Dear Secretary Hull:

I last wrote you on October 8. In that letter I intimated that the internal political pot was boiling here again, but no one, including the Government, was able to foresee that it would boil over the next day.

In my letter I gave the intimate details concerning the Heimwehr situation the developments in which were precipitated when Prince Starhemberg called on the Chancellor on October 9 and practically demanded the appointment of three Heimwehr members of the Cabinet in order to prop up the falling prestige of the Heimwehr and indicated if this was not done he would ask the two Heimwehr members of the Cabinet, Haar Naarenfels and Draxler, to resign. In my confidential despatch No. 928, of October 12, which I think still reached the same steamer which carried my letter of October 9, I have given the details of the reorganization of the Cabinet so will not cover them in this letter. It is sufficient to say here that this has been one of the most active weeks in Austria since the accord of July 11 was signed, due to this reorganization of the Cabinet and the preparations for the meeting of the Rome Protocol Foreign Ministers in Vienna in early November.

The Government has been occupied night and day during this week making the necessary arrangements for carrying through the decree dissolving the para-military organizations. These seem to be proceeding satisfactorily. All

The Honorable
The Secretary of State,
Washington, D. C.

*(that is, one in addition to the present two)*
of the organizations with the exception of the Heimwehr had already lost practically all military character and the Heimwehr has accepted the situation much more quietly than most observers expected. There is a danger that some of the younger Heimwehr members will go over to the Communists and National Socialists, and it is to prevent this that the Government is giving such careful attention to the measures to be taken. I do not anticipate any real difficulties through the Heimwehr dissolution. Major Fay, I think, will be definitely out of the Austrian inner political situation, which will be a great gain. Prince Starhemberg is accepting the situation in a spirit which will in the end add to his stature and to the final appreciation which history will make of his services to the country.

He presented considerable resistance to the dissolution of the Heimwehr during the long Cabinet meeting on the night of October 9, but during the early morning hours he received a telephone call from Mussolini making it clear to him that Mussolini expected him to give way to the Chancellor. It is unquestionable that Mussolini sees Starhemberg and the Heimwehr disappear from the Austrian picture with regret, and perhaps with certain concern, but his policy within the last few weeks of continued indirect support to Starhemberg which replaced that of the former active and financial support, has been changed to one of definite support of Chancellor Schuschnigg. Mussolini saw he had to make a choice between definite support of the Chancellor and Starhemberg, and decided on the Chancellor.

The Cabinet reorganization involves no change in personnel, but the members which belonged to para-military organizations no longer have any obligations to them and I think this foreshadows the retirement in due course from the Cabinet of Baar Baarmfels and Draxler, but this may now not take place as soon as was contemplated. It is even possible that in the end Draxler may stay, for he has made a good Minister of Finance and has real capacities. The reorganization has strengthened the position of the Cabinet and of Schuschnigg. It is particularly interesting that there have been no internal disorders in Austria of any kind as a result of the Heimwehr dissolution.
The dissolution of the Heimwehr and what would superficially appear to be the complete elimination of Starhemberg from the Austrian picture have caused much satisfaction in Germany where I believe the action will be thoroughly misunderstood. There are and have been persistent rumors that there was a private agreement between Berlin and Vienna when the accord of July 11, 1936, was made that the Heimwehr would be dissolved and Starhemberg eliminated as the principal enemies in Austria of Germany. There is, I believe, no foundation whatever for this rumor. In fact I know there was no such agreement. The dissolution of the Heimwehr, as I pointed out in my despatch No. 926, of October 12, is merely the natural result of the gradually increasing good situation within the country and of the fact that the Heimwehr no longer had a program which could keep its members together.

I have given you in my letter of October 8, and in recent despatches full information on the Austrian position with respect to devaluation. I was present at a small dinner this week of less than a dozen of the leading Austrian financiers and economists, and after dinner Dr. Kienböck, the President of the National Bank, spoke very freely and I believe frankly of the Austrian attitude. He said that the Austrian Government was honest in its statement that it did not intend to devaluate. It would not devaluate unless it were forced to do so by developments outside. The necessity to maintain the level of tourist traffic and export trade would be the controlling factor. He had the hope that the breaking down of the system of contingents and quotas which might result from the American-English-French agreement on the devaluation of the franc would have such favorable developments in increasing the volume of trade that Austria would not be required to devaluate further even though there might be slight increases in price levels outside. The Austrian Government, he said, was watching the situation, but would take no steps unless forced to do so. I think this represents fairly accurately the position here and I do not look forward to any devaluation of the Schilling in the immediate future, and even if action becomes necessary I believe the Government will consider very seriously such expedients as tourist schillings, export premiums, or premiums on certain currencies. It is too early to make any definite predictions as to what will happen, but what I have said concerning the attitude of the Government is, I am sure, correct.
There is a good deal of manoeuvering going on preliminary to the meeting of the Rome Protocol Ministers to take place in Vienna in early November. I am now able to inform you that through a very confidential source I have learned that the meeting will take place in Vienna on November 11, beginning at 3 p.m. that day. The Secretary of State for Foreign Affairs here, Dr. Schmidt, is going to Budapest in the very near future in order to talk things over there before the conference. Ciano will arrive here from Rome on November 10. Kanya will arrive from Budapest on the morning of November 11. The present plan is that it may be possible with all this preliminary preparation for the meeting to be ended in Vienna on November 12, or at the latest on November 13. After the Vienna meeting Ciano is going to make a brief visit in Budapest, more as a courtesy, but it will also emphasize what is the apparently increased leaning of Budapest towards Rome in recent weeks.

This Vienna Conference is assuming an importance even greater than that which it was originally intended to have. You will remember that I informed you several weeks ago that Italy should use it as the bridge to the Little Entente in view of the increasing resistance there to the German economic and political pressure, and the consequent more favorable attitude towards Italy. Italy is going to use this conference in as concrete ways as she can to strengthen her position in Central and Southeastern Europe, What concrete progress she will be able to make is still difficult to say, but certainly the current in Central and Southeastern Europe is more favorable than it has been for several years for cooperation between these states, with a more decided leaning towards Italy than towards Germany.

There is considerable unhappiness in Berlin and real concern over the Vienna meeting. You will remember that I told you that as soon as it became apparent that Mussolini and the Austrian Secretary of State for Foreign Affairs, Dr. Schmidt, then in Rome, were planning such a conference, von Neurath was hurriedly sent to Budapest to sabotage it. He succeeded only in getting Hungary to go so far as to delay the date, and Germany hoped to get it postponed much longer, probably to December. Now, as I have been able to learn
confidentially, the meeting has been definitely fixed as stated in this letter.

There have been persistent rumors that this meeting of the three Rome Protocol States might be enlarged to a meeting of four, including Germany. Even the LONDON TIMES in its editorial entitled "Dr. von Schuschnigg's Autocracy" in the issue of October 12, gives this rumor sufficient credence to close the editorial with the following statement: "It is being rumored that the meeting of the Protocol Powers which is to be held in Vienna before very long may perhaps be attended by four states instead of three. This rumor is without foundation. I pointed out in one of my recent letters that when the possibility of Germany's attending this conference was put up to the Austrian Secretary of State for Foreign Affairs, Dr. Schmidt, he showed great surprise that this could be even suggested and indicated definitely that he considered German participation impossible. There are those who believe that the German Government has made indirect tentative to explore the possibility of their attending the meeting. I am confident that Berlin views the meeting with concern, but I do not believe that it would allow itself to be subjected to an even indirect rebuff for it is so clear to those who know that German participation is impossible. Mussolini realizes that as soon as Germany takes a place among the Protocol States Italy will have to take a second place and the participation of Germany would be generally interpreted as the real building of a Central European bloc, including Italy. This would have such disastrous consequences for Mussolini vis-à-vis England and France that he does not even contemplate German admission to the Vienna meeting. The Rome-Berlin cooperation in certain respects continues, but there is nothing signed, sealed or delivered between Rome and Berlin, and Mussolini will not do anything which would give a real basis for belief that a Berlin-Vienna-Budapest-Rome bloc exists. It is too vital a matter for him and he is not prepared to accept a second place in that combination - a second place which he knows would be very secondary indeed.
Although Germany is not going to take part in the Vienna conference, every endeavor will be made not to give the appearance of its being directed against Germany. It has already been decided, I have learned in the strictest confidence, and I may say that this is known only to three or four people in this country, that almost immediately after the Vienna meeting on November 11 and 12, the Austrian Secretary of State for Foreign Affairs, Dr. Schmidt, is to go to Berlin. It will be in the form of a gesture to satisfy the Germans, but it does not indicate any dependence of Austrian policy on Germany. It will be the first visit of an Austrian Cabinet Minister to Berlin for many years, and all sorts of significance will naturally be read into it and I am glad that I am able so early to give you this information. There is every reason to believe that the statement which I recently made to you that Austria maintains a certain freedom of action under the Rome Protocols towards Rome, as she does towards Berlin under the agreement of July 11, is correct and it is, I believe, important to bear this in mind as the newspaper men here and some superficial observers elsewhere have a tendency to read into the Austrian position fundamental factors which are certainly not yet there.

As a further indication of the real Austrian position I may tell you that I have learned in the strictest confidence from a most reliable source that the Austrian Government's principal concern now is whether London and Rome will be able to find some arrangement. As I have told you, Austria has to depend principally on Italy. She realizes that although Italy is still prepared to go to the limit for Austria, Italy may be a slender reed on which to lean. The whole movement in Southeastern Europe is more veering from Berlin and turning towards Rome. This does not displease Vienna for Vienna has no illusions concerning ultimate German objectives with respect to Austria. Vienna, however, wants to see the Italian position strengthened as an adequate basis for this movement which is to take place. It wants to feel greater security in Italy's being able to maintain the position which it is assuming and greater London-Rome understanding and the ironing out of the English-Italian basic difficulties would tremendously relieve the position here and enable the Austrian Government to take an even more definite attitude towards Germany. Or perhaps more correctly said, to have that full
confidence in the success of the attitude which it has been
disassuming towards Berlin. The Austrian Government is
convinced that the general situation in Germany has grown
weaker and that it may really this time be approaching a crisis.

The negative cooperation between Berlin and Rome
continues, and although there is greater strain between the
two capitals than before, the surface indications of this
cooperation will be kept up. The Italian visits to Germany
continue and General Milch, who is the active head of the
German Air Force, is, or will be, in Rome these days. Goering
is planning a visit to Rome, as I have already informed
you, and it is said he will carry an air pact in his pocket
with the hope of being able to put it over in Rome. The
fact that General Milch will be in Rome before Goering's planned
visit is, I believe, a fairly sure indication that he
is covering certain technical ground for the air pact which
Goering intends to put over. I do not believe that anything
concrete will come out of the planned Goering visit to Rome
as the indications are that it is more a part of this program
of keeping up the surface appearances of the Rome-Berlin co-
operation which has been so much disturbed by Berlin's con-
cern over the increasing activity of Rome in Southeastern
and Central Europe and by the obviously less favorable atti-
tude towards Germany in that area.

As I have indicated in recent letters, the dis-
appearance of Goemboes from the Hungarian picture will not
make much change on the surface in Hungary's external policy.
Internally it will lead most probably to the putting into
effect of a secret system of voting which Goemboes always
opposed and there is no reason to believe that the Hungarian
internal position will be weaker. In fact I believe the con-
trary. In her external policy Hungary will continue to carry
water on both shoulders, but the new Minister-President is a
much milder, much wiser, and a much safer man than Goemboes.
As I indicated, however, fundamentally Hungary will be less
subject to German pressure than she has been. I have reason
to believe that the visit which Horthy made to Hitler turned
out very badly, as it seems that Hitler received him with
scant courtesy and said to him, "I understand that you like
to rattle my sword from time to time". Horthy is a gentleman and it seems that Hitler berated him for not even having accurate information on the Hungarian military establishment and told him that he seemed to know more about the Hungarian Army than he (Horthy) did. I am told that Horthy’s visit cured him of the leaning towards Berlin which he had had more recently and it is comforting to know that Horthy and Kanya remain the directing influences in Hungarian policy, for few people in Europe know Germany and Hitler better than does Kanya.

The press here carries items to the effect that Dieckoff is going to Washington as Ambassador. The man who is to replace him as the head of the Political Division in the Foreign Office I do not know, and I know nothing of him. Dieckoff I know very well and I have always had very friendly relations with him. He was not, and I believe is not now, a Nazi. I don’t believe that he has the slightest sympathy with Nazi ideology and I have reason to believe that he questions still the wisdom of almost the whole National Socialist foreign policy. Like Neurath and others, however, he has remained in the Government service and I would not be the one to criticize him for it, for in his case I believe he was influenced largely by patriotic motives. He and Neurath have stayed because they really believe that they are serving their country even if they have to be instruments for the time being to a degree that is repugnant of a regime with which they cannot be entirely in sympathy. My own impression is that Dieckoff has kept his head and is on the whole a very sound man. He will in any event, I am sure, prove to be a much more acceptable Ambassador in Washington than Luther, for he is a man of finer character. Dieckoff will of course in Washington have to put the best face on things and very often will not be able to speak his own mind, but just because he will prove to be more persona grata than Luther it may prove to be in some circles more dangerous. In my opinion the time has not yet come to make any arrangements with Germany and the generally more ingratiating character and manner of Dieckoff may have the influence of making things appear in Germany what they are not. It cannot be forgotten, as some will forget under the spell which he can produce, that he is after all only an instrument of the Party without real authority or ability to carry through his views. On the whole, however, I have a certain confidence in the greater decency of Dieckoff. You will, I am sure, find him a pleasant person.
The German situation I covered so thoroughly in my letter of October 8, that I will not refer to it here further except to state that all the information which I continue to get from authoritative sources point to developments taking the direction outlined in my letter of October 8 and in the section on Germany in the memorandum transmitted with my despatch No. 894, of September 10. The difficulty with the clearing agreements, particularly with Central and Southeastern Europe, has affected deliveries of food stuffs to Germany from that area. The increasing difficulties in the exchange situation have made the conflict between Barre and Loy on the one hand and the Army on the other hand more sharp. The rearmament program requires if anything increasing amounts of exchange for raw materials and the maintenance of the whole industrial program and of employment is at stake. On the other hand, more exchange is needed for food stuffs. This position has become more difficult through the franc and other devaluations. It is reported that Geering will be appointed the price controller as well as exchange controller. The speech of Hess the other day that for the present copper is more important than food should convince even the most stubborn of what is going on in Germany, although I myself am inclined to doubt whether certain people can be convinced, for this same thing has already been said before in practically the same words by Goebbels.

There has been reason to look on developments in Europe lately a little more optimistically, but I am inclined to think that the recent Belgian declaration will add a new disturbing influence. You will remember that I forecasted the dropping of the Franco-Belgian military alliance, on pages 16 and 17 of my memorandum transmitted with despatch No. 894, of September 10. That this alliance in its present form would have to go was inevitable because of the attitude of the Flemish group, but that what is equivalent to its denunciation should come now is extremely undesirable. It is a further blow to the idea of collective security and will encourage Germany in its pressure for bi-lateral pacts, and such bi-lateral pacts in my opinion can only lead to war. I do not view the Belgian action too tragically, for I believe that the Belgians really appreciate the position and were driven to this action by the inner political situation. That it should be done now is unfortunate and will require the complete reshaping of the plans for the Locarno meeting which will undoubtedly now be further postponed. Dugrelle and
his activities in Belgium must be watched with the greatest care for while his actual power today is comparatively small, he is making himself the spokesman for every movement of discontent. He is absolutely without principle or fixed policy and an opportunist of the first water. Therein lies his great danger for he is prepared to lead these elements of discontent in any direction which he sees leading him to power. I don't think that the Belgian action will prove to be so fundamentally upsetting in the long run, but it is certainly another element which will retard the movement towards finding a peaceful solution of the general European problem.

While I shall continue to keep you informed concerning the developments respecting the Vienna meeting of the Rome Protocol States which is to open on November 11, I take the liberty of suggesting that in interpreting the reports which may reach you through the press my confidential despatches Nos. 932 of July 17, and 902 of September 15, on the Austro-German accord of July 11 and its effect on European developments will be found to contain interesting information as background for this meeting, as well as the weekly summaries on developments in the internal and external situation in Austria.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.