

Revised

Vienna, October 23, 1936.

Dear Mr. Secretary:

I last wrote you on October 8 and October 16. The developments in the Austrian situation, as will be seen by the Legation's despatches, have been along the lines indicated in my letters. When one considers the general situation in Europe, which must still cause so much concern and which again looks blacker since I last wrote you, it is really extraordinary that the situation here in a political and economic sense holds up as well as it does. The sick, puny child which a would-be step-father was trying to bully seems to be developing very satisfactorily while the guardians who have from time to time come to the child's defense have other troubles at home.

The dissolution of the para-military organizations has gone through without the slightest disturbances and in an orderly manner. The arms of these organizations have been given up and turned over to the Army and to the militia. A good deal of credit is due to Prince Starhemberg for the really patriotic attitude which he took. The Chancellor made a speech on Saturday evening, October 17, in the old Parliament Building, which I have reported separately upon and which has tremendously added to his stature by virtue of its moderation and wisdom. It showed unexpected evidences of political sagacity. He was most generous in this speech in the praise which he gave to Prince Starhemberg and the Heiwehr. The next day there was a big gathering of the Patriotic Front in Vienna, the attendance at which conservatively must be placed at over three hundred thousand. While not

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

altogether a spontaneous demonstration, it showed unquestionably increased strength of the Government. The whole manner in which the dissolution of the para-military organizations has been carried through is a concrete evidence of the degree of interior consolidation which has been arrived at.

I had a long talk with Dr. Kienböck, the President of the National Bank, recently and I gathered that the private intentions of the Austrian Government are in accord with their public declarations and that they intend to maintain the present value of the schilling. I have written you and the Department so fully about this that I believe no further comment is necessary at this time except to say that I do not believe any precipitate action towards devaluation may be expected here. The indications are that the question is closed until January when the Government will again have to re-examine it, and of course ultimate devaluation is not out of the question although it will be avoided if the interests of the country permit it. Dr. Kienböck made a speech over the radio to the United States this week in which he emphasized the willingness of Austria to cooperate in the degree possible to a small state in any movement to bring about a freer exchange of goods. The Austrian attitude on these questions is sound and there is very real appreciation here of your trade agreements program.

Interest of course here centers in the coming meeting of the Ministers of Foreign Affairs of the Rome Protocol States, which as I told you, is scheduled for November 12 and 13. I have already pointed out that this is going to be an important meeting, but the developments in the general picture are such as to indicate that this meeting will be a very important one indeed. Ciano is now in Berlin carrying on what are unquestionably important conferences there in which, however, Austria is only one of the points on the agenda. Some of the English papers are saying that Ciano may make a bargain in Berlin over Austria. This, I believe, is quite impossible at the present stage of developments in the general European picture. Mussolini may eventually under certain circumstances make a bargain with Berlin over Austria, but he is far from doing it now. When it comes

to talking about Austria and Southeastern Europe Ciano will be very wary in Berlin, for the new position which Italy is gaining in this part of the world is a tremendous bargaining pawn for her and a thorn in the flesh in the side of Germany. There are those who believe that Germany will try to have at least an observer at the Vienna meeting, but while this is not as out of the question as actual German participation, I still think that even the presence of a German observer is unlikely - simply because of Mr. Mussolini who does not even want that at the present stage of affairs.

Ciano will pass through Vienna after he is through in Berlin and see Schmidt, the Foreign Secretary here, and then Schmidt will go to Budapest. It is not until after the Vienna meeting is over that Schmidt, as I have already informed you, will go to Berlin.

In this connection I have just learned that one of the reasons that Schmidt is going to Berlin is that Hitler has again been pressing Schuschnigg to come to Berlin. I have told you that Hitler has been pressing for such a Schuschnigg visit and was extremely intent on it as a preliminary to the Berlin-Vienna accord of July 11 of this year. Schuschnigg does not want to go for many reasons, one of the principal being that he believes the conversations could have no good results and might have bad ones. The recent Hitler-Horthy interview passed off so badly that Schuschnigg less than ever has any desire to meet Hitler. On the other hand, since the accord of July 11 is supposed to have normalized relations between the two countries, it is difficult for Schuschnigg to refuse these pressing invitations to meet Hitler. But it is characteristic of him that he should refuse them. He is letting Schmidt go to Berlin as a sop to Hitler, and the close of the Vienna conference serves as a good excuse for an Austrian visit to Berlin.

As I have told you in my last letter, the Austrians are extremely concerned with respect to the general European position. They see their internal position improving

and the position in Europe growing constantly more difficult. Their preoccupation is that the relations between London and Rome should become better. There is some reason to believe that the situation there has improved. I am reliably informed that when Schmidt, the Foreign Secretary here, was in Geneva and with Lord Halifax recently, the latter told him that he was much concerned that Mussolini would place the responsibility for the admission of the Italian delegation on them when as a matter of fact the British had used every effort to bring about an arrangement excluding the Abyssinians, but had failed. Halifax said to Schmidt that he would be glad if he could do so in a loyal way, if he would inform Mussolini what the English position had been and that England was prepared to show its good will by some concrete act. Schmidt said that he would be glad to communicate this to Mussolini, which he did by telephone to him direct, and Mussolini replied that the English could show their good faith by some concessions in connection with the financial and commercial conversations going on between London and Rome. It so happens that the Chief of the Economic Section of the Foreign Office in London was here last week and he said in our hearing that they had just made important concessions to Rome in these conversations. The net result is, I understand, that Ciano has been instructed while in Berlin to try to ease the position between London and Berlin.

I cannot view except with concern the new position which is developing over here. The English are proceeding vigorously with their armament program and, as I forecasted in one of my recent letters to you, are accelerating it by purchases outside including the United States. This is all to the good for a strong England is one of the primary essentials to the maintenance of peace in Europe. On the other hand British policy has not yet emerged with sufficient clarity, for reasons which one can appreciate, for their situation is a difficult one. But this is having very serious consequences. She is making up by her present action on armaments and by the clearer policy that has already emerged for some of the mistakes made in the last two years, but there are some mistakes

which are alas irreparable. When last September England did not meet the Italian challenge she started on a path which has made her present course difficult and dangerous. The first mistake was when England and France encouraged Italy to assume this position in Central Europe, particularly with respect to Austria, when Italy was prepared to undertake risks which they did not wish to assume. Now Italy has been assuming a position in the Mediterranean and in Southeastern Europe for which she is not prepared, but the French and British action has had the consequence of building up the power and prestige of Rome on what is still and must remain an artificial basis. Berlin has not only looked down on Rome, but distrusts her, but the developments which have followed as a result of French and British action have been such as to build up the position of Rome until Berlin has to treat with her with more respect. There is great danger in this for Europe, for although the basis of Berlin-Rome cooperation has in reality been lacking, it is in some respects being built up by the very powers against whom that cooperation would eventually be used if it comes about.

The principal obstacles to Berlin-Rome cooperation on an effective basis are first, the mutual distrust between the two, and second, the opposite interests in Southeastern and Central Europe, and third, the opposite interests in the Mediterranean and contiguous territory. There is no getting away from it that Berlin and Rome are getting closer together. There is nothing signed nor sealed between them yet. It is not likely that there will be anything signed or sealed between them in the near future, if only because the two distrust each other so much. On the other hand in some respects the cooperation is now progressing, as is shown by the tendency of Rome to support Germany in her efforts to exclude Russia from European councils and to isolate her. If better relations between London and Paris, and Rome lead only to the strengthening of the Italian position to the degree that Berlin-Rome cooperation will tip the balance in favor of isolation of Russia, then France and England will both be weakened - not so much because they do not have Russia in the picture, but because this will strengthen the position of Germany and Italy in Southeastern and Central Europe and pave the way for some arrangement

between them to iron out their at present so deeply conflicting interests in that area. If Germany and Italy succeed in isolating Russia, both France and England will be tremendously weakened and by giving way to the German pressure England will have weakened seriously France as her principal ally on the Continent, whom she cannot do without.

It is now clear that no League reorganization is possible before there is a settlement of major European problems. The League in its present form is quite incapable of aiding in any way the settlement of these major problems. Any reorganization of the League now, as I took the liberty of pointing out some months ago, would have to be made on German-Italian conditions. This is one of the positive effects of the already existing Berlin-Rome cooperation. No good can be expected from the League under present conditions in the direction of positive and constructive political effort and any reorganization on the Italian-German basis would only result in making it a machine for the general establishment of Fascism in Europe and for putting into effect a regime of force. As such a League is inconceivable, any good out of Geneva and any reorganization before these major questions are settled in Europe are out of the question.

The efforts of Germany and Italy will be directly concentrated on the exclusion of Russia. The Russians have not helped the position by their own action in Europe, although within Russia there are indications that a movement is taking place which would make Russia less of a danger eventually to Europe.

The French situation has held, in a surprising degree to many, although I have always felt that it would hold. The Blum Government has, with all its troubles, done an extraordinarily good job and I am told that even Right elements realize that any other Government now could not hope to live and might throw France into chaos. If the Blum Government can hold and gradually assume a more middle course France will be in a position to reassert herself.

In England the situation is far from clear yet, but the recent Belgian action has done a lot to wake up certain elements in both England and France, and perhaps it

have served a good cause, dangerous as the action was in this disturbed Europe. There are still too many Englishmen who do not realize how seriously England is threatened and who cannot understand what the ultimate objectives of Germany are. Until England takes a firm stand, with the corresponding risks involved, there can be no real improvement in the situation on the Continent.

I had a long talk with the head of the Economic Section of the British Foreign Office last week in Vienna. He talked with great frankness. He said that Germany was the strongest economic unit on the Continent and there could be no economic and therefore no political peace in Europe until German economy was put on a sound basis. The question for England was whether she could help Germany now, as some were inclined to do, as this might only be aiding Germany in establishing herself and making it possible for her to carry through her program. He was inclined to the view that the German objectives were so clear that England could do nothing to help Germany now as it would only lead to strengthening Germany to reach her objectives against England. In the meantime there seemed to be nothing to do except to follow the policy of giving no aid and comfort to the present German Government in the hope that it would be modified or fall through internal difficulties, but in this policy there must always be the haunting fear that the German Government might resort to premature war as a way out. I offered the observation that the danger of this precipitate war being provoked by Germany as a way out of its difficulties had been very real, but that in my opinion was now constantly growing less. I said that this danger existed in a very real way as long as the Germans, particularly in the Party, felt themselves strong enough to carry through such an action, but that now since they had realized for several months that the balance of power was against them, this danger was very much decreased and would probably continue to decrease if the balance of power was kept against her. This observation seemed to interest him very much.

As you will have appreciated, the Belgian action recently threw a serious bombshell into an already disturbed Europe. You will remember that in the letter which I wrote

after my visit to Belgium in June I discussed at length the danger of the Degrelle movement and that it must be taken seriously. I pointed out at that time that it was being aided by German money. There is no question of that. That the Franco-Belgian military alliance would have to go at the same time was a foregone conclusion, but that the Belgians should use this moment and this alliance as an endeavor to meet and to consolidate an internal position was the projection of an internal problem into the external affairs of a sick Europe which has given the patient a severe shock. There are evidences that the Belgians realize that they went too far and I think there is hope of the situation being arranged by London, Paris, and Brussels in such a way that the objectives of Berlin will be defeated. If this does not come about the position in Holland and in the Scandinavian States will be weakened. The only way to meet the Degrelle movement within Belgium is by force.

The developments in Hungary since the death of Goemboes have been along the lines which I have indicated and are on the whole favorable. The new Minister-President Daranyi is an entirely different type from Goemboes and is an honest, sincere, and quite liberal man. Kanya remains as Foreign Minister, but Bethelen is back in the Government and there are those who believe that he will eventually come back as Minister-President, and if not in that capacity, certainly as Foreign Minister. The new Government can be depended upon to follow a much wiser course than that of Goemboes, and while the German influence will remain strong in Hungary, it will certainly be less in the foreground.

I continue to get interesting news concerning the position in Germany, but as I wrote you at some length recently, I shall refrain from comment at this time. Goering, as was anticipated, has been made Price Controller, and this is a clear indication of the serious internal economic situation. The raw materials situation is not improving. The Church struggle shows indications of becoming more acute. Streicher is restive under the controls which have been placed on him and is endeavoring to stir up more active action against the Jews, against whom the already inexorable program is proceeding. It will be very interesting to watch the developments in the raw materials and foodstuffs

situation in Germany for this is the major internal concern of the Government now and all indications are that the problem will become more serious for them.

There is just one interesting observation which I think I should make to you. The other day the wife of one of my German friends who happened to be passing through Vienna lunched with us intimately. I have known her and her husband for many years. He is a nobleman with large land **holdings** in Germany. He was an officer in the Army during the war but in recent years he has been living quietly on his estates and has been taking no part in politics. He has two sons who are doing their military service in the German Army. His wife remarked to me quite naïvely when I asked her where her husband was that he was in Berlin and very sorry that he could not enjoy the fall shooting on his estates. He had been, she said, during the war one of the code experts of the German Government. He was very clever at that sort of thing. He had been called to Berlin and expected to be there an indefinite time as he was elaborating new sets of codes for the German Government. It is strange how some will not believe in the real preparations which are going on in Germany for this war which she is determined to make if she is given the chance. The preparations cover not only the Army and Navy, but every German is being mobilized and put to work who has shown any capacities for any special work, in preparation for that war.

What will take place at the Vienna meeting of the Foreign Ministers of the Rome Protocol States in early November will depend largely on the result of Ciano's present visit to Berlin and the degree to which, if any, agreement may be reached between Berlin and Rome on the so violently opposed objectives of Berlin and Rome in Central and South-eastern Europe. All these states realize, as I recently pointed out, that their safety lies in cooperation among themselves and if they do it under the protection of any state they for the present are inclined to look more to Rome than to Berlin. This attitude grows out of their fear of Berlin rather than out of any love for Rome, and behind this attitude there is always the realization that eventual

arrangements in the Danube cannot exclude Berlin. Berlin will use every effort to make the Vienna meeting innocuous. She may succeed in doing this. I personally would not be surprised in view of the real position still existing between Rome and Berlin, if Rome will not consent to soft pedal its action in Central Europe in order not too greatly to antagonize Berlin. On the other hand, I do not believe that Rome is prepared to play second fiddle to Berlin in Central Europe as yet, and for this reason the probabilities are that nothing very definite will be accomplished during the Ciano visit in Berlin as respects Central and Southeastern Europe, and that the Vienna meeting will at least on the face of things, give an impetus to cooperation among these states. Whether the movement in that direction is as yet a permanent one leading to permanent results is doubtful, for there are still major matters between England and France and Italy to be cleared up. Mussolini is not one to make empty gestures and something may come out of this Vienna meeting.

In connection with major policy over here and the developments which may be expected, I think one of the fundamental things to keep in mind is that Berlin is fairly well convinced for the present that there is no hope of her getting any economic, financial, or direct political assistance from England. The results of Ciano's visit to Berlin are bound to be much exaggerated in the press and both Berlin and Rome will, I believe, have to give the impression that more was arrived at than is really the case. Meager as the real results may be, doubt in London will be increased and consequently greater reserve may be expected towards Berlin. Ribbentrop is going to go to London to try to continue his work there, but he has few illusions left that he can carry through the Nazi dream of direct English cooperation with Berlin. Further, I think Berlin has also realized that her policy of driving a real wedge between England and France has so far failed and shows little prospect of success. For this reason they have embarked on and are emphasizing this definite policy of the isolation of Russia, realizing that this will weaken both England and France.

The German effort will be to gather support for the isolation of Russia and for the separation of a Western pact from any arrangements in the East and Southeast. For the first

part of this program, that is, the isolation of Russia, Berlin seems to have gotten the support of Italy, but so far as can be learned, Italy has not yet agreed to give her complete support to the separation of the arrangements in the West from those in the East and Southeast. Germany is going to continue to exert pressure on Rome for greater support for her plans in the West, but there are no evidences yet that Italy is prepared to follow Germany here. How far she will follow Germany in this direction will be largely determined by developments between London and Rome.

The success of the German program to isolate Russia and to definitely separate arrangements in the West from those in Eastern and Southeastern Europe would bring chaos into this area in Southeastern Europe where a greater degree of order has come to prevail, and Austria would be forced into the arms of Germany although her formal independence might remain. This is a development which the Austrians fear and for this reason are so interested, as I have already said in this letter, in better understanding between London and Rome. It goes without saying that the policy on which Germany has embarked is one with which her great friend in the East, Japan, is entirely in accord.

Before closing this letter I should like to relate an incident which has very deep significance but which merely brings into relief something which most of us have known. Before Chancellor Schuschnigg made his speech on October 17, which I have referred to in this letter, von Papen went to the Foreign Office and said that he hoped the Chancellor would be able to say something nice about the accord of July 11. Papen then went off on one of his "shooting trips", telling Stein, the Counselor of the Legation, that he should attend the big meeting at the old Parliament Building during which Schuschnigg was to deliver his speech, and to which the diplomatic corps had been invited. Stein seemed to be in doubt as to whether he should go and called up Papen at the estate where he was shooting to ask for further advice, and Papen suggested that he ask Leopold, in the Legation, his opinion. Leopold is the Party representative in the German Legation here. He told Stein not to go to the meeting. The Austrians were upset that nobody from the German Legation was there and,

informing themselves, found the facts as above. They put it up to Papen when he came back to Vienna a few days ago and he did not deny the facts as above set forth. This simply bears out what I have always said, that although Hitler may use Papen and Papen is a willing instrument, and although Hitler may recently have shown outward manifestations of friendship and confidence in Papen, he really does not trust him and has this party man here from whom Papen takes his orders and who in turn keeps close track of Papen's activities here.

A similar state of affairs has existed in the Italian Legation here for years, where Morreale, nominally the Press Attaché, has been Mussolini's personal representative and has really controlled the policy of the Legation. Now the new Italian Minister, Salata, is himself a Party member, and has told Mussolini he could not see any use of keeping Morreale here. The Germans and Italians are simply carrying through the practice which the Russians started and it is a sorry commentary on conditions over here in the dictatorships.

I have told you the foregoing incident about Papen, for while it merely confirms a general position with which you are familiar, there are, unfortunately, so many people who cannot get it through their heads that the Party controls in these dictatorial states and that one cannot trust the statements made by people who seem to have authority. I am afraid that poor Dieckhoff will be in exactly the same position in Washington and while he may not have anyone there to watch him in the same way that is the practice elsewhere, Dieckhoff will be an instrument of the Party and without authority just as much as his less admirable predecessor, Luther.

I shall not fail to keep the Department informed of any developments of interest.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.

GSM-njp