-Italian flirtation continues on the face of it, but the active cooperation has been considerably retarded and even the negative cooperation is going most likely to suffer a set-back. I have told you what deception there is in the Party concerning the Italian attitude. The head of the Italian Propaganda Ministry has just been in Berlin and has had a great reception. I am informed that Goering is going to Italy in the near future where a big reception is planned for him and there is reason to believe that what he has in mind is the offering of an air pact to Italy - this being one of the things that Goering has had in mind. The probabilities are that the visit of Goering means more as chantage than anything else. Both countries find it advisable to keep this appearance of close cooperation, when as a matter of fact the basis of real cooperation is even more lacking than ever. The Italian devaluation came totally unexpectedly to the Germans. They felt that Italy was in the same impossibility of devaluation that they are in. Schacht was quite right in saying that Germany cannot devaluate because it would have only the most temporary advantage for her. Hitler has so definitely promised the German people that he will not devaluate that they will have to resort to every expedient to avoid it.

I learned through a responsible source that the Secretary of State for Foreign Affairs here, Dr. Schmidt, and those who accompanied him on his recent visit to Rome, gathered the definite conviction in their conversations with Mussolini that he fears that Germany may undertake something in Czechoslovakia. Mussolini, according to this informant, gave the impression that the German program has met so many reverses on every hand that Czechoslovakia is the point on which Hitler and the Party wish to concentrate as any adventure against Russia is impossible because of the Army, and any attack in the West cannot even be considered for the present. Mussolini believes that Hitler and some of his radical associates are convinced that in case of action against Czechoslovakia no one will come to her aid. Mussolini gave the impression that he was not so sure that no one would come to the aid of Czechoslovakia and he therefore feared that if Germany took some action against Czechoslovakia it would provoke a European war which he wishes to avoid. You will recall that in several of my previous letters I indicated that information which I had from good sources in Berlin was to the effect that Party circles were concentrating on Czechoslovakia.
I, personally, do not believe that there will be any immediate or near future action against Czechoslovakia, but it is true, I believe, that the Party has its eyes on Czechoslovakia simply because it finds itself barred in every other direction.

While I was in Wiesbaden I went through the General Motors plant at Russelheim, near that city. They bought the Opel plant from the Opel family some years ago and since buying it they have put in addition to the purchase price, 165,000,000 marks in profits into this plant. They have done this as they have been unable to transfer any profits outside of the country. The plant today is in many respects the best equipped and most modern industrial establishment in Germany. Twenty-two thousand people are employed there now, of whom twenty thousand are employed on production and two thousand on new construction. In one of my recent letters I talked about the dilemma in which the General Motors finds itself regarding their German investments. The new plant which they built at Brandenburg, near Berlin, is now in operation and is employing fifteen hundred men. Its construction was practically forced on the Company by the German Government and the plant is devoted to the production of trucks, the major part of which go to the Army, and the rest of which products can easily be turned to Army purposes. The plant was built out of profits of the Company, which it cannot transfer. The only thing they can do is to use their profits in expanding production at Russelheim and Brandenburg, and serving as an instrument of Germany’s rearmament program. The situation naturally is one which causes great concern to the officers of the General Motors Export Corporation, but for the moment there is little that they can do except to carry on, unless they are prepared merely to turn over this whole tremendous investment to the German Government. Other American companies in Germany, to a lesser degree, are in the same position.

Things are unquestionably going from bad to worse in Germany, with increasing difficulty in store for her internally and externally. The only hope is that the balance
of power in Europe, which is now against her, may remain against her and that is the surest guarantee against the war which she would otherwise provoke when she would be ready and which, of course, may be provoked by the radical elements in the country still before she is ready, although the chances for this are, in my opinion, also constantly growing less strong. Knowing the German situation as I do, I realize what tremendous readjustments must be made before Germany can be brought to be peaceful member of European society, and I know how laborious and how difficult these readjustments will be.

In the general European situation I think one can be somewhat more optimistic. There is reason to believe that the Franco Government has made no definite commitments to Italy and to Germany, and that the victory of the so-called National Army may not contribute to further disturbances in Europe. In France the position appears to be slowly improving, but is still critical. Mr. Blum is putting up a splendid struggle, but it is still a question as to whether he will be able to hold on. The indications are, however, increasingly that whatever happens in France, it will be a government of order. If this favorable tendency in France can be maintained, the position in Holland and in Belgium will be strengthened. The situation in Southeastern Europe is developing along the lines indicated in my recent letters, and is on the whole more satisfactory than it was. The Vienna meeting of the Foreign Ministers of the Rome Protocol States may turn into a very important one, and be the beginning of real economic cooperation between them. The French action in indicating that she will gradually drop her contingent and quota policy in which she was such a great offender, as we were in our former tariff policy, may have far-reaching effects in Europe and help our own trade agreements program which we have so wisely and so steadily pushed forward. In England the re-armament program continues and British policy is emerging constantly more steadily on those lines which have a possibility of aiding in the stabilization of Europe. There is a great deal more reason to be optimistic concerning developments over here. But the road ahead is still a long and difficult one and the dynamite is still stored in so many places that no wise statesman or observer can yet make too optimistic predictions as to what may or may not come. We can at least be a little happier about the general position over here. This, I believe, is stating the position very moderately.
I have inflicted a very long letter on you, but as the Austrian situation remains the heart of Europe, and as the information which I have given you about Germany comes from very good sources, I hope it may be worth while your reading.

I had a long talk the other day with President Miklas here and he is a very wise and very sound man. In speaking about Austria he said that some people thought he exaggerated the importance of little Austria in Europe. He said that unfortunately for Austria it was the heart of the European situation and if the heart stopped beating Europe would die. It is a figure of speech that has a good deal of truth in it, for the maintenance of the Austrian position is still in many respects symbolic of the maintenance of peace over here.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.