Vienna, January 10, 1937.

Subject: TRANSMITTING TRANSLATION OF AUSTRIAN NAXI
HERSCANDUS TO CHANCELLOR BUCHHOLZ AND
GERHARD TOLLER.


CONTINENTAL.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Legation's
strictly confidential despatch No. 1011, of January
11, 1937, reporting on developments in the Austrian
internal and external situation, particularly to
that section dealing with Austrian Nazi activities.
As will be recalled, the legation mentioned in the
despatch under reference a conversation with a source
close . .
close to the Chancellor concerning progress of the
Austrian Nazi movement, a conversation during the
course of which the Legation's informant gave it
as his opinion that Austrian National Socialists had,
if anything, lost ground in Austria since the Austro-
German agreement of July 11, 1936. It was further
reported that Captain Leopold, leader of the Austrian
Nazis, who was recently refused an interview by
Chancellor Schuschnigg, had succeeded in submitting
to the Chancellor a memorandum embodying Austrian
National Socialist demands and that the Legation would
have something further to say on this subject in the
near future.

I now have the honor to forward herewith, in
translation, copies of the memorandum under reference,
which was obtained in strict confidence by the Lega-
tion, and to offer the following comment. The memo-
randum itself, despite prolixity and repetition, is
not altogether badly conceived and indeed to one
unfamiliar with Nazi technique reads like a reasonably
acceptable bill of rights. It is only on page 8, where
the racial question is introduced, as well as National
peace time mobilization, and on page 10 where the
anti-Semitic note is struck, that the true National
Socialist point of view is recognized. The high point
of the entire memorandum is, of course, the specific
reference to Dr. Schmidt, present Secretary of State
for Foreign Affairs under the Chancellor, recommending
him for the post of Foreign Minister, a portfolio still
held "en titre" by Dr. Schuschnigg. Before discussing
that . .
that, however, the Legation would like to take up certain aspects concerning the memorandum in question and the Austrian Nazi movement which have recently come to its attention.

There is no doubt but that the memorandum was presented to the Chancellor's personal secretary, and little doubt but that he read it. A source close to the Chancellor, however, and friendly to the Legation, in a conversation with a member of the Legation's staff, evaded admitting that the Chancellor had actually seen a memorandum from Captain Leopold. He said, however, that a memorandum had been presented to the Government, and when asked what consideration it had received, shrugged his shoulders. The Chancellor, he said with a laugh, would probably relax a few existing regulations in favor of the "Nationalists" (the designation now being employed by Austrian Nazis), although he would do this from strength rather than weakness. The Chancellor considered, said the Legation's informant, that his position with the army and police was strong enough to crush any purely internal opposition and that if the "Nationalists" wanted "a few more newspapers" or to indulge "in a little parading", it was possible that the Chancellor might gratify their wishes. Austrians, said the Legation's informant, were great talkers and grumblers, and to allow a steam escape valve in Austrian politics was often better than ruthless suppression. Sooner or later, he said, that Austrian Nazis would talk themselves "out of the picture". The foregoing is reported as of interest, since...
since during the conversation referred to, the member
of the Legation concerned had the impression that his
informant, contrary to custom, was not altogether
frank and was indeed somewhat worried. The following
may have something to do with that impression.

On Friday, January 15, the "National" party met
in Graz, Styria, and formed the Ostmährischer Verein
with the blessing of their unofficial leader, General
Glaiss-Horstenau, present Minister of the Interior.
Background on General Glaiss-Horstenau, who was in-
cluded in the existing Government as a sop to Austrian
National Socialist ambitions, is provided in the Lega-
tion's despatch No. 944 of November 4, 1936, reporting
the recent cabinet reconstruction. The first aim of
the Ostmährischer Verein is to obtain membership in
the Patriotic Front as a unit and thus to work legally
for National Socialism from within. This maneuver
was clearly foreseen by the Styrian authorities, who
attempted to ban the organization, but, largely due
to influence exerted by General Glaiss-Horstenau and
the alleged compliance of Herr Neustädter-Stürmer,
Minister for Public Security, the Ostmährischer Verein
was recognized as legal by the courts. As a result, it
plans to establish branch organizations, and, when
strong enough, demand admission to the Patriotic Front.
The name "Ostmährischer Verein" is particularly sig-
nificant when read in connection with sub-section 11 on
page 10 of the memorandum enclosed with this despatch.
This development apparently caught the Chancellor off
his guard (he has recently availed himself of a short
vacation . .
vacation), and the Legation has reason to believe
that he called a meeting of Patriotic Front leaders
on Saturday, January 16, to discuss the question.
The conversation earlier reported in this despatch
between a source close to the Chancellor and a member
of the Legation's staff took place that same evening.
Qualified observers feel that the creation of
the Ostmarkischer Verein, which follows so closely
on the presentation of the memorandum enclosed in
this despatch, plus a recrudescence of subterranean
Reichswehr activity within the Patriotic Front Militia,
may cause the Chancellor difficulties in the near
future. They feel, however, as well, that he is
strong enough to defeat the challenge and that another
cabinet reorganization will shortly be forthcoming in
which General Glaize-Korstenau and possibly Herr
Heustädter-Stürmer, whose equivocal attitude toward
the Nationalists is causing concern, will lose their
portfolios. It is not altogether improbable that the
Secretary of State for Foreign Affairs under the
Chancellor, Dr. Schmidt, may lose his as well. For it
has been rumored ever since his recent return from
Berlin (reference the Legation's despatch No. 379 of
November 30, 1938) that Dr. Schmidt has been won over
by Herr Hitler and that his ambitions are in an opposite
camp from the Chancellor's. These rumors have been
scotched from both sides, but the inclusion of Dr.
Schmidt's name in the memorandum enclosed with this
despatch probably did him little good with Dr. Schuschnigg. Finally, it may be mentioned that Herr von
Papen's...
Papen's name is being freely mentioned in some quarters in connection with the establishment of the Ostmarkischer Verein, due to his influence with General Claiss-Horstenshu.

The Legation feels that it will have occasion to report further concerning events in connection with the enclosed memorandum in the near future.

Respectfully yours,

George S. Massey smith.

Enclosure: Translation of memorandum.