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Vienna, July 11, 1935.

*Personal*

Dear Dunn:

I last wrote Mr. Phillips briefly on July 5 on the Austrian situation and under date of July 8 I wrote him at considerable length, giving what I hope will be found to be an interesting review of the general situation over here as seen from Vienna. I am sure you have seen these, and as in the despatches which we are forwarding this week I have fully covered the developments here, I will refrain from any intimate comment on the Austrian situation in this letter. I may, however, bring to your attention my strictly confidential despatch No. 487, of July 11, on the restoration question, which gives, I believe, the accurate picture of this situation as it now stands.

I am writing you today, as I want to bring to your attention certain articles which have recently appeared in the London TIMES, and while I am sure that the TIMES is read by you or for you in the Department, there is the possibility that these articles, which are really very significant, may have not been brought to your attention. You will remember that I wrote to Mr. Phillips on June 6, 1935, commenting on the change of attitude of the London TIMES, beginning in January of this year. Within the last few weeks there has been a perceptible swing back to its former correct and firm attitude with reference to developments in Germany and, as I pointed out briefly in a recent letter to Mr. Phillips, I believe this is due more to a facing of the facts than to the unquestionable decrease in circulation which the TIMES suffered as a result of its change of policy.

First, I wish to bring to your attention the letter of Hamilton Fish Armstrong, which appeared in the TIMES of June 20 and which is really excellent.

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I am also attaching the reply which Mr. Young made, which requires no comment, for it endeavors to cover weakness of argument with facetiousness, very much out of place in the columns of the TIMES in view of the seriousness of the issue. (Enclosure 1). I understand that Armstrong is over here in Europe, but we have not yet seen him in Vienna, although I hope he may get here.

The TIMES is again publishing real comment on the church and economic situation in Germany, and Ebbutt, who had been called to London and given to understand that he was to soft-pedal on these matters, has evidently again been given greater liberty. Ebbutt is undoubtedly the best informed correspondent in Berlin today on the church and social questions, and he follows the economic end almost with the same care which he gives to the political aspects of the régime. He really writes with authority, and it is of a value which cannot be overestimated that he can write again more freely.

There has been, as you have been informed, I am sure, by those who know it better than I, a new campaign in Germany against the Church, the Jews, professors, student organizations, and all those not disposed to swallow whole the Nazi ideology. The recent speeches of Goebbels, Frick, Rosenberg and Streicher have been fully reported in the TIMES, and the speech which Goebbels made on June 30 in Berlin is so important that I am transmitting the TIMES article herewith (Enclosure 2). There are passages of this which undoubtedly made a deep impression in England, where there was a tendency in certain quarters to believe that the campaign against the churches had really let up.

I am also sending you a clipping (Enclosure 3) from the TIMES in June, in which Ebbutt makes it clear that the imprisonment of the clergy in Germany continues.

As I think it is unquestionable that the recent tremendous pressure in London by the Germans for the naval and air pacts is traceable to their serious financial situation at home and their desire to open

the way for credits, etc., in London and perhaps with us, and as there is a disposition in certain circles in London to be favorable towards credits, I am sending you herewith Ebbutt's article from the TIMES of June 26, in which he gives information of primary importance with regard to the financial and economic situation in Germany. I know that Ebbutt knows what he is talking about, and the contents of this article are in accord with the information which I get here from firsthand and absolutely reliable sources. I think that Dr. Feis particularly would be interested in this article. It is one of the most important and authoritative articles which has been written on the economic situation in Germany within the last three months, and there are statements made therein which are of basic importance from the point of view of policy. (Enclosure 4).

I am also sending you herewith a clipping from the TIMES of July 9, which is also of fundamental importance, for in it Ebbutt points out in an authoritative way that these people who go to Germany for a brief stay and who return with a glowing picture of what is taking place there really do not know what they are talking about. I have marked the most significant parts of the article, but it is really worth reading in its entirety. I know only too well from actual experience, particularly with Englishmen and Americans who have been in Germany, what misconceptions they carry away after a brief stay and how dangerous these can be. Ebbutt has pointed out the real situation in this respect in an admirable way in this article, and as we have an increasing number of people going to Germany this summer who will come back with a distorted picture, it would be splendid if this article of Ebbutt's could get publicity at home. (Enclosure 5).

It is not improbable that all of the foregoing articles may have come to your attention, but they are really of such primary importance that I feel sure that you and Mr. Phillips will be interested in looking at them, if you have not already seen them.

Within the last few weeks I have seen fewer of my German friends and have had less direct information from Germany than I usually have, but it seems

pretty clear that things are not going at all well there and that dissatisfaction is becoming more evident and open and is beginning to find concrete expression. According to the DAILY HERALD in London, illicit handbills have recently been circulated, principally among workers, calling attention to the fact that the principal foodstuffs are now much more expensive than they were during Brüning's chancellorship in 1932. There is no question but that living costs are rising in Germany and earning capacity going down. In spite of the fact that strikes are forbidden and almost impossible under the organization of the Nazi labor front, the MANCHESTER GUARDIAN correspondent sends out news of substantiated strikes in certain industries, which while isolated and not yet involving any considerable number of workers, are extremely significant. Although the figures for unemployed show constant decreases in Germany, this is arrived at through various expedients which have decreased the income of the employed workers to an impossible degree, and in industry a constantly greater number of workers are only employed anywhere from fourteen to eighteen working days a month, with corresponding decrease in income. Schacht's levy on industry, in order to get the billion marks for the export trade, is in full swing and is being carried through effectively, for no transaction is allowed without the Government taking its percentage for this fund, but this procedure is making even greater difficulties than Germany had before with other countries, because practically no transaction is possible with a foreign firm unless it pays its 3 to 4 per cent into the fund. A Viennese banker compared it the other day with Germany sitting as a robber baron in the Middle Ages taking toll from everything that passes through his territory. Schacht has not found any way yet to raise money to keep the internal program going, and it seems that a capital levy is all he has left.

Perhaps it is this realization of the really serious economic situation, with its possible consequences to the régime, that is the cause of the otherwise inexplicable emphasis on the social program at a time when Germany is trying to curry favor in England and elsewhere. Sixteen university professors,

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of whom only a few were Jews, have been let out recently, and others have been let go since. Frick has let it be known that the sterilization law is to be applied, implacably, no matter what the Catholic or Protestant Churches may say, and the whole church situation is on the point of becoming more acute again, with the possibility that the Vatican policy of patience may be altered. Rosenberg's and Frick's and Goebbels' talks on the Church have been more direct and less measured than for well over a year. Against the opposition of National Socialist youth organizations, von Schirach is trying to carry through the dissolution of the fraternal organizations in the universities. Streicher is determined to carry his violent anti-Semitic campaign into Berlin and is evidently doing so with the approval of the Party.

The Austrian Legion has undoubtedly been reuniformed and rearmed and, at least in certain numbers, brought back to Bavaria. The anti-Austrian articles in the German press are again more violent, and some of them are, of course, outrageous perversions of the truth or without any foundation in fact whatever. The promulgation of the law returning some of the Hapsburg property has given rise to fantastic articles in the German press.

Perhaps all this indicates a nervousness growing out of the economic and financial situation, but it will be possible to tell more definitely in another month what it all really means.

In the meantime, the general situation seems to be a little bit more encouraging, due to the settling down of British policy. I have, as you know, felt from the outset that England would stick to the Anglo-French agreement of London and the Stresa program, in spite of appearances to the contrary, for her vital interests demand it. It looks as though things were moving in the right direction again, but it is still a little too early for unqualified optimism. I think my letter of July 8 to Mr. Phillips is a correct picture of the basic fundamental factors at this time.

With all good wishes,

Cordially yours,

5 enclosures.