Vienna, January 30, 1937.

Dear Mr. Secretary:

During your absence from Washington on the trip to South America I have been writing from time to time to Judge Moore on the Austrian and general situation in this part of Europe. I am inclined to think that you would find my letters of December 5 and 22, and the last one I addressed to Judge Moore, dated January 16, of interest as they give as concise a summary as one can safely make of the most important developments which have taken place over here and which have a major bearing on the question of war and peace. I think these letters give some basic background for the developments we may expect in the immediate future and during 1937. If these letters have not been brought to your attention I would be very happy to feel that you will find an opportunity to read them as it will be much easier for me to assume this in letters which I may take the liberty of addressing to you in the future.

First of all, may I express the hope that this trip to South America may have been as pleasant an experience for you personally as I am sure it has been a profitable one for our country and for all of the American states. What the President and you have accomplished on this trip will, I am confident, bear much and valuable fruit in the years to come. The Montevideo and Buenos Aires conferences under your guidance have opened the way for a sound, feasible, and durable basis of cooperation between us and our American neighbors. You have proceeded slowly and surely in building the foundations, for in view of the situation which still exists among most of our Latin friends and of

The Honorable
Cordell Hull,
Secretary of State,
Washington, D. C.
their temperament and way of thinking, any structure such as this has to be built most carefully.

Here in Austria the situation remains quiet and the position is well held with no cause for concern for the immediate future. The organization of the various groups reported in our recent despatches which under the guise of cultural organizations really intend to carry on political propaganda, presents certain disquieting features. I remain, however, of the opinion that the Chancellor is well in control of the situation and will so remain.

It was a mistake, as is now clear, to bring Neustädter-Stürmer back from Budapest where he had been sent as Minister, and to put him in the Cabinet in charge of Public Security. It was done with the best intentions, but he has proven to be more of an opportunist than even those who know him believed. He has become very ambitious and although without a personal following, his being put into the Cabinet for a second time gave him an exaggerated idea of his importance and standing. Although heretofore and until very recently he has been loud spoken against National Socialism, he has made himself the protector of the Oestmarkische Volksverein organized at Graz, knowing that it is a poorly concealed movement of the National Socialists.

I had a talk with the Italian Minister yesterday and we found ourselves in agreement that the best reason to believe that the situation in Austria is still sound is that Neustädter-Stürmer, as an opportunist, is now already rapidly withdrawing his support from this organization. He is anxious to remain in the Cabinet and realizing that he badly appraised the situation in Austria, is now protesting his loyalty to the Chancellor. I still believe that we may expect his elimination from the Government at the first convenient opportunity for no one any longer has any misapprehensions concerning him.

Glaise-Horstenau, who is at heart much more of a nationalist than Neustädter-Stürmer, and therefore more basically oriented towards Germany, is less of an opportunist, na"ıve, but withal has a sense of loyalty to the Chancellor to
whom he is grateful for having brought him into the Cabinet. He remains a much better Austrian than Neustätter-Stürmer, and is much less dangerous. He also is losing his enthusiasm for these new organizations which he helped to encourage. If there is a Cabinet reorganization it is likely that he will remain for he is not considered dangerous and as long as the accord of July 11, 1936 with Berlin stands, he or some other nationalist will remain in the Government.

There has been a good deal of talk that the Secretary of State for Foreign Affairs, Dr. Schmidt, was involved in the formation of these new organizations which threaten to take the form of groups opposed to the Government, and there was much comment also, even in informed quarters, that he was very much taken into the German camp as a result of his visit to Berlin several months ago. I know him so well and know his loyalty to the Chancellor as well as his good sense, that I have felt that these rumors were without foundation. That they were baseless has been conclusively shown by the results of the Austro-German trade negotiations closed on January 26, and in which he took a leading part. The Austrian standpoint was maintained throughout these difficult negotiations largely through his clever and determined attitude. His position I think has been strengthened as a result of the work he did during these negotiations, as it has proved that he is a good Austrian.

The internal situation may continue to be characterized as satisfactory, but I think it is clear that the legitimist movement is gaining ground. One must give increasing attention to it as a final solution of the form of Government here, although there is no possibility of restoration in anything like the near future. An increasing number of Austrians undoubtedly prefer monarchy, but the principal difficulty internally is that they have so many reservations with respect to the Habsburgs and what Habsburg restoration would inevitably bring with it. These reservations, in my opinion, are well founded and one must hope that the developments in Europe generally may be such that Austria may not find it necessary to resort to restoration. This present form of government must in time disappear, but what really good Austrians want is a return to a democratic, parliamentary regime, and this is quite feasible in Austria under more normal conditions in Europe.
even though the return to it in Germany may be more difficult. The Austrians and Germans may speak the same language, but they are really very different peoples.

The negotiation of a new trade treaty with Germany was completed on January 28, after exchanges of views, conversations, and difficult negotiations almost continuously since the accord of July 11, 1936, was signed. I am reporting on it in full in a despatch. It is sufficient to say here that in spite of the desire of both sides to arrive at something, the difficulties in the way were too great. Germany cannot pay and Austria has learned from the experience of the other Southeastern European States that there is no use exporting goods to Germany if she is not paid, as this is one of the surest ways by which she could impose on herself political and economic bondage to Germany. The agreement provides for a net increase in Austro-German trade each way of about $8,000,000 for this year, but I doubt whether it will reach in practice $4,000,000. The interesting feature of the result of the negotiations is that the Austrians have not responded to the German pressure nor to the pressure of their own agricultural interests. As Austria is considered by so many to be so weak and her government so wobbly, it is interesting that the Government should have maintained its stand, knowing it to be the wise one. Another interesting feature of the negotiations is that there is nothing in the agreement which ties Austria's hands with respect to other countries and from our point of view the result is satisfactory as all of the proposals made by the Germans which could have done us a good deal of harm, proved entirely unacceptable to the Austrians. I have been maintaining my close contacts with the appropriate Austrian authorities during these negotiations and pointed out how important it was not to make any arrangements which would tie their hands with respect to us and other countries, or to enter into any agreements with Germany which would be of a discriminatory character. I found a very real understanding and appreciation of all that I said, and there is no indication that there is anything in the new treaty to which exception may be taken or which will make Austria's negotiating position more difficult. The Austrians know that we have made a trade
agreement with France and with Belgium, that we are now negotiating with Italy, and that negotiations with England may come in the near future. Their eyes are turned much more towards the West than to the North, in spite of what appearances at times may be, and they are keeping their hands free. I was very anxious to keep the way open for future negotiations with us for a trade agreement, and I think that has been done. I believe that before the end of this year the circumstances may be such that we can with advantage open conversations with Austria on this subject, but the time is not yet ripe.

There is a good deal of speculation as to what Goering really tried to do in Rome. Unquestionably, as I said in a recent letter, he went to repair the German fences and to find where they stand after the London-Rome gentlemen's agreement. I am told here in responsible quarters that he tried hard to get Mussolini to change his attitude with respect to Austria. Germany finds herself hampered by the accord of July 11, and by the general European situation in her subversive activities in Austria, and it must be said that she has been less active here. She feels that she is losing ground and Goering is said to have proposed various concessions and arrangements to Italy which would have given Germany greater freedom in Austria. According to the Government here, Mussolini refused to consider any of this, informed Goering that so far as Austria was concerned the Italian position was unalterable, and he was interested in Austrian independence just as much as ever. Mussolini is said to have given the Government here very definite assurances on this point during Goering's stay in Rome to quiet any apprehensions which might be felt here. My conversations with the Italian Minister here lead me to believe that this is so and he speaks quite frankly to me of the way von Papen lends himself, indirectly, if not directly, to subversive action here.

In my recent letters to Judge Moore I referred to the crisis through which Europe passed in December and early January as perhaps the most important and dangerous one from the point of view of Germany's provoking war. All the
information which I get from good sources confirms this. As of particular interest in this connection I may refer to the statement I made in a recent letter to Judge Moore concerning the death of General von Seeckt who, I said, I was sure had died as a result of his being so upset over his conversation with Hitler and the conviction that Hitler was in danger of provoking a war which would be disastrous for Germany. I think it will interest you to know that I have just had what seems to be absolute confirmation that von Seeckt died of an apoplectic stroke that came as a direct consequence of his belief that Hitler was planning to provoke this conflict.

The internal situation in Germany must, I believe, be followed very closely and all the news which I continue to get is that it is growing worse from every point of view, financial, economic, and industrial. Goering recently had to admit to a friend of mine that although cannon might be more important to the regime than butter, bread was even more important than cannon. Anyone who knows Germany realizes what bread and potatoes mean to the German masses. There is this lack of meats, fats, eggs, and certain other foodstuffs in Germany, but this in my opinion would not necessarily bring about a collapse of the regime. Germany has gone a long way in the last few years in making herself self-supporting so far as essential foodstuffs are concerned. There are certain foodstuffs such as the above mentioned in which it would take years to make her self-supporting, but there is a big difference between the lack of certain foodstuffs and the nation actually going hungry. The foodstuffs situation became serious when the nation saw the lack of bread grains becoming as great in February and March as the lack of fodder already was. Goering, through his control of foodstuffs and the exchange situation has, I am just informed, been able to assure them of the bread grains which they will need in the early spring and summer until the next harvest. The exchange situation, however, has not improved but is getting more difficult constantly and in this there is no relief in sight. For the first time exchange in considerable quantities has had to be diverted from raw material purchases to the buying of increased foodstuffs.
Unless there should be a bumper crop the situation with regard to bread grains will become acuté again in the fall and worse than this spring. The finding of the necessary exchange for imports, according to the present outlook, will be an even greater problem than than it is now. I see the foodstuffs situation in Germany growing constantly more serious, but I do not see it becoming necessarily so serious in 1937 as to anticipate that hunger or an actual lack of food will precipitate a crisis.

On the other hand, there is no question that the exchange position is becoming constantly more difficult and is already such that industry and rearmament are definitely feeling it. Von Papen here in recent conversations with intimate friends has been characterizing the German situation as becoming dangerously acute. It is not only rubber which is causing immediate difficulties, but copper and iron ore are also immediate problems. In practically every raw material the difficulty of getting supplies to keep the wheels turning at capacity, as they have been turning, is greater. I do not see how, unless Germany can get relief which I do not see in sight yet and which I personally believe should not yet be given, the level of production and therefore of employment can be maintained. Most German factories are already employing more people than they need and when raw materials are lacking and a part of the factory wheels will have to stop turning, employment must go down. Even though public aid may keep the stomachs partially filled, the purchasing power of so many will go down further that discontent is bound to become more active. I believe that this discontent will become so much greater, not through an actual lack of food in the country as through the inability of an increasing number of the German masses to buy enough food.

I think we must reckon with this foodstuffs and raw material position in Germany continuing to grow worse fairly rapidly this year. Unless there is real relief in the way of credits and markets during the current year, the breaking point for the regime will be rapidly advanced. In spite
of the way in which Germany has been impowerished during the last three years, of the manner in which she has shut herself off from the rest of the world, and of the way in which all contact that there is with the rest of the world is controlled, it has been possible to do things in Germany which we did not think were possible. Out of this has grown the mistake which I, for one, made with others of believing that this situation could not last as long as it has. We have never before witnessed a spectacle of such a great country completely shutting itself off from the rest of the world or at least so definitely controlling its contact with the rest of the world. We had no previous experience therefore on which to base an accurate judgment. It is interesting however that all of my financial and industrial friends in Germany are now of the opinion, as is Schacht, that this juggling is approaching its end. This, however, I think is as far as we can see. Informed observers within and without Germany are of the opinion that the financial and economic difficulties of the regime will bring the end, but there is still a good deal of difference of opinion as to how long it can last. In this respect the most important change of opinion I can note is that there now seems to be a general agreement that the end is in sight and even those who have been giving the present regime a still fairly long lease on life now see the end this year.

The information we get here is to the effect that the Party leaders, in spite of their brave words, know that the situation cannot continue much longer without breaking up unless there is help in the way of credits and markets. The talk about colonies is sincere only to the degree that they naturally want to get them, but what they really want most and must have to keep going is markets and credits. This is why I believe, as I have said in my recent letters, that 1937 will be characterized by the manoeuvres of the regime to save itself. Although the most serious crisis was passed through in December and early January so far as the danger of Germany's provoking war is concerned, I think that the danger of the regime's seeking a way out through war is not yet definitely out of the way and it would be dangerous for Europe to proceed as though it is definitely out of the way. I think we have good reason to believe that the danger is less and will continue to grow less, for the balance of power is
steadily growing against Germany - not only because rearmament is going on outside of Germany more rapidly than in Germany, but also because the power of the regime in Germany is slipping and the program of rearmament there is stationary, if not retrograding.

I have been doing a good deal of reading recently in order to refresh my background and to keep a proper perspective. One need only read the memoirs, letters, observations, or published documents of England's statesmen who have had to do with Germany since 1900 to realize that the story of Anglo-German relationships has been one of constant concessions which lead to nothing, and if this was true of the more considered Berlin Governments before and after the war, it is certainly true with regard to concessions to the present Government which now has aims, politically and economically, going far beyond anything formerly imagined in Germany and in addition to these objectives, wishes to impose its social ideology on Europe and the world. With particular respect to colonies, the following extract from Lord d'Abernon's diary, Volume III, page 220, covering the years 1924-1926, is interesting:

"Outside the question of the reorganization of industry, Schacht appeared to attach great importance to Germany having some colonial outlet. This, in his view, need not necessarily be under the German flag; Germany required territories from which she could obtain raw materials, and to which she could send human elements which might be dangerous if they were retained in Germany. He appeared further to attach extreme importance to a development of Germany's colonial interests as a means of maintaining stability of her currency. But I was not able to follow precisely his train of argument on this subject as, if one makes an impartial survey of what German colonies did for German trade and German currency before the War, the conclusion is reached that their effect was more moral than material."

If one reads Schacht's speech which he made about a month ago and in which he practically threatened internal explosion if markets and colonies are not forthcoming, one can
see that he is no more sincere today than he was in 1926.
the last sentence in the above quotation from Lord d'Abernon
comes from a diplomatic observer who is generally accounted
as having been friendly and sympathetic to Germany and understand­
ing of her, and who was always in favor of Germany's
being given back certain of her colonies. It will be noted,
however, that he had in 1926 no misapprehensions as to the
effect which this would have, which he points out would be
"moral rather than otherwise". The moral effect unfortunately
now would be merely to add another imposing victory for the
policy of force of the present Government.

Apropos of the recent apprehensions with respect to
Morocco, which were undoubtedly played up a little too much
in the press but for which there was nevertheless real ground,
I think you will be interested in the following quotation from
Volume IV, page 153, of the letters of Princess Badisirill to
General de Robillant. In a letter dated July 20, 1911, there
appears the following:

"Morocco presents for us an unpleasant spectacle.
These mysterious conversations which seem to drag
out forever between Cambon and Kiderlen are far from
pleasing me. Germany wants booty, but the booty is
so big that she does not dare to announce it, neither
too soon nor too loud, and France seems to be of an
unimaginable feebleness. Nothing is more dangerous
and less likely to assume a maintenance of a stable
peace than this apparently set attitude of always
ceding. It is not worth the trouble of making new
concessions if at a regular interval of three years
it is necessary to commence again."

Blum's recent speech at Lyons was a wise and statesman­
like document with the proper moderate, but firm, tone. His
affirmation that France remains opposed to assuring peace
through bi-lateral rather than collective arrangements had a
good influence as it was obvious that he had gone over care­
fully with Eden what he was going to say. The recent speeches
of Eden and of Chamberlain yesterday have undoubtedly been
directed to Hitler's address in the hope of influencing what
he is going to say on January 30. I do not know, and cannot
presume to anticipate what Hitler may say, but I think the
speech will be more moderate than some assume. His position
does not permit, I believe, any violent action. There will
be the usual stress on bolshevism and on bi-lateral ar-
rangements, and he will almost certainly point in this re-
spect to the Polish-German agreement, to the Anglo-German
naval agreement, and to the Austro-German accord of July 11,
1938, as constructive examples of his bi-lateral agreement
policy. None of these will stand scrutiny, as, at least
with respect to the Austro-German and the naval agreement,
Germany has no intention of remaining bound by their provisions.
Germany's one hope remains in England and she will continue
to woo her this year. England will use every effort to
bring Germany into line, but with a much more understanding
conception of what the real situation is than had characterized
her policy until recently. No agreements, in my opinion,
with the present Government are possible which can lead to any-
ting durable and that is why I consider that this year will
be the decisive one for Europe. If England and France, and
we, remain firm there will be a German Government with which
these arrangements can be made which are so impossible and
dangerous with the present one. I have in recent letters
expressed my considered point of view so fully in this respect
that I will not go further into this aspect here.

The most important contribution which I believe that
we can make for the present is not to negotiate in any form
with Germany and not to pass any neutrality legislation which
will too definitely tie our hands, but leave adequate dis-
cretionary power to the President. That is the only safe
path if we wish to help to avoid war and to have a good chance
of being able to stay out of a war should it come.

My wife and I are planning to return home this spring,
sailing from Hamburg on the MANHATTAN on April 7, if the cir-
cumstances permit me to leave here. I would prefer to go
home later in the year, but my mother is now 88, is unfortun-
ately gradually losing her sight, and always looks forward to
seeing me at this time of the year. I look forward to having
the pleasure therefore of seeing you in the spring if circum-
stances permit me to make at least a brief trip home.

With all good wishes, believe me,

Cordially and faithfully yours,

George S. Messer Smith.
February 1, 1937.

F. S.

My letter of January 30 I dictated that morning to leave by pouch that day, but owing to the sailings the departure of the pouch had to be delayed until today. I am therefore able to add this brief P.S.

You will get, I am sure, from Berlin a full analysis of Hitler's speech on January 30. One of the most interesting things about the delivery of the speech itself was the manner in which Hitler pronounced the name of Eden every time he uttered it. In spite of every hope of the regime now resting on England, he could not keep out of the way he uttered Eden's name his dislike, his disdain, and what appeared to be even deeper feeling. This is important because in spite of the way Germany will woo England, and no matter what England might do to save this regime or lengthen its life, England just as much as France remains the final objective of Nazi policy.

The papers here yesterday all carried full accounts of the Hitler speech and without exception commented editorially thereon. It is more than interesting to note that the comment is very reserved, in no sense flattering to Germany, and to the effect that Hitler's speech carefully avoided all reference to the constructive sides of Eden and Blum's recent speeches. As the Austrian press in the last months has leaned over backwards in trying to give the German Government full credit for good intentions, its poorly concealed disappointment with the speech is interesting.

To me the most significant thing about the speech is that he said nothing new. The most important thing that he actually said was that there were to be no more surprises, but this must be taken with a grain of salt, for as long as the dictatorships remain we must expect surprises. That he should say it, however, is a step forward. His remarks to Francois-Fonet at the New Year's reception on January 11 were a great renunciation forced by the internal and external situation of Germany. This remark made only a few weeks later is almost as significant, and in these two public renunciations of provocative action may, I think, be seen the best indication of the increasingly difficult position of the regime.
It was easy, as I have from time to time pointed out in my letters, in a Europe which at all costs wished to avoid war, for the regime to take these steps within Germany, but it is a very different thing when these surprises involve action beyond her frontiers. Hitler now knows that such action beyond her frontiers would bring war for which he is not prepared and which he may not later be able to make. This is the reason for the so-called moderate tone of his speech, but in other respects it is merely a reaffirmation of every aspect of German policy. It is, however, the speech of a man who no longer speaks with the same confidence.