January 17, 1938

The Hon. George S. Messersmith,
Assistant Secretary of State,
Department of State,
WASHINGTON.

Dear Mr. Messersmith,

My sister thought Viennese waltz-music might pleasantly usher in the New Year, and I was glad to seize this opportunity of witnessing at close quarters a performance of 'dancing on a volcano'.

I had not been to Vienna for over ten years. Perhaps it may interest you to hear of the changes I found.

The moral depression which was so manifest on my previous visit seemed almost dispelled. The natural light-heartedness has risen to the surface.

Of course, the present semi-dictatorial rule points to a state of unrest; but it would appear to be established in the fear of foreign propaganda - Nazi and Communist - rather than of actual domestic dissatisfaction.

For the time being the economic situation is not bad. In fact, it is felt to be too good to last. Apart from the increasing tourist traffic (which may be a durable factor), deliveries to Germany and Italy for armament purposes have given Austria a favourable balance of payments. But these supplies are about to be curtailed because claims are accumulating in the 'clearing'; in particular, Germany refuses to effect payment by means of Austrian industrial securities from which she derives some political influence.

At the present level of costs, export trade cannot be expected normally to cover the necessary imports. Here is a clear case for devaluation. Yet this remedy is discarded because German propaganda would point to the 'stable' Mark as a harbour of refuge for Austrian savings.

An economic understanding with Hungary and Czecho- slovakia is ardently desired but difficult to carry into effect. Germany will permit no preferential régime from which she would be excluded, and the extension of such a right to Germany - supposing other Governments consented - would endanger Austria's political independence.
Dr. Schüller assured me that Austria would be
prepared to give up the irrational wheat-growing to which
she has resorted to the detriment of Hungary (and her own)
and her farmers would revert to rye and cattle provided
she could pay for the additional imports. Truly the aid
she needs from other countries - from as many as possible -
is an outlet for her specialties. Dr. Schüller is hoping
that Mr. Cordell Hull will suggest a new trade agreement.

The majority of the people (at least in the
capital) would, I gather, welcome a monarchic restoration.
In his recent book 'Drei Mal Oesterreich' (rather tedious
reading because too literary) Dr. Schuschnigg takes a
neutral attitude towards this problem. Some fear the
substantial expense of a Court, but the main objection is
Goering's threat that Germany would regard a Habsburg
reinstatement as a casus belli (with Otto on the throne a
Wittelsbach might be called back to Munich).

However, I was surprised to find that an unpro-
voked German incursion is looked upon as most unlikely.
Austria relies primarily on the support of Italy if needed.
There is a firm conviction that the German-Italian 'axis'
is merely the thread of a cobweb and that Italy would
counter Germany's plans in every circumstance in which she
would have an interest to do so. During his visit to
Berlin, Mussolini, it is said, formed a poor opinion both
of Hitler and of Germany's preparedness for war.

The Government sees more danger in the German
siren rather than in the German bully. The siren sings of
German culture and the field it may afford Austrian scien-
tists and writers, and of the great opportunities Austrian
trade would have if Germany opened her frontiers so as to
let in goods and let out tourists. I attended half a
dozen cabaret-shows; in every case there was a systematic
effort to ridicule the allegation that the Nazi régime was
favourable to art and science, and to stress the hardships
imposed upon the German consumer. Considering they have
been passed by the Censor, these allusions may be assumed
to have the approval of the Authorities.

Similarly, there is a reaction against anti-semitic
propaganda, for which occurrences in Rumania are affording
fresh scope.

No endeavour is spared to foster a desire for
national independence, or rather to strengthen the desire
which undoubtedly exists; but the Austrians are pathetically
aware of their weakness. They need outside support, and
it would be deplorable if this were to come solely from Italy.
The scheme of a Federation - on the Swiss lines - with Hungary and Czechoslovakia is making headway I am told in all three countries. It cannot conceivably mature in the face of German opposition without very decided sponsors amongst the Great Powers.

The very essence of an adjustment such as Austria requires is that within a specific area the various kinds of production should be carried on wherever local conditions may be the most favourable to cheap supply. I was rather amazed to see that President Roosevelt would include amongst the business practices that must be ended 'the shifting of actual production from one region to another in pursuit of the cheapest wage scale'. (He might equally condemn the shifting of production in pursuit of the most fertile soil or the lowest cost of transportation).

Indeed, I can see no prospect of sounder economic conditions so long as the principal governments fail to agree upon, teach, and practise, at least some fundamental rules of policy. Trade revival may require medical treatment; but no attendance is a lesser danger than wrong medication.

As you know, SOFINA has been thinking of contributing - on a very modest scale - to electrical development in the United States. I am afraid this idea must be abandoned unless the Authorities show a better comprehension of co-operation generally and international co-operation in particular. The wholesale condemnation of the holding corporation system would appear to be based on a hasty generalization of abuses that may have been committed in specific instances; there should be no difficulty in remedying such abuses whenever it can be shown that the holding is conducting its affairs without due regard to the interests of the undertakings it controls or advises, or of their customers. Yet, concentration has such indisputable merits in the field of public utilities that the actual choice can be only between trustification or grouping under a holding corporation, and the latter form of co-ordination has proved to be the more flexible.

Pardon my lapsing into talking shop. To revert to Vienna, I found the Wileys appreciated, well, comfortably housed and as contented as their somewhat indefinite status permits. I was interested to meet Marcell Fodor. The Albertis, from whom you have probably heard, joined in most of our revelries which included a premiere (revised version) of 'Fledermaus' at the Opera on New Year's Eve. Your absence was greatly regretted.

May I take this opportunity of sending my very best wishes for this year to Mrs. Messersmith as well as to yourself.

With kind regards,

Yours very sincerely,