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*Handwritten signature*

Vienna, January 27, 1937.

Dear John:

I wrote you some days ago, but very briefly, and it occurs to me that you may be interested in just a few of the recent developments here, as we see them. Fodor has just been in to see me, and he says that he is going to contribute to this new financial magazine which is being founded in New York, and I need not tell you that they could not have a better and a sounder man from this part of Europe.

We are naturally all somewhat interested as to what Goering was doing in Rome, but it is too early yet to have any really good information. He undoubtedly went there to see just what the London-Rome Gentleman's Agreement means. I am told, however, that while he was there he tried to get Mussolini to change his attitude on Austria so as to give the Germans more latitude here, but found an unalterable and definite attitude. Mussolini is said to have told him that Italian policy with respect to Austria was unchanged, and the Austrians here say that they have been told by Mussolini in the last few days that they need not be disturbed over Goering's visit, as Mussolini is just as much behind Austria's independence as ever. I am inclined to think that this is so, for Italy realizes more than ever how important Austria is to her.

The Austrians, of course, have no illusions with regard to the ultimate objectives of Germany with respect to her and Southeastern Europe. They consider these objectives as unchanged and are consequently on their guard. The Austro-German

trade negotiations are not yet finished. The Germans started out with the absurd notion that Austria would take three hundred million schillings a year more from Germany. This would have meant rapid bankruptcy for Austria. In December already the Germans were talking about a hundred million, and before the preliminary negotiations broke off for the Christmas holidays, they were down to sixty million. The negotiations were resumed on January 11th and now there is talk of thirty million, but I would not be surprised if it were as much as forty million. Of these forty million schillings increase in the total volume of Austro-German trade that the agreement is to provide for, eighteen million would be for tourist travel, and the remaining twenty-two for coal, armament material, etc. Whatever the agreement is which will be reached, and it will be concluded in the next few days, I doubt whether it will work out well, for the Austrians are determined not to finance this increased trade at their expense, and the Germans have nothing with which to pay except goods, mostly of a kind which Austria does not want. Some sort of an agreement has to be made to satisfy the agricultural elements here and in order to prevent too strong attacks on the government here from various quarters as sabotaging the July 11th Agreement.

This agreement, by the way, is being subjected to a good many strains, and very few illusions are being nourished. The editor of one of the leading papers here, who was one of the principal people urging the accord, said in private conversation the other day that he doubted whether it would last out this year. From the Austrian point of view, it has certain advantages, but in my opinion the disadvantages were greater than the advantages. Certainly it made the struggle for independence more difficult. It did have the effect, however, of removing the center of interest and probably the principal focus of danger to peace from Austria to other points. Or perhaps this is not an altogether correct statement, for it was really the events in Spain and Morocco which diverted attention from here. In any event, the Austrians know that if this spot is not on the center of the stage for the present, it is not because of any change in the German objectives.

You will have noticed from the press reports that the so-called Nationalists and Nazis have formed

a "cultural organization" at Graz, and that this was immediately followed by similar organizations among former Heimwehr groups. And now the Legitimists have strengthened their organization. It is all a rather strange development, which some of us find it difficult to appraise. It looks to me as though the Chancellor allowed these organizations to be formed in order to lessen the pressure on Austria while these trade negotiations with Germany are going on, and is giving them rope, hoping that they will give him enough to hang them. The information we get is that, under this apparent toleration, the Nationalist-Nazi group is going so far that there wont be any lack of rope with which to hang them. The Chancellor has turned out to be a much more clever politician and strategist than we gave him credit for, and I, for one, am not so disturbed about these organizations as some of our friends are here, for I think the Chancellor's position is very firm and he does not intend to compromise in any way on any major question that would prejudice independence, etc. I think he will bide his time and that these organizations will go. And with them will go Neustädter-Sturmer, for whom few worth while people will shed any tears. Glase-Horstenau is likely to remain in the Cabinet, for, after all, he is one of the burdens of the July 11th Accord, and in himself he is not dangerous, for he is so naïve and has no real personal following. The one thing that disturbs me about these organizations is that Fodor attaches more weight to the situation than I do, and I have great confidence, as you know, in his judgment.

I am convinced that Europe passed through a major crisis in November and December and up to January 10th. That Hitler did not provoke a war during that period, I think gives us good reason to believe that the danger of war through explosion in the succeeding crises this year will be less. When Hitler wanted to send troops openly to Spain in December, Fritsch said it was politically impossible, as it would lead to war almost immediately with France and England, and a war which Germany would start with bread cards and was sure to end in disaster. Towards the end of December Hitler called Admiral Forster and wanted to send four more cruisers into Spanish waters, and Forster said that it was politically impossible, as it would provoke war. And even if politically feasible, the Germany navy was not yet prepared to support so many ships in Spanish waters so far from base. Forster, as you know, had to resign, but Karls, who succeeded him, did not get the same orders. I think it is very important to remember that the first time that Hitler wanted the Army and navy to do something outside of Germany, they refused to do it, or at least indicated that they would not do it. As you and I know, the régime in Berlin is finding it a vastly different thing to try to do these things outside

of Germany which it has been doing with such impunity in Germany. I am inclined to think that this attitude of the Army and navy is not sufficiently appreciated in certain quarters outside of Germany.

It was the conviction of Hitler, borne in on him by his advisers, radical and conservative, this attitude by the Army and navy, the firm position taken by England and France in Berlin on both Spain and Morocco, as well as the moderating influence which I think we have every reason to believe Mussolini exerted, which brought Hitler to the point of abandoning provocative action and which found its expression in his saying to the French Ambassador at the New Year's reception on January 11th in Berlin that Germany did not intend to settle herself in Spain or Morocco. It was really a momentous moment for the régime was saying in so many words that there was going to be no war provoked by Germany for the present.

The internal situation in Germany is growing worse from every point of view, financial, economic, and industrial. Goering recently had to admit that, although guns were more important than butter, bread is even more important than cannon. And you know what bread and potatoes mean to the German masses. There is this lack of meat, fats, and eggs and certain other foodstuffs in Germany, but this, in my opinion, would not necessarily bring about collapse. The foodstuffs situation became really serious when they saw the lack of bread grain becoming as great in February and March as that of fodder already was. Goering has control of the food and exchange situations, and I think they have found the necessary exchange to get the bread grain which they will need in the early spring and summer before the next harvest. The exchange position, however, has not improved, but is getting more difficult constantly, and for the first time exchange has had to be diverted from raw material purchases to increasing foodstuffs. Unless there is a bumper crop this situation with regard to bread grain will become worse again in the fall, and the finding of the necessary exchange for imports will be even a greater problem than it is now. I see the foodstuff 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.

There isn't any question, however, that the exchange position is becoming constantly more difficult, and the raw materials problem is already such that industry and rearmament are definitely feeling it. It is not only rubber which is causing preoccupation, but copper and iron ore are already a serious problem. In practically every raw material the difficulty of getting supplies to keep the wheels turning at capacity, as they have been, is greater. I do not see how, unless Germany can get real relief, which I do not see in sight and which I personally believe should not yet be given, the level of production and therefore of employment can continue. The German factories are for the most part, as you know, already employing more people than they need, and when raw materials are lacking and part of the factory wheels will have to stop turning, employment will have to go down. Even though public aid may keep the stomachs partially filled, the purchasing power of so many will go down further and discontent is bound to become more active. You may be interesting that I do not see it coming so much through a lack of food, as through the inability of an increasing number of the German masses to buy food.

*these things*

All the information which I get from well informed first-hand sources is that the foodstuffs and raw material position is growing steadily worse, and is likely to continue to grow worse this year. Unless there is real relief in the way of credits and markets during the current year, the breaking point will be rapidly advanced. In spite of the way in which Germany has been impoverished during the last three years, the way she is shut off from the rest of the world and the way all contact which there is with the rest of the world is so definitely controlled, have made it possible to do things within 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 had to witness the spectacle of such a great country completely shutting itself off from the rest of the world, or at least controlling its contact with the rest of the world so definitely. We had no prior experience therefore on which to base our judgment. All my financial and industrial friends in Germany, however, are now of the opinion that this juggling is approaching its end, but that, I think, is as far as we can see.

Informed observers, within and without Germany, are of the opinion that the régime cannot last, 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 now there seems to be the general agreement that the end is in sight, and even those who have been giving the present régime a fairly long lease on life, now seem to see the end this year. The information we get here is to the effect that the Party leaders themselves, 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 to the degree that they naturally want to get them, but what they want most and must have to keep going is markets and credits. I believe that 1937 will be characterized by the maneuvers of the present régime to save itself. As I have already said, I believe the most serious crisis was passed through in December and early January so far as Germany provoking a war is concerned. The danger of the régime seeking a way out through war is by no means gone and I think it would be dangerous for us to act or to proceed as though it is definitely out of the way. I do believe that the danger is definitely 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 régime in Germany is slipping and the weight of rearmament there is stationary, if not retrograding. *note*

In my humble opinion, this is, therefore, no time for any change of policy by England or France or by us. I think in this respect Armstrong has done a great service through his book "We or They", for that is the real question. I think it is time that we realized that National Socialism has no flexibility, such as that shown by the other dictatorships. It can make no compromises internally or externally. It is going to show an increasing willingness to make compromises and even certain far-reaching agreements, but all this will be illusory, for the German objectives have in no sense and in no direction changed and they cannot change as long as this government remains in power.

While I think that we are starting the new year fairly well and on the right road, I can see very

real danger ahead, and I feel that in many ways we are entering into the decisive stage. Now that Germany seems obviously weaker, there will be those in England and France, as well as in our own country, who will believe that the time has come to make certain far-reaching agreements and concessions. Many of these people who take this point of view are well-meaning people, but they do not understand what the real situation in Germany is and the impossibility of dealing in the usual way between states with the present régime. There are evidences that we are all so eager for peace that we are apt to clutch at straws, but reason and evidence tell me that we are still adrift on a very stormy sea and need something stronger than straws to cling to. There is no getting away from it that there are no agreements possible with Germany until there is a responsible régime. It may be necessary to negotiate in order to appease public sentiment in various countries - while events in the meantime are taking their course and having their effect in Germany. Any aid given now would only strengthen the present government and pro-long the agony of Germany and of Europe. You and I know that it is better to wait a bit longer, even if it is more than a year, than to accept some intermediate solution which would postpone war but which would make it practically certain that war would come. We are on the path which may avoid war for many years, and we must keep to that path.

I am sure that you must have been tremendously encouraged by the speech of Blum's at Lyons the day before yesterday. It is encouraging, for it shows an inner solidarity in France that was essential, and that England and France, in spite of their desire for peace, are not going to accept the German system of bilateral pacts and of a Western agreement that would leave Germany free to work her will to the East and to the Southeast and make certain that war which all of us wish to avoid. We may often disagree with French policy, but in their thesis that peace in Europe is a collective matter, they are correct, and the increasing French-English coöperation, so painfully arrived at, is having its good effect. We can only hope that this growing English-French coöperation will continue, for it is the only thing that can preserve the peace and pave the way for the beginnings of political and economic recovery.

I can tell you frankly that I sometimes tremble

over the mistakes which may be made over here and at home during this year, for we have entered into the decisive phase. While the internal French position is so much better, this hysterical desire for peace adds strength to that group in France that wants to deal prematurely with Germany. In England the financial circles cannot get away from this desire to treat with Germany now, and I am sorry to say that financial circles in big centers have not shown themselves in recent years either very wise, very sane, or as having vision. At home we still have plenty of people among the idealists who are so interested in peace that they cannot see the realities that must be faced to arrive at peace. Then we have a financial group that is interested only in money and cares nothing for peace. These groups are weaker than they were, but they are still strong and they are beginning, with increased prosperity, to push out their heads from their holes, to which they had so cowardly withdrawn. There is, therefore, something for all of us to do, and, while there is little that we can do at home in a positive and direct way, there is much that we can nevertheless do which will be constructive. I think we can do most by stiffening the attitude of England and France, and that will be most effectively done by our not passing any neutrality legislation that will bind our hands too much and at the same time by not changing our own policy. It is no time for us to negotiate with Germany. It is no time for us to try to sell more to Germany. There are a lot of selfish interests at home that cannot see further than their noses. They are anxious to sell copper and cotton to Germany today, not realizing that the present régime in Germany is bound on the establishment of conditions which will make them free of our markets. If we look forward to continuous and profitable markets in Europe, there shall have to be another régime in Germany, for the present régime there, while eager to buy from us now, only wants to do so to rid itself of what it calls its "bondage" to us. If we do not give any aid and comfort in any form to the dictatorships and merely maintain our present attitude of not negotiating until we have a responsible government to negotiate with and of not selling unless we are paid, that in itself will be very constructive action on our part.

As you know my views on neutrality legislation, I shall not enter into that part of the problem. I

have the feeling that the disposition at home is to give greater power to the President to act as our interests may demand, and that is the only safe policy for us. Any other policy would only encourage the dictatorships, discourage the democracies, and tie our own hands, facing the future which none of us is wise enough to tell what it may bring.

The question as to what will come in Germany should this régime break down is what is bothering so many people. I think of that we need not be afraid. There are plenty of elements in Germany to form a good government, and, if it comes to a breaking point, the Reichswehr will take hold. Then will come the crucial time. The government established will undoubtedly be one strongly oriented towards the Right, but that is the only kind of government possible in Germany for some years, and Germany will have to learn her way back painfully to democracy. Then will come the crucial time for Europe, for things will have to be done, and the manner and the degree to which they are done will determine the directives of the new government. And on the directives of the new government will depend much for the future of Europe. If the democracies maintain a firm attitude and are sufficiently generous, but wise and reserved when the time comes, real constructive action for the future will come. I hope that we will not repeat the mistakes of the past by being too small or too weak or too niggardly or too generous when that time comes. The world is going to require some very constructive and some very wise guidance in the next few years.

I shall be glad to get home in the spring to have contact with my friends in different parts of the country. I think all of us who know the position must see that we do nothing at home to interfere with the favorable course which events are taking here. Our attitude will unquestionably be to a certain degree a selfish one, but it must at least be one of enlightened and not blind selfishness.

I wonder whether by any chance you saw an article which Oswald Villard wrote and which I believe was syndicated, entitled "The Sale of Ambassadorships". A copy of it came to my hands and I am sending it to you herewith. I was quite flattered that Mr. Villard should put me in such distinguished company, and quite

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flattered by the continued confidence which he has in me. I am glad, however, that someone else went to Russia, for the title of Ambassador has no charms for me and I prefer Vienna to Moscow. Of course, he only used my name to illustrate a point of view.

I hope this finds you both well, with good progress on the book, and my wife joins me in all good wishes. Mr. Fineman called me up yesterday to say he was leaving for London. We had the pleasure of seeing him several times at the house, and I am sorry that we have not had him there in the last weeks, but now is the Vienna season and we have been very much tied up.

I have enjoyed this chat with you, and the foregoing, of course, is just for your personal and confidential background.

Cordially yours,