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Vienna, August 4, 1936.

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Dear Armstrong:

I have been wanting to write you ever since my return and to keep the promise which I made you, but I have had my hands full, as you will probably appreciate. I stopped in London, Brussels, Paris, Berlin, and Prague on my way to Vienna, and I saw interesting people in all of these capitals. The result of my talks was pretty discouraging, for it was quite clear that neither England nor France would move in the case of aggression against Austria, and it was quite clear also that, although responsible people in France insisted that they would still stand by the Little Entente in the case of aggression, France was not prepared to move and most likely would not. The road to Vienna was quite certainly opened to Berlin and there was no doubt but that the Little Entente's support in Western Europe was most shaky. I found a general recognition of how important the Central European position is to peace, but also a feeling that for the moment there was little to be done about it, no matter what Germany might undertake.

The extraordinary part of it is, however, that, although the circumstances which Germany had been looking forward to enabling her to take definite action with respect to Austria to a large degree existed, she was not able to avail herself of them, for other conditions had arisen which made aggression just as difficult as before. I will not go into this position, for I am sure you are thoroughly familiar with it.

I found when I came back to Vienna that the Government here and the countries in Southeastern Europe generally had, as a result of March 7th, been obliged to take stock, and it was not very satisfactory. They realized that they were more than ever on their own, and began to look around to see what they could do. The German economic penetration in most of the Southeastern European states had gone so far that its coming to political domination seemed to be more than ever inevitable. Here in Austria Schuschnigg got in touch with Mussolini and finally saw him at Rocca della Camminate. During their meeting Mussolini made it clear to Schuschnigg that he was no longer opposed to a Vienna-Berlin agreement if it could be made on the Austrian conditions of independence and non-immixtion. He also said that in his opinion restoration was out of the question, as it would cause trouble in Europe which both Austria and Italy wished to avoid. This conversation showed Schuschnigg that Italy and Germany had already agreed that a Vienna-Berlin accord should come into being, and under those circumstances he knew he could no longer resist an agreement provided his two main conditions were met. On the other hand, Schuschnigg had to realize that the weapon of restoration which he had taken out and furbished would have to be put back in the scabbard, for with a German-Austrian accord and with Germany so definitely against restoration, there was no use thinking about it further.

These conversations for normalizing relations had, as you know, been going on between Papen and the Foreign Minister here for over a year. They had made no progress whatever, because Germany would not agree to the two major Austrian conditions. When Schuschnigg returned from his visit to Mussolini, Papen came almost immediately to see him and informed him for the first time that he had the Führer's authority to say that the Austrian conditions of independence and non-immixtion would be met. Schuschnigg saw the handwriting on the wall and, although he feared such an agreement and had no illusions whatever with regard to it, there was nothing he could do but to look pleased, and the action was pretty rapid. I may tell you though that up until the morning of July 11th the Government here had the feeling that at the last moment the negotiations would break down, as Hitler would not be able to publicly make a statement on Austria's independence, even if he did it with his

tongue in his cheek, but Papen came back that morning and when Schuschnigg still stood firm in refusing the counter-concessions which Germany wanted, he said he was prepared in any event to make the agreement. By noon it was paraphrased and at nine o'clock in the evening it was announced over the Berlin and Vienna radio.

There are a lot of people who blame Schuschnigg for making this accord, but you will readily appreciate he could do nothing else. While the people here do not want Anschluss, they do want friendly relations with Germany; first, because it is natural; and second, because they hope to get economic advantages out of it. If Schuschnigg had refused to make the accord, with the main Austrian conditions met, he could not have held his position, and the Government here would have been followed by one practically in the pockets of the Germans. Beside that, his one good and great friend, Mr. Mussolini, had told him the time had come to make the agreement. Although the French and English were not happy about it, they would have been the first to call Schuschnigg a disturber of the peace of Europe if he had not made it on the Austrian conditions being met.

The Italians wanted the agreement because they wanted as far as possible all points of difference between Berlin and Rome out of the way, so as to give Italy greater negotiating power with respect to the Mediterranean and for getting the money she needs at home and in Abyssinia. Italy has no illusions - at least not Mr. Mussolini - that the accord is a guarantee of Austria's independence, but it does relieve the Italians for the time being of the watch on the Brenner, makes the Berlin-Rome coöperation a lot easier, and gives Italy lots of elbow room in other directions.

Germany wanted the agreement because in her way she needed Italy, and it made it possible to turn the more or less negative coöperation between Rome and Berlin into something more positive. Germany was in an impossible position vis-a-vis England and France and could not answer the memorandum, and this was hurting her with her best friends in England. With Austria out of the way, Germany was able to say "Why make all this fuss about Austria and the memorandum when you see how we settle these things?" Germany saw the Locarno meeting planned for July 22nd staring her in the face with no invitation to go there, or at least no possibility

of going there, and with the threat of the provisional arrangement between England, France, and Belgium turning into a permanent one. She had to improve her negotiating position and the Austro-German accord was the best way out, for after all, from their point of view, it could be renounced at any time. Even at that, however, you can imagine how Hitler sweated blood, and he hesitated time and time again before he finally gave the word. I had my own doubts as to whether he would be able to bring himself to this, for, after all, there had been three points on which he had heretofore refused to be equivocal, i.e., the Jews, Austria, and Russia.

I do not think anyone had any illusions about the accord itself, and certainly no one here who thinks accepts it as a guarantee of Austria's independence, although, strange as it may seem, I sometimes think that no matter what happens now the semblance of independence will be left to Austria. Germany and Italy fostered the agreement, both for reasons of their own.

I feared that disintegration might be pretty rapid in Austria as the result of the agreement, for it created somewhat the same psychological situation which existed during the year preceding the murder of Dollfuss. During that year the Nazi activities continued and were difficult to put down, because the police and officials were not sure what the attitude of the Government was and felt that a Nazi régime might come and they would be the first to suffer. The result was indecision and uncertainty that culminated in the murder of Dollfuss. I felt that after this accord we would have the same position and uncertainty and that it would result in things getting worse and worse and in the end in the formation of a Nazi Government here. The disturbances on the evening of July 29th when the Olympic Torch passed through Vienna were therefore really a godsend for Austria, because they gave an opportunity for the Government to act energetically. The amnesty which had been proclaimed was a very wise and generous one, and the disturbances on the 29th showed how unconverted these people were. Hundreds were arrested and will now have to serve their whole sentences. If such an incident as this had not occurred the uncertainty would have lasted, but now the principal danger has been avoided. The Government has taken a strong stand and Schuschnigg has made it clear where he stands. The National Socialist activities

here are bound to increase, and the activities of the so-called "Nationally minded" Austrians will increase, but the progress will be slower and there is now hope of keeping them in control. Whether Schuschnigg will be able to hold his position or not, it is too early to say, but he has made a valliant stand and I think all this talk about his resigning has no basis.

Schuschnigg resisted firmly the German demand that National Socialists be taken into the Government, and the two men who have been taken in, Glaise-Horstenaus and Schmidt, are both intimate friends of his in whom he has every confidence and who, while they believe in friendly relations with Germany, are devoted to the idea of Austria's independence. There is a probability that a new Ministry will be formed so as to permit the taking of a third "Nationally minded" Austrian into the Government, but whatever probabilities there were of a National Socialist being taken into the Government, have, I think, been greatly reduced by the events of July 29th.

These rowdies - for that is what they really are - who disturbed the peace on July 29th, ended the evening by breaking the windows in a few Jewish shops, and the Austrian population were in no sense pleased with this sort of thing. It was a good thing that this happened, for the offenders were punished and it has done a good deal to reassure the Jews, who have been much disturbed by the accord. They have reason to be disturbed, but not, I think, to the degree that they were. If Schuschnigg stays there is going to be definite resistance to German penetration. What his chances are, it is difficult to say, for, just as before, developments in the Austrian situation depend on developments outside.

The Spanish situation, which very few of us here felt would reach such serious international proportions, is causing a good deal of concern and may have its repercussions here also. Another Fascist Government is going to make the situation in Europe more difficult than ever and greatly aid the policy of Germany, which is to isolate France and Russia. We are now going into a period of negotiation preceding the projected Locarno meeting in October. I believe it will be postponed further than that, for Germany wants the Olympic Games out of the way and its influence to work. Then she has the Party meeting in Nuremberg in September. There are those here who believe that a Fascist Government in

Spain will mean more active coöperation than ever between Italy and Germany, with the probabilities of a Fascist Spain even conceding naval and air bases in Mallorca to Italy, and probably Germany. This would put France and England into an even more embarrassing position, and it is something which has to be faced, at least as a possibility.

The Hungarians have been sitting back and are very quiet. They are viewing the developments with complacency, because they are, after all, more pro-German than anything else and nourish the illusion that they will gain more through German supremacy than through any other solution. The health of Goemboes has improved, and though he is still pretty well out of the picture, he is still a force to be reckoned with. The Hungarians for the time being are keeping very quiet.

The Yugoslavs of course, while unhappy about economic developments in some respects, are, on the whole, quite pleased, for they see things going their way. They believe that the Austro-German accord means that restoration is out of the question, so their principal fear is for the time being relieved. They feel that the Hapsburgs were always the principal obstacle to German expansion in Southeastern Europe and that Germany is definitely opposed to restoration for this reason. Schacht told them when he was there some weeks ago most categorically that Germany would not permit restoration, and they feel that Germany is a stronger bar to it than the Little Entente. Beside that, the Yugoslavs feel that with the present Italian-German coöperation they have nothing to fear from Italy, as she would not move against them as long as this coöperation continues.

The Rumanians are marking time, but you know how deep the economic penetration already is there.

The Czechs are in a terrible way, and with good reason. They know that France would not move for the present, perhaps because she cannot, and they know that whatever relief they get from Germany of a temporary nature would be on the basis of their giving up the Russian alliance. The French know how serious the position is and have made it clear that no Locarno arrangement can be made which will sacrifice the allies of France, but the Czechs are a hard-headed people and

they have their fears, which are pretty well grounded. They do not want any arrangements with Germany, because they feel, like that with Austria, it would be a purely temporary affair which the stronger party would break whenever it might chose, but their position is an exceedingly difficult one and they do not have many friends. They played a pretty high-handed role at times, and, of course, there is not even any love lost between the Austrians and the Czechs. Benes, I think, once said that he would rather see Hitler in Vienna than a Hapsburg. He feels very differently about it now, and for the present there is more chance of his seeing a Nazi there than a Hapsburg.

It is all an awful and a regrettable mess which can cause no friend of peace any happiness. The Austro-German accord has pushed the war off for months, perhaps for a number of months, and there are a lot of people who take great satisfaction in this. I cannot really get much comfort out of it, for I do not see how the position has improved in any way.

The Austrians are now in Berlin talking about the normalizing of commercial relations between the two countries, but I think here too there will be disappointment. The Austrians think they are going to get much better conditions as the result of the agreement, and they hope to send lots of cattle, wood, and iron ore to Germany. The Germans would like to take these, because they come from Styria, Carinthia, and the Tyrol, where the population will be much disappointed if the agreement does not lead to better trade between Germany and Austria, but the Germans have no desire or intention to use much-needed divisen for Austria. They want the Austrian Government to take war material, which they are producing in surplus quantities, and let the Austrian Government pay the Austrian exporters of cattle and wood. The financial position here is really comparatively good and the position of the National Bank is strong. This is a great temptation to the Germans, who naturally want to use this position for their advantage. The Austrians, however, are not likely to fall for this, for they have no intention of proceeding with a re-armament program or to use up the reserves of the National Bank for the payment of exports to Germany. The Austrians know that no army that they could build up would really be a help to them, and they do not want to enter into an armament program either to please the Germans or the Austrian industrialists.

As to the major picture, there is so much to say that I cannot even begin to touch on it. There are those who believe that Hitler really appreciates that Germany cannot make war now or in the near future and that this has meant a certain reshaping of his policy. I know that every attempt has been made by wise Germans to make him realize that he cannot make war successfully now, but I do not know how far his strange mentality has grasped this. I think it is more and more understood in Berlin that Germany cannot arm at a rate to complete with the forces still arrayed against her, and it still remains a primary principle of the Army that she cannot base her plans on Italian aide, for at the last moment Italy might fail her, just as she did before. The Army does not wish to undertake anything until they feel themselves independent of Italy. The only bright spot that I can see is that the dictators in Rome and Berlin do not like each other or trust each other any more than they did, and all the talk of bloc building is still premature, but I do see the trend constantly and more definitely in that direction. England is not able to play her role for the moment, and, although she is making a tremendous effort to get ready to speak with authority again, there is so much that can happen in the meantime - and I need not tell you that things do happen. I see the German economic penetration of Southeastern Europe making definite progress, and under the present set-up in Europe this means corresponding political predominance. This progressive penetration is bound to have its effect on the Austrian position also. I believe that every effort will be made to hold this position, but I frankly am not able to say whether it will hold or not.

This is a very sketchy letter, which I have prepared for your confidential background and which I will appreciate your using as such only. I have been hoping to hear from you to the effect that you were coming over here. I feel sure you must be coming this way soon, and look forward to seeing you if you do. You must be sure to have Vienna on your itinerary if you come to Europe. My very best wishes to both you and Mrs. Armstrong.

Cordially and sincerely yours,