

Vienna, February 28, 1936.

Dear Mr. Phillips:

I wrote you at length on January 25 and also on February 7 and February 14. In my letter of February 8 to Dunn I was able to give some background which may have been of interest. So far as we can see from Vienna, and it remains an extraordinarily interesting observation post, the developments in the Austrian and Southeastern European situations have been along the line envisaged in these letters and in my recent despatches.

The Foreign Minister returned to Vienna on February 25 from his holiday in Florence and I had a long talk with him on the following morning. It was intended to be, and turned out to be a holiday trip, but while in Florence Mr. and Mrs. Suvich came up to see them. Baroness Berger-Waldenegg and Mrs. Suvich are old friends. Mrs. Suvich had been a Marquesa Paresi and at the time of her marriage, an Austrian from Trieste. The Foreign Minister did not seem to be inclined to talk much about his conversation with Suvich, but he finally opened up to me and spoke quite freely.

He said that although the Suvich visit to him at Florence was really more personal than anything else, they did talk over the general situation. With respect to Austria Suvich had assured him that the Italian interest in and attitude toward Austria had not changed and that he considered Austria's independence less threatened for the moment than it had been for some time back. They obviously discussed the state of Austrian trade with Italy and in a conversation with my British colleague the Foreign Minister later in the day told him that it had been necessary for him to tell Suvich that Austria could not continue to make any deliveries to Italy without payment and that this was getting slower and more difficult constantly.

The Honorable
William Phillips,
Under Secretary of State,
Washington, D. C.

In view of the reports which we have been getting from the press about the possibility of Italian-German agreement or alliance in the face of general developments and as I had just received a copy of one of Ambassador Long's telegrams to the Department in which he still envisages rather strongly that Italy may be driven to such an agreement with Germany, I asked the Foreign Minister whether he had any information on this point. He said that in this respect he could be very categoric. Suvich had told him in the most definite way that there was nothing in the way of any agreement, understanding, or arrangement with Berlin and that he did not see how anything like that was possible. Suvich told Baron Berger-Waldenegg that Mussolini had been glad to talk with the German Ambassador at length and to get the Berlin atmosphere, but that they had found it very bad. I tried to get some precision but the Minister spoke very guardedly. I gathered, however, the inference that the conversation with von Hassel had developed a situation of conditions and exigencies on the part of Berlin which made Mussolini lose all real interest in the conversations.

As you may have seen from my letters and despatches, I have not from the outset shared the views of those who believe that there is real danger of this Berlin-Rome agreement or alliance. I think we have to view these major problems from a certain homely, commonsense point of view. If two people make an agreement there has to be a certain base for that agreement. The two partners have to have a certain confidence in the other that he will keep his agreement: they have to mutually believe that the other is able to bring something into the partnership. Both these elements are lacking for agreement between Rome and Berlin. As I have so frequently pointed out, Berlin has no confidence in Rome as a partner whose word can be depended upon and even less as a partner who can contribute any support in case of trouble. Rome feels exactly the same way about Berlin. But there is another element which is of very real importance in this matter. The dictatorships in both Berlin and Rome are in a precarious position. In spite of external aspects both dictatorships realize this position. They have to manoeuvre consequently with the greatest care. They are not so much interested in saving each other as each is interested in saving itself. They realize that if a real partnership between them were possible it would strengthen the possibilities of both being saved, but whatever basic interest there may be in Rome and Berlin for such an agreement between them, each realizes that the agreement will do more to weaken

their position than to strengthen it and may even precipitate the course of developments. Berlin continues to look upon London with hope and in spite of rebuffs, with expectation. It knows that agreement with Italy in any form will destroy what hope there is in London and the two points of support of the present German regime which remain to it are time for minority difficulties in Southeastern Europe to develop, and these expectations from London. Alliance with Italy would destroy both of these for Berlin. In Rome it is appreciated that alliance with Berlin would definitely destroy all possibility of moderate treatment by Paris and, of course, by London.

If either Berlin or Rome had anything to gain out of such an agreement it would have come into being already. That in spite of the foregoing considerations it may still come into being cannot be left out of consideration, but in that case it will be a sheer measure of desperation in both Rome and Berlin. If it comes as such a measure of desperation it can, in my opinion, only be welcomed for it will accelerate the developments along the course which I still believe necessary before there can be any assurance of peace in Europe. The two Fascist regimes in Rome and Berlin must disappear before there can be anything like peace. I think the developments in the Far East are showing us this, and the 25th of February in Tokio is a combination of the 30th of June in Berlin and of the 25th of July in Vienna, 1934. Japan has learned its lesson from the Occident very rapidly in many ways. The brutalities and the wholesale assassinations and the disregard of the popular will, as just shown in an election, which we have just seen in Japan are the expression of the way that these Fascist regimes work when they get into action and are a forerunner of what we may expect to see in Europe if once Fascism can really get on its feet and become an export article. It is interesting that the VOLKISCHE BEOBACHTER in Berlin, and the Berlin press for the most part are the only papers in Europe which can openly express satisfaction with the Tokio murders.

The situation in France seems to be developing fairly satisfactorily on the surface, but so far only half-way measures have been taken towards suppressing the Fascist organizations there. It is well enough to have taken the action against the Actions Francaise, but until the Croix de Feu and the rest are definitely dissolved the danger of Fascism in France is not definitely removed. If France should be added

to the group of Fascist states in Europe I need not comment further to you on the possibilities. I do not personally believe that this will be the course in France. I merely wish to point out that the danger is not past and that this lack of decisive action is one of the great dangers.

I have given you in full in my letters and despatches the background for the Austro-Czech trade treaty. The Foreign Minister had dinner with us informally at the house on the evening of February 26, as we had him in to meet Bliss who was spending a few days in Vienna. After dinner I was able to continue my conversation with him of the morning and he told me that agreement has been reached in principle on the treaty. Hodza is to come to Vienna from Prague on March 8 for two days here and if the long, complicated treaty is not ready by that time a protocol or modus vivendi will be signed during his stay. It will be at least another week before any news will be given to the public concerning the treaty and the happy outcome of the negotiations, and the Foreign Minister did not conceal his satisfaction that it had been possible to arrive at this end. The details of the treaty are still being carefully guarded, but it will provide for arrangements by which the Austrian unfavorable balance of 91 millions last year with Czechoslovakia will be reduced by at least 15 to 16 million schillings. You will find that a certain part of the European press which is opposed to this Central European cooperation will minimize the results, but in my opinion the significance lies not in these few millions of reduction in the trade balance, but in that any agreement was reached.

When one remembers that in both Austria and Czechoslovakia there has been mutual distrust and dislike extending from higher officials of the Government deep down into the population, and when one realizes that the Little Entente was formed largely with the objective of putting Austria into a straight jacket, the real significance of this agreement comes out. That the treaty is so long (it will probably be about 300 pages) merely indicates how difficult it has been to arrive at an agreement in view of the parallel nature of the economy of the two countries. It is a definite, concrete, and I believe even a considerable step in the movement towards South-eastern European cooperation and of self-help among these states to build up a barrier against German political aggression.

A good deal of credit is due to Czechoslovakia for her attitude which has made this treaty possible. It is true that this changed attitude in Czechoslovakia grows out of her own internal problems, out of her increased fear of Germany, out of the weakened position of Italy, and out of the feeling that no matter how vitally London and Paris may be interested in maintaining the Southeastern European status quo, their striking power in its defense is slower and less direct. The Czechs are a hard-headed and a difficult people, but they have a very intelligent leadership now. Benes, Hodza, Krofta, should make a good team. The more liberal attitude of the Czech Government towards Austria and its leadership in the movement for Southeastern European cooperation have forced Henlein out of his equivocal position. You will remember that I have pointed out the dangers of this man and of his Party. His speech in Prague a few days ago, which was his first important appearance in the capital, was a definite acknowledgment of his position as a leader of a German minority completely out of sympathy with Czechoslovakia. He definitely said in his speech that his Party could not for the present pursue its political program, but must follow out its spiritual and social ends. This spiritual and social program he outlined very completely in a manner identifying it in almost every point with advanced German National Socialism. Not once in his speech did he indicate that he and his Party would work as good citizens of Czechoslovakia. This movement in Southeastern Europe for cooperation has forced him into the open and this is all to the good. He does not represent all of the German minority and now that he has so plainly shown his complete identity with the Nazi movement in Germany, the split in his own Party will become more apparent and I believe that his position will become weakened instead of strengthened. This, however, depends upon the developments in the general situation and if there is a weakening in London and Paris towards Berlin, Henlein's position will gradually grow stronger.

The Austro-Czechoslav treaty had to come into being or this whole movement, which is so happily under way, would have had a very bad setback. Hodza has been in Belgrade and the Foreign Minister tells me that he fears that the results did not come up to Hodza's expectations. The Turkish Minister of Foreign Affairs had passed through Belgrade a few days before to help prepare the way, but the internal situation in Yugoslavia

is not happy. The Croats and Slovenes are both restless and the other evening in Zagreb there was a real demonstration in the theater against Belgrade. The trouble is that Yugoslavia is not yet a nation. They have not been able to iron out their internal difficulties and it will take years. This is probably why Prince Paul was so discourteous to Starhemberg in London and in Paris, and it certainly is the reason why Yugoslavia takes this attitude towards restoration in Austria. The Yugoslavs fear, and probably with a good deal of reason, that if there is a Habsburg in Austria, movements will be set on foot among the minorities in the various countries of the old Empire and particularly in Yugoslavia, which will lead to the disintegration of the Kingdom.

The German activity down there has been particularly active recently. Goering's visits and promises have not been without success and although they have difficulty in holding together the territory they now have, they are attracted by the promises of slices of Austria and Hungary which he has agreed they shall have. More latterly Papen has been very active through his intermediaries there, in stirring up the fear of restoration in Austria. You will remember that in one of my recent letters I said that Papen was telling certain people here that "Hitler was no longer opposed to restoration in Austria". This is the line on which he has been working through his intermediaries in Southeastern Europe, particularly in Belgrade.

It was this internal situation in Yugoslavia, still present fear of restoration in Austria, and the German promises and propaganda which created the unfavorable background for Hodza's visit and although the official communiqués sound encouraging, it is not probable that he got very far towards calming the Yugoslav Government or towards preparing the way for more active cooperation with Austria and Hungary.

The Hodza visit to Vienna, which the Foreign Minister tells me has been definitely fixed for March 8, is likely to be much more successful. The announcement of the signing of the treaty, or at least the protocol, and the atmosphere which will be created by the visit here, will be a great advance. The Foreign Minister and the Chancellor are thinking of going to Budapest on March 13. Their objective will be to convince the Budapest Government that this agreement was not only unavoidable, but that it opens the way for advantages to Hungary as well. Budapest out of the narrow policy which it has followed

would prefer not to see this agreement at all. Austria will have to persuade Hungary that the agreement in no way disturbs the close relations between the two countries, but that Hungarian cooperation has distinct advantages for Hungary. It would be too much to expect that Budapest's position will change merely as a result of the contemplated Austrian visit, but I nevertheless believe that together with other things it will have its effect. The Hungarian papers are already saying that Hungary cannot be left out of any Danubian arrangement. When Budapest sees sufficient impetus in the direction of cooperation, she will come slowly into line. The German influence through Goemboes is still strong there, but the attitude of the Regent and the Foreign Minister, Kanya, is much more reasonable.

With my confidential despatch No. 713, of February 27, I sent the Department an editorial which recently appeared on von Papen and his activities in Southeastern Europe. As one familiar with Papen's activities since before our participation in the World War and who has had particularly intimate contact with his activities in Germany and in Austria in the last few years, I can only say that the article is based on fact. The frank way in which his insidious activities in Austria and in Southeastern Europe are covered in this editorial and the news item in the GUARDIAN transmitted with the same despatch, had its effect in Belgrade. The press attaché of the Yugoslav Legation here sent for the correspondent of the MANCHESTER GUARDIAN here this morning and obviously under detailed instructions from Belgrade told him that the Hodza visit to Belgrade had had much more good effects than the newspaper articles indicated. The Yugoslav press attaché here is known to be in close contact with Papen and he endeavored in every way possible this morning to give the GUARDIAN correspondent a good impression. Yugoslavia, he said, believed in the Little Entente, which was a very real thing. Yugoslavia would render not only lip service, but real cooperation within the Little Entente. His country was prepared to cooperate with Austria, but wished Austria to give a stronger reassurance on restoration than the statements up to now that the question was not "actual".

He went so far as to say that the visit of Hodza to Belgrade had removed the obstacles in the way of a visit of the Austrian Chancellor to Belgrade and that such a visit might be arranged now. Yugoslavia, he said, appreciates that Nazi Germany is as much a danger to it as it is to Austria and it was wrong to say that his Government would look with favor on Anschluss. It was as much against Anschluss as against restoration. But, he said, Yugoslavia had to keep up her commercial

relations with Germany. His country had already 600,000,000 dinar tied up in Italy as a result of participation in the sanctions. Germany might not be able now to pay for what they got, but they had to try to keep as much trade going as possible and endeavor to get paid.

I consider it quite significant and encouraging that the Belgrade Government should have thought it necessary to take so much notice of this editorial and news item in the GUARDIAN. I felt that they were important and that is why I mentioned them in my despatch No. 713. It was quite clear that the press attaché and the Minister, who both saw the GUARDIAN correspondent this morning, were acting under very detailed instructions from Belgrade. The action supports the view held by some observers here as to the good effects of Hodza's visit to Belgrade as these observers were more optimistic than was the Foreign Minister here in his comment which I have given in this letter.

The Polish position is, I think, in some ways more encouraging. As I have continuously pointed out, Poland and Hungary are going to stay on the fence as long as they can, but it is growing increasingly difficult for both of them. The Polish-German economic relations are getting worse. Germany has offered to pay Poland some of what she owes her through delivery of war materials. This solution would be received favorably by certain elements in Poland, but it is not practicable. The Polish Government would have to pay the Polish banks and commercial interests who are the real creditors of Germany, and the Government hasn't the money. The Poles are now trying to get financial help in London. It is obvious that London is not going to give Warsaw money with which Warsaw can facilitate the importation of war material from Germany. Besides these economic factors, the action of the French Chamber in ratifying the Franco-Soviet agreement in face of the developments in Japan, will show Poland the firmness of the British and French position. The developments promise to be such as will force Poland and Hungary out of their present equivocal position and this will contribute materially to improvement in the general situation.

That the situation in France is better under the Sarraut Government is shown by practically all that has happened since it came into power, but more particularly by the calm with which the news of the Japanese disturbances was received in Paris, and by the ratification by the Chamber of the

Franco-Soviet Pact two days afterwards. There is a good deal of talk about the Senate not passing it, but I think a majority is certain. The indications so far as they can be seen from here, are that the Left Party will get about 80% of the vote in the next French elections and this should strengthen the co-operation between London and Paris and clarify the situation with respect to both Italy and Germany.

It is distressing that the British position, although I believe it to be fixed now, is not altogether clear. The last Eden speech was a good deal of a disappointment to many people and although British prestige is now very high on the Continent, it has suffered some shocks recently and it would be very disastrous if these are repeated. It seems almost inconceivable that a man like Londonderry could go to Berlin and see and hear all that he must have seen and heard, and then return to England and say publicly that England must take every precaution that in the next war she and Germany are on the same side. Londonderry, as you know, is a disappointed and embittered man. He had to get out because he failed to do his job in the air ministry. He is more interested in re-establishing his position than he is in trying to avoid England's being involved in a great war. I have definite reports about the way he was taken care of in Berlin. He was treated like a King and Goering saw to it that every minute of his time was taken up. Londonderry had promised faithfully that he would come to Austria, but Goering's attentions were sufficient to divert him. A few years ago I would have said that mere flattery and attention, much as smaller men may fall for it, would not affect certain people, but I have never seen flattery and attention accomplish so much as the Nazis have been able to do with it in Germany.

I am not going to comment further on the German situation now, except to say that I have had most interesting information from Catholic sources recently. You know that for the present the resistance of the Catholic Church seems to have somewhat subsided, while the Protestant resistance, which had become weaker, is in the foreground and really very strong. From dependable and very high Catholic sources I learn that the Catholic Church has felt that the Party is for the moment so strongly entrenched that the Church can accomplish little by widespread open action. The only result the Church sees is in increased arrests and persecutions. Quietly the resistance

is being organized more definitely than ever without open provocation, but my informants tell me that the Church has no intention whatever of lessening its resistance, but is rather engaged in organizing its position while in the meantime the Protestant Churches are carrying on more in the open, just as the Catholics did when the Protestant resistance was in the background.

The situation within Germany is certainly not getting any better and the position of the Government is growing constantly more difficult. I know that there are those who give this Government a long-life ~~story~~. I have not been and am not yet among those who believe that. If one judges from the external evidences of power and from the still present show of power, then indeed the regime seems formidable and able to last for some years. The fact, however, is that the base of power of the regime is constantly growing smaller and it now rests practically on the Army and the Police. The Army is still satisfied to support the regime and will be probably as long as the regime can continue the armament program in a degree to satisfy the Army. The Army is constantly, as the result of this unholy association, being drawn more into politics, but this very fact decreases its ~~latent~~ power. A financial or economic crisis if it comes within the next year, will still certainly keep the Army behind a new conservatively directed Government. The events in Japan of the last few days are disquieting and show what the Army's directives may be in the end if the present state of affairs continues sufficiently long. *shaking*

I still believe that the financial and economic factor will bring this regime to its knees and to defeat. It may take another year, it may even conceivably take longer, but just as sure as it is that the regime cannot change its directives or become more conservative, just so sure it is that the economic and financial factors will destroy it in the end. It all depends upon the pressure from the outside being maintained firmly and unalterably, and to those who oppose this pressure it is necessary to make it clear that it is not pressure against Germany, but against a regime in Germany which threatens to wreck the country and Europe.

There is nothing to add with regard to the situation within Austria, which remains on the whole quite satisfactory. Perhaps I should point out that this entire movement for South-eastern European cooperation has two objectives; first, to remove

66a

- 11 -

as many of the trade barriers as possible among these states in order to assure their economic existence, and second, to serve as a defense against German aggression on their political sovereignty. These two objectives, however, in no sense, and this cannot be too strongly emphasized are neither a threat to Germany nor inimical attitude towards her. All these states want and need close economic relations with Germany and any arrangements which they may enter into will be arrangements in which it is always contemplated that Germany can be a partner; a much wanted and a necessary partner. This holds true for Italy as well. But they do not want political or military tutelage from either Germany or Italy.

Mr. and Mrs. Bliss, as you know, are taking a trip through these parts. She was taken with a bad cold in Moscow and they hurried down to Prague and she had to go to bed at the Butler Wrights with what seemed a mild attack of bronchial pneumonia. Mr. Bliss went on to Budapest and was here for a few days. Butler Wright called up yesterday to say that Mrs. Bliss was not so well and he thought it better for him to come back. So he returned to Prague yesterday evening. I heard yesterday evening from Prague that her condition had again improved but I gather that she has been in reality quite ill. She is getting the best possible care and it is very fortunate that she got as far as the Butler Wrights before she had to take to bed. I thought you might be interested in this news of them. I am keeping in touch with Prague and hope that she will soon be much better, for Butler Wright seemed to be somewhat concerned.

With all good wishes,

Cordially and faithfully yours,