Vienna, November 5, 1926.

No. 945.

Subject: DEVELOPMENTS IN THE AUSTRIAN INTERNAL AND EXTERNAL SITUATION.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Legation's strictly confidential despatch No. 941 of October 24, 1926, reporting on developments in the Austrian internal and external situation, and to submit the following further information.

The principal developments in Austria since the above mentioned despatch have been the elections in...
in the farmer and peasant group and the reorganization of the cabinet. The elections in the farmer and peasant group, which took place on October 25, have been fully reported in my despatch No. 942 of November 2, 1936, and it is necessary to state here only that the results were in every way satisfactory and encouraging to the Government. They were the first elections to be held in Austria under the present constitution and existing authoritarian state form. The farmer and peasant group is the largest of the groups into which the Austrian population is divided under the present form of the Ständischer Staat and comprises 43% of the electors. Approximately 81% of these electors appeared at the polls, although no compulsion was used and those refraining from voting had no reason to fear reprisals. It is now intended to proceed with elections in the workers' group, which is the second largest of the "Stände", and according to present plans these elections will be held before the end of this year. I am inclined to the opinion, however, that they will not be held before early in 1937.

The reorganization of the cabinet, which was foreseen in the Legation's recent despatches and which was along the lines forecasted to the Department in my confidential despatch No. 928 of October 15, 1936, took place on the evening of November 3 and has been reported fully in my despatch No. 944 of November 4, 1936. This reorganization of the cabinet is a natural result of the more normal internal situation which . . .
which has been slowly brought about and has, I believe, been entirely uninfluenced by external factors or pressure. The dissolution of the para-military organization and their elimination as a political factor, which has been fully reported in the Legation's despatches, foreshadowed the separation from the cabinet of the Vice Chancellor, Baar-Baarenfels, and the Minister of Finance, Dr. Braxler. In view of the increasingly difficult position of the Austrian Government because of the efforts of both Italy and Germany to strengthen their influence in Vienna, the Chancellor has felt increasingly the necessity of having as strong a cabinet as possible. The reorganization which took place, therefore, on November 3 and which is reported at length in my despatch No. 944 of November 4, was utilized by him not only to eliminate the influence of the para-military organizations, but to bring into the cabinet elements which the Chancellor felt would strengthen the position of the Government before all parts of the population. These ministers who in spite of their known capacities have not had an altogether untarnished reputation for honesty have been eliminated, which is something which the Chancellor has long had in mind, and this action is in line with his well known austere character. Every single member of the cabinet as now constituted has special capacities for the post which he holds, and it is probable that no cabinet within the last two years has been in a position to gain the confidence of the country so thoroughly as the present one.
The position of the Chancellor is strengthened through this reorganization of the cabinet, but it is not correct, as has been reported by some of the foreign correspondents here, that the reorganization has been influenced by the desire of the Chancellor to emerge more clearly as a dictator in the Austrian authoritarian state. While it is true that the Chancellor's personal position in the country has been strengthened by the wise and energetic way in which he has conducted the Government during the last year, and while it is equally true that the composition of the present cabinet is such as to assure for him its complete support, those who are familiar with the real character of the Chancellor know that the dictatorial role does not appeal to him. He has rather endeavored to surround himself in every important post with competent men who have a base of support in public opinion and who can be depended upon in as large a measure as possible to conduct their own ministries, controlled only by the well known general lines of internal and external policy which have been laid down.

The internal situation from the economic, financial and political point of view continues to follow that slow but steady improvement which has been perceptible during the last two years. The foreign trade is developing satisfactorily, and the Austrian unfavorable trade balance promises to be less in 1936 than in preceding years. Government receipts have been increasing, and the treasury reports show that
for the first eight months of 1936 the government receipts are 70 million schillings in excess of those for the same period of last year. Industrial activity has continued to slowly increase. The Government still hopes to maintain the present value of the schilling and, as reported in previous despatches, it is not likely to take any action in this respect before January 1937, when the question will again be re-examined to determine whether in the interests of Austrian tourist traffic, which is so important to it, and of her export trade, a devaluation is essential or some other action in the form of tourist schillings and premiums on certain currencies. While the industrial and economic situations have shown this continued improvement, they still leave much to be desired, and one of the principal tasks of the Government to which it is constantly devoting itself is the study of measures to increase employment.

So far as the external situation is concerned, the Austrian Government is inclined to the opinion that Austrian independence is now more firmly established, but is inclined to view the developments in the general European situation with greater pessimism. It feels that any conflict in Europe would involve Austria and endanger her independence. The principal interest in Austria and in Southeastern Europe has recently been centered on the Vienna Conference, which is to be held on November 11, 12, and 13 between the Foreign Ministers of the Rome Protocol states. It was the firm belief of the Austrian Government that it was the intention of...
of Italy to use the Vienna meeting as a bridge to closer economic and commercial relations with the states of the Little Entente and later of the Balkan Union. The increasing fear of Southeastern Europe of Germany, because of the economic pressure exerted by her in that area, had caused those states to turn more to Rome than to Berlin. The Austrian Government was prepared, in the interests of cooperation among the Danubian states as a necessity for peace in Europe, to serve as this bridge. The Vienna meeting, therefore, was looked upon in Vienna with hope and in Southeastern Europe with mingled hope, doubt and fear. There is much reason to believe, however, that the states of the Little Entente were prepared to cooperate with the Rome Protocol states if the Vienna conference would provide a basis for such cooperation.

As I have reported in recent despatches, there was general hope throughout all of Southeastern Europe that the Vienna Conference might have some concrete results, and there was a general belief that it would have considerable importance. Doubts began to dim these hopes when after the visit of Ciano to Berlin the reports of the Berlin conversations were so meagre and whatever results may have been arrived at so unusually well guarded. I have reason to believe that the Austrian Government has very little information concerning the conversations which Ciano had in Berlin and places very little confidence in such information which it has already received concerning them. The Secretary of State for ...
for Foreign Affairs, Dr. Schmidt, informed me the other day that he expected to get more complete informations concerning Ciano’s visit to Berlin when Ciano arrived in Vienna on November 9 for the Vienna Conference. The states of the Little Entente and the Balkan Union have been extraordinarily interested in the results of the Ciano visit to Berlin, but seem to have no more satisfactory informations than the Austrian Government. They are all inclined to the opinion that not much concrete in the way of definite arrangements between Berlin and Rome was arrived at. On the other hand, they are filled with doubt and fear that some very far-reaching agreement may have been reached. It is unquestionable that even without the recent Milan speech of Mussolini the Vienna Conference would have had this cloud of doubt and fear hanging over it.

The much heralded Milan speech of Mussolini by its content and tone seems to have destroyed all hope which there has been in Austria and in Southeastern Europe of the Vienna Conference having any result. The extraordinary support given by Mussolini in this speech to the revisionist claims of Hungary has not only disturbed the states of the Little Entente, but also the Balkan Union. The unusually friendly reference to Yugoslavia is viewed with distrust, not only in the Little Entente but in the Balkan Union, for it is looked upon as a distinct effort to break up the Little Entente as a preliminary measure for the facilitation of arrangements between Italy and Germany...
Germany arrived at during the Ciano visit to Berlin. The more sympathetic attitude towards Rome which had been evident in practically all of Southeastern Europe was practically wiped out through the Milan speech of Mussolini, and any real basis for concrete results of the Vienna Conference destroyed.

Whatever agenda Mussolini may have in mind for the Vienna Conference is not yet known to the Austrian Government, and it will not have any information until Ciano arrives in Vienna on November 9. The visit of the Secretary of State for Foreign affairs, Dr. Schmidt, to Budapest had no concrete results, for in the absence of knowledge of the Italian program no definite conversations were possible. The relations between the Austrian and Hungarian Governments have continued to be close and friendly, but the Austrian Government has reason to know how strongly Hungary holds to her revisionist claims and to what degree in their present form these Hungarian claims make practically impossible any closer relations between the Rome Protocol States and the Little Entente. The Austrian Government has therefore continually viewed with doubt and reserve the possibilities for closer cooperation with the Little Entente as long as Hungary holds to her present revisionist aspirations. The conversations in Budapest undoubtedly were conducted in a very friendly atmosphere, but I have reason to believe that the visit led to nothing concrete, and there is much reason to believe that the Austrian Government would be loath to support such...
such revisionist claims for Hungary which Mussolini
has so actively propagated in his Milan speech.

The Secretary of State for Foreign Affairs, Dr.
Schmidt, received the members of the Foreign Press
Association in Vienna on November 4 and spoke to
them with comparative frankness. In reply to ques-
tions directed to him he made the following answers.
With regard to the League of Nations he stated that
Austria had declared herself prepared to cooperate
in a reform of the League, which it considered urgent-
ly necessary; that Austria was of the opinion that
the League should not burden itself with matters
which could be better settled through direct diplo-
matic negotiation between the states concerned. He
further said that he had already in a recent speech
at Geneva indicated that Austria considered the
separation of the League from the peace treaties as
essential. It may be stated here parenthetically
that the Austrian Government has at no time associated
itself with the Italian and German attacks on the
League, and in spite of pressure on various occasions
from Rome has always indicated that it would remain
in the League.

With respect to the approaching meeting of the
Vienna Conference, he confirmed what I have already
reported to the Department, that it would be confined
to the three Rome Protocol states and that no German
observer would be present. He asked the correspond-
ents not to place too great hopes in the Vienna
meeting, the importance of which he believed had
been . .
been somewhat exaggerated in certain parts of the
press. He was reserved with regard to his state-
ments concerning the Vienna meeting, but in view
of the importance which had been given to it in the
Vienna government-controlled press, the foreign
 correspondents were impressed by his statement that
not too great importance should be attached to it.

With respect to the accord of July 11, 1936,
between Vienna and Berlin, he stated that no thinking
person would believe that it was possible with a
single stroke of the pen to wipe out all that had
happened in three years of disturbed relations. He
was, however, glad to say that the agreement had
been kept by both sides in a loyal and earnest way.

At the close of his remarks to the press he
confirmed to them what I have already reported to
the Department, that after the close of the Vienna
meeting and before the end of November he intended
to visit Berlin, in consequence of an invitation
which had been extended by the German Foreign Minis-
ter, Baron von Neurath, through Mr. von Papen, the
German Minister in Vienna.

I had an extended conversation with the Secretary
of State for Foreign Affairs in the Foreign
Office yesterday, during which he spoke with con-
siderable frankness of the difficult position in
which Austria finds herself. He said that the in-
ternal situation was working out very satisfactorily,
but it was obvious that he was disturbed over the

lack . .
lack of clarity over the results of the Ciano visit to Berlin. The degree to which Berlin-Rome understanding had been reached was obviously an unknown to him as it is to diplomatic observers here, and I gathered the impression that he had the same doubts and to a degree some of the fears which observers here entertain. It is clear that both Rome and Berlin are exercising greater pressure on Vienna to strengthen their position in Austria, and that this creates for the Austrian Government an exceedingly difficult situation, as it is under the necessity of remaining friendly with both capitals. He was guarded in what he said concerning the Milan speech of Mussolini, but I gathered the impression that it came as a distinct disappointment and a real shock to the Government here. He discussed at some length its implications and stated that he was completely unaware of what the Italian Minister-President was driving at. He confirmed what he had said the previous day to the foreign press in Vienna, that too great results cannot be expected now from the Vienna Conference.

I have in previous despatches reported on the commercial negotiations which have taken place between Austria and Germany since the accord of July 11, 1936, was signed. It will be remembered that these negotiations, which were practically fruitless, were to be resumed towards the end of October. The general situation in Europe and the impending visit of Ciano to Berlin made any negotiations then obviously impossible...
impossible, and it is now intended that they shall be resumed towards the end of November, immediately after the visit which the Secretary of State for Foreign Affairs, Dr. Schmidt, is planning to make to Berlin. It is not improbable that when he leaves for Berlin he will already be accompanied by certain of the Foreign Office staff who will conduct these negotiations. The Austrian Government, I believe, looks forward to these negotiations with not too great hopes and anticipates very great German pressure, which it is still disposed to resist.

I have endeavored in this despatch to make clear the reasons why the Vienna Conference, from which so much was expected, may prove to be barren of results. I believe it advisable, however, to say at this time that it may prove on the contrary to have negative results of an important character, and that the present close cooperation between Vienna and Rome under the Rome Protocols may be disturbed. The Milan speech of Musolin, with its strong references to Hungarian revisionist aspirations and unexpectedly friendly tone towards Yugoslavia is interpreted in Austrian quarters as showing the possibility of Musolin bringing up Hungarian revisionist claims before the Vienna Conference. If this should be done, I am informed on good authority that the Austrian Government cannot support the Italian and Hungarian attitude, on the ground that it would bring into a disturbed Europe a factor which might lead to war. I have already pointed out that the Austrian Government is still...
still unfamiliar with the agenda for the conference which Mussolini has in mind. It will, I am informed, endeavor to keep this subject of revision off the agenda. Should Italy insist on its discussion, the present attitude of the Austrian Government would be to oppose any action on the Hungarian claim at this time as extremely dangerous. What effect such an Austrian attitude would have on Italy must be left to conjecture. There is a tendency in responsible Austrian circles to believe that Italy has embarked on a course which may lead her not only to the brink of war but into war, and in that case Austria sees her independence and newly re-established position not only menaced but probably destroyed. I mention this at this time, for if the question of revision is raised during the Vienna Conference, the Conference may assume a very real importance, but in an unexpected direction. Such pressure by Italy can only result in driving Austria into seeking more friendly relationships with Germany, and these she distrusts as much as she is beginning to doubt the wisdom of Italian policy in its more recent aspects. To these latter alternatives of closer relations with Germany there is only one other course left to the Austrian Government, and that is of re-establishing the monarchy, and although this has its dangers for the general situation in this part of the world, the Government believes that the monarchy has less danger for Austria and Southeastern Europe than slavish following of the direction...
direction of Rome or dependence on very uncertain maintenance by Germany of Austrian independence as recognized by her in the accord of July 11, 1936. I have in various despatches pointed out that the Chancellor is keeping monarchy "up his sleeve" and considers it his last weapon for the maintenance of Austrian independence, to which he is definitely committed. He hopes not to have to use it, but I am informed that he is more and more convinced that it is a weapon which he may be obliged to use.

Respectfully yours,

George S. Messersmith.