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Vienna, January 25, 1937.

No. 1337.

Subject: DEVELOPMENTS IN THE AUSTRIAN INTERNAL
AND EXTERNAL SITUATION.

CONFIDENTIAL.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Legation's confidential despatch No. 1011 of January 11, 1937, reporting on developments affecting the Austrian internal and external situation, and to submit the following supplementary information.

At the time of the Legation's despatch above referred to, the holiday period over Christmas and

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the New Year had resulted in a virtual suspension of Austrian governmental activities. A minor crisis concerning relations between the Provincial Government of Styria and the Federal Chancellery, a crisis decisively settled by the Chancellor, was, however, reported, together with certain views provided by a usually well informed source on the general international situation. There have been no further repercussions on the provincial crisis above referred to, which arose out of old clerical-peasant rivalry with the now dissolved Heimwehr, but the internal Austrian situation has since been submitted to other disturbing influences.

On January 18, 1937, with confidential despatch No. 1083, the Legation forwarded translations of a memorandum transmitted to Chancellor Schuschnigg by Captain Leopold, the present Austrian Nazi leader, together with comment thereon. That memorandum, which theoretically embodied minimum Austrian Nazi demands, (Austrian Nazis now call themselves "Nationalists") was not badly conceived and reached its high point in the specific recommendation of Dr. Guido Schmidt, present Secretary of State for Foreign Affairs under the Chancellor, for the post of Austrian Minister for Foreign Affairs, a portfolio now held "on titre" by Dr. Schuschnigg. It is needless to speculate on the embarrassment caused Dr. Schmidt by the memorandum under reference, which was most certainly read by the Chancellor. Reference was made in the despatch accompanying the memorandum referred to, to the foundation . . .

foundation of the Österreichischer Verein in Graz under General Glaiss-Herstensen, Minister of the Interior, an organization in reality a Nazi cell, and in confidential despatch No. 1023 of January 21, 1937, the foregoing was amplified to include the recent formation of three "protective societies" consisting of ex-Heimwehr partisans, headed by Prince Starhemberg, Major Foy and Herr Heustädter-Stürmer, Minister for Public Security, respectively, organizations formed ostensibly as mutual aid societies for distressed Heimwehr veterans, but actually for political reasons. The largest of these organizations by far, that of Prince Starhemberg, is pro-restoration and non anti-Semitic, Major Foy's organizations holds the same views and is only differentiated from the Starhemberg group by the old Starhemberg-Foy rivalry, while the organization of Herr Heustädter-Stürmer is frankly Nazi and anti-Semitic. Interestingly enough, the articles of organization of the Foy and Heustädter-Stürmer groups so far have failed to pass government muster, although those of Prince Starhemberg were immediately approved. A few qualified observers see in this a possible return of Prince Starhemberg to power. A fourth section of disgruntled ex-Heimwehr men who are tending in Christian ~~Social-Democratic~~ political directions will be reported on later in this despatch.

Thus as far as the Austrian internal political situation is concerned, after a period of comparative calm there are indications that the Chancellor's authority is being challenged from more directions

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than one. The frankly Nazi Ostmärkischer Verein with General Glaise-Horsteneau and the equally Nazi ex-Heimwehr group under Herr Heustädter-Stürmer are definitely in the opposition, although it is doubtful that they will dare an outright test of strength with the Chancellor at this moment. It is generally believed that the Starckenberg-Fey ex-Heimwehr groups can be easily won over to the Chancellor at a price (a Legation informant said "ribbons and Trinkgeld") but if they are not, the rank and file might easily slip to the extreme left or right, despite their leaders. Against these shifting elements the Chancellor can rely upon the Catholic clericals represented by ex-members of his own former para-military formation, the Ostmärkische Sturmscharen, Herr Reither's Peasants' Union which detested (and still detests) the Heimwehr and the Nazis, not to mention Herr Hunschak's Christian Socialists, who have always agreed with the Peasants' Union in a common anti-Heimwehr and anti-Nazi aversion. The Legation has reported on this alliance on several occasions during the events of 1936 which led up to the dissolution of the Heimwehr in October last. In short as far as the civilian population is concerned, it is believed that the Chancellor can count at the moment on a 60:40 majority, should he decide to face down Nazis and ex-Heimwehr alike. Should he decide to treat with the Starckenberg ex-Heimwehr group (and the Fey group would probably follow suit) his majority would grow in return for concessions in prestige. It

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is hardly probable that he will treat further than he has with those Nazi elements represented by General Glaise-Korstenau and Herr Neustädter-Stürmer.

There remain, therefore, the army and the police, of which the latter as a result of the authoritarian state is the more immediately important in case of subversive activities. The army, there is good reason to believe, is with the Chancellor today as it was yesterday. It is not, however, an agency in constant touch with anti-governmental trends. The police is. In October last, when the Chancellor officially dissolved the Heimwehr, he could count on the army and the police, for the one thing that the police at that time could agree on was a common dislike of all officious para-military formations. Now that the Heimwehr are relegated to the background, however, the police are free to indulge in political opinions of their own, and the Legation has learned from good sources that they are somewhat riddled by various ideologies. The Legation's sources consider that approximately 25-30% of the police are Nazi sympathizers, while it is known that Dr. Skubl, present head of the Austrian Police, was a member of the old Pan-German party whose former members today are mostly ardent National Socialists. Forty-five to fifty per cent of the Austrian police are legitimists, which in view of the Chancellor's known sympathies means pro-Government, while the remainder are content to keep their positions irrespective of who is in power. Here it may be mentioned that the Austrian Police come under . .

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under the supervision of the Minister for Public Security, now Herr Heustädter-Stürmer, whose Nazi activities and sympathies are earlier referred to in this despatch, as well as in those numbered 1032, and 1033, of January 18 and 21, 1937, respectively.

The Chancellor, as a result, is faced with an incipient and growing internal situation which challenges those faculties of shrewd compromise and delay which times past have shown to be his. He has also in the past demonstrated his willingness and ability to act at unexpected moments. It is not improbable that he will do so again in the near future through a cabinet reorganization which may leave out, among others, Herr Heustädter-Stürmer, present Minister for Public Security. (Reference the Legation's confidential despatch No. 1033 of January 21, 1937). Recent strongly worded editorials in the NEUCHNITS-VEHBLATT, his personal press organ, certainly give that impression. There are, moreover, other contingencies to be taken into account. The Chancellor, as the Department is aware, is a confirmed legitimist in principle, although too practical to force an issue when that issue is liable to failure from the start. He has long considered a restoration the last card to play in favor of an independent Austria. He is said to feel in the present condition of Europe that in playing that card he will have the tacit consent of England and France, a protest but abstention from action on the part of Czechoslovakia and Rumania, and the downright hostility of Yugoslavia and to a lesser degree . .

degrees, Germany. He is said to consider, as a result, that Italy holds the scales. Should, therefore, the internal situation grow worse, and should Italy give its blessing to a restoration, the Legation believes that a return of the Archduke Otto is not beyond the realms of possibility, although still far from imminent. The following quotation from an editorial in the Chancellor's personal press organ, the Vienna ~~KNICKWITZ-SCHTELATT~~ of January 23, 1937, may not be irrelevant in the foregoing connection.

"Time works for restoration, but in Austria itself there remains many a thing to do to enforce legitimism in ever growing circles. It is above all necessary to implant the idea of a socialist monarchy as understood by Emperor Otto among the masses, and as was illustrated by him in his New Year's Message by the picture of the relationship between the master and farm laborer. It is further necessary to stress the social character of the organization and management of legitimism. Finally, as is demanded by the 'King of Austrian Soldiers' (Reference Page 15 of the set of weekly notes forwarded by the Legation with despatch No. 1086 of January 23, 1937) the front of all legitimists must be closed, for not through divisions or disputes concerning priority but only through unity can we reach our goal."

The reference to a "socialist monarchy" in the above is of interest in view of the fact that the Legation has recently learned from what it considers a reputable source that increasing sections of ex-Heimwehr men in the provinces are joining the Christian Socialist ranks in preference to Nazi, Communist, or Starhsberg legitimist circles. This source reports that Christian Socialist agents are spending money freely in the provinces in marked contrast to the former free spending of Nazi propagandists, and
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infers that the present Mayor of Vienna, Herr Schultz, a prominent Christian Socialist (Herr Rumschak is leader of the movement) may replace Chancellor Schuschnigg should the latter fall. The Legation reserves judgment on this last statement, however, as it has no reason to believe that the Chancellor is contemplating retirement and still considers him strong enough to withstand present vicissitudes provided he does not let things go too far.

Aside from the foregoing, there is nothing to report at present on the Austrian internal situation, as the general domestic economic situation appears to be developing favorably with a reasonably satisfactory winter tourist traffic. There is still no question of schilling devaluation and according to usually reliable information no prospect thereof in the near future.

With regard to the Austrian external situation, the principal and indeed only recent important development has been the progress of the Austro-German commercial negotiations, which were resumed in Vienna on January 11 after their adjournment for the Christmas holidays. On Friday, January 23, a rumor was spread among foreign journalists in Vienna to the effect that negotiations had completely broken down and that the German delegates were to return to Berlin on the following day. This rumor proved to be false and is ascribed in some quarters to Austrian Nazi propaganda, as the fact remains that the German delegates at the moment are still in Vienna. There
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is little doubt, however, but that the negotiations have been a comparative failure, as the Legation predicted, when the original high hopes held out for them are taken into account. The Austrian Government is expected to make a statement within the next few days giving the results arrived at, and well informed circles consider that these results will amount to approximately a 50 million schilling increase in commerce between the two countries, Austria furnishing agrarian products, principally dairy produce, in return for German electrical machines and Ruhr coal. This result is foreshadowed in an article which appeared in the Chancellor's personal organ, the *NAUIGERITS-ANZEIGER*, on January 31 and included in the Legation's set of weekly notes forwarded with despatch No. 1026 of January 23, 1937. The following conversation which I had with Dr. Guido Schmidt, Secretary of State for Foreign Affairs under the Chancellor, early last week would also appear to confirm the foregoing. Dr. Schmidt at that time told me that he was much occupied with the Austro-German trade negotiations in progress, which were very difficult. It was almost impossible, he said, to arrive at any concrete result, as the Germans were not prepared to pay, in all probability because they could not. He had been much disturbed over the form in which Austro-German trade was developing. The Germans, he said, were taking more and more raw materials and agricultural products from Austria and increasing their exports . .

exports of finished articles to Austria. These exports to Germany were not helping Austria, for she was not getting paid, while German exports to Austria were damaging Austrian industries which could not meet German competition on account of the low prices at which Germany was able to sell in this market. Some arrangement, continued Dr. Schmidt, would have to be made, but he intended to see to it that the Austrian Government had full control over Austrian trade to Germany. The Austrian Government, said Dr. Schmidt, intended to see to it that there was a provision in the trade agreement which would enable the Austrian Government to control articles and their quantity which went from Austria to Germany and which came from Germany into Austria. This was the point, Dr. Schmidt said, which interested him the most, and it was a point on which his mind was made up. As far as the agreement bringing about any material increase in Austro-German trade, he appeared pessimistic, and I gathered the impression that circumstances were pressing the Austrian Government to some sort of agreement, so that the negotiations could not be used in Germany or in Austria for propaganda purposes against the Austrian Government. I also gathered, however, that the Austrian Government had no intention of giving way to German pressure. The above is interesting when taken in connection with the Legation's strictly confidential despatch No. 1011 of January 11, 1937, in which a Legation informant . .

reported as stating that he was convinced that the forthcoming comparative failure of the Austro-German commercial negotiations would be the cue for an intensive Nazi propaganda on both sides of the frontier, charging Chancellor Schuschnigg with having sabotaged the agreement of July 11. It may also be of interest when taken into account with the opinion expressed by a few qualified observers to the effect that Chancellor Schuschnigg is delaying action with regard to the newly formed political organizations previously referred to in this despatch, as he does not wish to give grounds for the assertion that he is attempting to break that agreement down. These observers feel that the Chancellor considers the agreement of July 11, 1938, to be on the way to dissolution and wishes to be in a position to throw the blame for that dissolution upon Germany. The Legation reports the foregoing, however, largely as a matter of conjecture.

Outside of the Austro-German commercial negotiations there is little to report on the developments in the present Austrian external situation. There has been no critical comment in the Austrian press concerning the Bulgarian-Yugoslav treaty, and Foreign Office officials do not seem inclined to venture any opinions on the subject. The Austrian press, however, devoted a certain amount of space to President Roosevelt's inaugural address, which is reported in the

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Legation's separate despatch No. 1028 , of January
23, 1937.

Respectfully yours,

George S. Messersmith.

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