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Vienna, July 2, 1936.

Dear Mr. Hull:

On my return to Vienna from the brief leave which I was able to spend at home I wrote to Mr. Phillips at considerable length on June 18th, giving him the impressions which I gathered during my trip back and asked him to be good enough to bring to your attention those parts of this letter which would be of most interest to you. I supplemented this with another letter to him, dated June 26th, which you may also have seen. I read in the press this morning that Mr. Phillips is going to Rome, and, as it is not clear whether he may be leaving in the near future, I am taking the liberty of writing you direct.

Mr. Long has undergone the same operation for ulcer of the stomach and almost under the same conditions that I passed through this experience in 1919. I think it was wise for him, in spite of the risks involved in so serious an operation, to do this, for, in stubborn cases, it is still the only resort which gives relief. Now that he has passed safely through the worst, I am hopeful that the rest of the way will be as satisfactory as mine, for, although I have to exercise certain care over my diet, the operation undoubtedly saved my life and made living worth while again. Mr. Long is a fine character and he will be a loss to our Foreign Service if he finds it advisable to withdraw for a while, but his apparent decision to do so, as indicated by the trip of Mr. Phillips, is, I think, wise. Recovery from so serious an operation,

The Honorable
Cordell Hull,
Secretary of State,
Washington, D. C.

following years of strain on the system, is slow.

I doubt if there is a man in the Foreign Service who is generally more highly respected than Mr. Phillips, and he has given us a fine example of unselfish public service. I have known him and had more or less contact with him at home and in the field ever since I entered the Service, and he has developed throughout the years into a most able, effective, and respected officer. I know that these are unnecessary words so far as you are concerned, and how much he will be missed from the Department, no matter how brief his absence. The press reports we have here are not clear, but I would gather it is not planned that he should remain in Rome definitely as Ambassador. While it would be an admirable appointment and a post which he would fill in the most creditable and satisfactory manner, I cannot but express the hope that he will remain in the Department where he has been rendering such useful service and has, I am sure, been so satisfactorily relieving you of a part of that heavy burden which rests upon you.

Since writing the above mentioned letters of June 18th and June 26th to Mr. Phillips, there have been no major developments in Austria itself, but the Austrian situation definitely came to the foreground in Paris over the last week-end. When Eden arrived in Paris for his conversations with Delbos before proceeding to Geneva, they were met by a rather determined request of the Little Entente to do something to halt what was termed the rapid progress toward restoration in Austria and the evident determination of Chancellor Schuschnigg to put it through. This Little Entente move came to them with such emphasis that they had to consider it, much as they were embarrassed by it. Although in the last few weeks the feeling in responsible quarters in England has considerably changed with respect to Austria and Central Europe and it is again widely recognized what importance this region plays in the problems of peace and the safety of Britain, and although in France, too, the necessity of meeting its obligations in Central Europe has become more obvious, it was realized by Eden and Delbos that the Vienna Government was under no illusions with regard to the active help which Austria could expect from either England or France under the conditions which

apparently still existed. The Little Entente insisted on a joint démarché by England and France at Vienna to warn Schuschnigg against his alleged restoration project. Telegrams were dispatched to the British and French Ministers here to get their reactions, and they both advised, I am told, against any such démarché as only tending to weaken the situation in Austria. They advised, on the other hand, that concrete measures should be studied by which the economic pressure on Austria could be reduced, which ^{present} was bound to be a consequence of the Schacht visit to Southeastern Europe and the dangers of which I pointed out in my confidential despatch No. 813 of June 24th, which I hope you were able to read. As neither Eden nor Delbos were themselves in favor of a joint démarché on restoration and as the Vienna recommendations were negative, this idea was abandoned. It was then that someone suggested to Eden and Delbos that Chancellor Schuschnigg should be invited to come to Geneva during the session on sanctions now in progress. This idea was accepted, but before the courteously worded invitation to Chancellor Schuschnigg could go forward someone in Paris had let out to the press that Schuschnigg was to be called to Geneva to be told to lay off restoration. The invitation finally did reach Vienna, at least thirty-six hours after the press of Europe had carried the news, and the Chancellor indicated that the pressing nature of his duties here made it impossible for him to go to Geneva now, but that he would be glad to go during the September meeting.

The background to this rather interesting and significant episode is that the Little Entente was forced to take this step with Eden and Delbos by Belgrade, which is already beginning to play the German political game. You know how Yugoslavia fears restoration in Austria, and it undoubtedly has much good reason for these fears still. When Schacht made this trip around recently he had a specific injunction from Berlin not to talk foreign policy. He broke this rule in Belgrade when he assured the Yugoslavs that Germany would resist with all her force a Hapsburg restoration in Austria, and counseled the Belgrade Government to stiffen the Little Entente's attitude on this question. This was enough for Belgrade to act, but I think it may be assumed that, even though Belgrade was not

convinced that Schuschnigg was moving in the direction of restoration, they would have taken this attitude anyway, for the German influence there has already gone beyond economic pressure.

If Chancellor Schuschnigg has been moving in the direction of restoration here, I think this incident has had the effect of curbing any progress toward restoration just as much as if he had actually gone to Geneva to be told the attitude of England and France. I have covered this restoration matter so fully in my letters and despatches that it is only necessary here to say that the Chancellor has had no real intention of bringing about restoration in anything like the near future. He knows the difficulties in the way, and one of his cardinal principles is that Austria must do nothing to disturb her own internal position or the general European situation. The Government here has allowed more talk on the restoration question recently, and the Chancellor himself has come to view it more definitely as a means of defense against Germany as a result of his recognition of the greater uncertainty of Austria's situation since March 7th. I am inclined to believe that the Vienna Government has allowed the recent talk on restoration in order to bring France and England to a realization that Austria and Southeastern Europe are still very much in the picture and remain, as before, the principal factor as to whether peace is to be maintained, in spite of the immediate preoccupation over sanctions and the Western European position. The Government here has this restoration question very thoroughly in hand. The Monarchists of themselves can do nothing within or without Austria to further restoration. The Vienna Government can bring about restoration at any time it wishes to do so, for, although the popular feeling in the country is not active on the subject now, it can be brought rapidly by the Government into a receptive and almost enthusiastic attitude. The fact remains that the Government has no real intention to bring about restoration in the near future, much as it might see in it a solution of various problems.

I am told on good authority that the French and English are considering, as a result of the Schacht trip, what they can do to help the Austrian

position. There is still one loan largely held abroad bearing $7\frac{1}{2}$ per cent interest, and it is not unlikely that favorable action may be taken toward a conversion of this loan to a lower rate. This would be a further relief to the Government here and a move in the right direction for a country which has so successfully endeavored to meet almost all its obligations in most difficult times. If there should be any initiative in this direction, I hope that our own banking interests at home will not place any obstacles in the way of the conversion, for it would, after all, be only a measure of fairness to a debtor who has tried to remain honest and it would have a considerable effect toward maintaining a position which means much for peace. So far as other concrete measures by France and England to help the economic position in Austria and in this part of the world are concerned, I doubt whether very much can be done, as I explained in my despatch No. 813, until more progress has been made in the general political situation. Germany and Italy are playing a dog in the manger policy in Central Europe until definite Anglo-French coöperation on an adequate basis emerges.

There is little to add to what I said in my letters above mentioned on the conversations between Berlin and Vienna on a modus vivendi to improve relations. Papen saw the Chancellor after returning from Germany, where he had laid before Hitler Chancellor Schuschnigg's memorandum indicating a willingness to treat on the basis of Austria's independence and non-interference in her internal affairs. The interview, however, was only for a few minutes, and it is believed here that he came back with no indication of favorable action by Germany on this basis. As I indicated in my letter, there is a fairly strong group within the Nazi Party which favors a modus vivendi with Austria on that basis, on the ground that, after all, they can repudiate the agreement at any time and that it will put Germany in a better position so far as the British memorandum is concerned. What Berlin wants very much, is to be able to approach England and France with the Austrian question temporarily out of the way. It is doubtful, however, whether Hitler will agree to a modus vivendi on the Austrian conditions, for there are three questions on which he has refused to take an equivocal attitude - the Jews, Austria, and Russia - and I doubt whether the

pressure, no matter how strong, can lead him to public acknowledgment of Austria's independence and non-interference for the present. There are no indications, therefore, of real progress in this matter, but I feel that I should point out again that, in view of the difficult situation in which Berlin finds itself vis-a-vis England and the British memorandum, there is always the possibility that, with her tongue in her cheek, she may agree to such an arrangement on the Austrian conditions. This is a possibility which must be faced, and it presents real dangers, for it would place British public opinion again into the uncertainty which has already done so much harm. The failure of the Germans to answer the memorandum has done much toward helping the progress of crystallization of British policy in the right direction, and if Germany could point to the Austrian question as being out of the way, even though she kept all of her Austrian objectives as definitely as before, which we know she would, this movement would be seriously interfered with.

You have more accurate and definite information than I concerning the advance which has been made in laying again the base for Anglo-French coöperation, but from here we have the definite impression that real progress has been made. This time that coöperation, if it can be arrived at, will be on a more healthy basis on both sides. Berlin certainly realizes that progress has been made, and yet she is unable to take the steps to reassure England. Now that the Locarno Powers are to meet in Brussels on July 20th, repeated indications come from Berlin that Hitler will make a speech before then, and the latest report states that he will call one of his famous Reichstag meetings in order to give what he says a semblance of the expression of the will of the whole German people. This comedy has no end, but the stern facts are beginning to be more definitely realized, and Berlin's failure to answer the memorandum will mean more in England than any expression of Germany's peaceful intentions which Hitler may make in the Reichstag. Perhaps after all there is an end to the degree to which intelligent people will cling to illusions which so many facts so definitely show to be without any basis. The German objectives remain unchanged and her principal aim now is to gain time and to assure herself of the means to complete that program of preparation which will enable her to

brandish the sword over Europe.

Here in Vienna it is believed that the recent developments have further decreased the possibility of any real coöperation between Berlin and Rome. The policy of coöperation in negative matters, such as insults to the League, between Berlin and Rome may continue, but the basis for any positive coöperation between the two capitals is now more lacking than before. It will be difficult to bring Italy into any concert with Paris and London, but acts speak louder than words and the fact that Mussolini is disregarding the League action with regard to the expulsion of the Italian journalists after the rowdy show they put on in Geneva is significant.

Informed observers here are quite disturbed about the situation in Danzig, where they feel that a carefully planned effort to take over Danzig quietly is in progress. I think there is much ground for these fears. As I have always pointed out, my contact with high-ranking Nazis taught me in the early days of their régime what their objectives were and that they preferred to reach them by undermining the position in various spots where they wanted some action. It has always been the aim of the leaders of National Socialism to undermine the position in Austria, Czechoslovakia, and Danzig, believing that in these areas at least, and to a degree in Poland, they would gain their ends by means other than aggression. The 10-year pact with Poland, the founding of the Henlein movement in Czechoslovakia, and the Nazi outrages in Austria and the use of money are a part of this subversive program. In Danzig this action has been very clearly described and most effectively by Mildred Wertheimer in her pamphlet "The Nazification of Danzig" recently issued by the Foreign Policy Association. The major question for Germany in Danzig now is how far she can go without disturbing Poland. There are those who believe that Beck, during his last visit to Hitler, made an agreement with him over Danzig which would practically give Germany a free hand there so far as Poland is concerned. I doubt whether this is so, although it is probable that Beck agreed to a part of the German plans there.

These observers here to whom I refer are of the

opinion that Germany is slowly preparing for a fait accompli in Danzig. Certainly the position has grown worse, and the sending of the Cruiser LEIPZIG there at this time must have been a part of some plan. The commander of the cruiser, as you know, did not call on the League Commissioner there, and Forster, the Nazi leader, seized this as the occasion for violent attacks on the League Commissioner. He said that his position had no more significance. He was there merely as a trouble-maker and therefore could not be recognized by the German authorities. The commander of the LEIPZIG had behaved properly in ignoring him. The failure of the Nazis to get the necessary votes in Danzig after the extraordinary campaign about half a year ago, when practically all the big guns except Hitler made speeches there, has exasperated them, and since, as they think, the weakness of the League is so apparent, they are encouraged to believe that the League Commissioner can be trifled with or at least his position completely undermined. It is believed, therefore, that the recent developments have been for the purpose of preparing the way for another election, when the Danzig population will feel, as did that in the Saar, that the outside support is gone, and therefore vote almost unanimously for a Nazi régime. I am personally inclined to doubt whether even Beck could view this with complacency, and I am not so sure that Poland is yet removed as a factor against this obvious German policy in Danzig. I do believe, however, that the position there is serious and that the powers will have to begin to give it more attention.

In my recent letters I have pointed out certain more favorable developments in Czechoslovakia indicated by a weakening of the position of Henlein and a possible split in his party. There are further indications that this split is becoming more dangerous to Henlein's prestige. There are a good many Jews among the German population of Czechoslovakia and they play an important part in the German minority. Henlein has been supporting rather quietly, but very definitely, a Jewish boycott in the German minority, and, as a good many of the Germans see in this merely a further weakening of the economic position of the German minority in Czechoslovakia, there is real resentment against Henlein among non-Jews. It is too much to say that the Henlein menace has disappeared or even that he has been

definitely weakened, but that his position has been much undermined by developments of the last three to four weeks is clear and the German action against Czechoslovakia to that degree weakened.

Here in Austria things continue quiet. The weather has been extremely favorable for the tourist trade and the probabilities are that Austria will have more tourists this year than she has had at any time since the War. This will play a very important part in the internal situation. It is interesting in this connection that the Nazi outrages in the form of stink bombs in public places, which were intended to disturb the tourist traffic, have stopped. The Chancellor told Papen that if these conversations on the *modus vivendi* to improve relations were to be taken seriously, he certainly could not continue if these nuisances were perpetrated to affect people coming to Austria. It is significant that almost immediately the Chancellor gave this admonition to Papen that the nuisances stopped. There isn't a shadow of a doubt that all the outrages committed in Austria during the last few years were definitely propagated by Berlin.

I do not wish to burden you with a longer letter, but there are several things which I did not mention in my letters to Mr. Phillips of June 18th and June 24th which I feel I should cover without delay, in view of the visit which I understand some representatives from Germany are making in Washington now. I am hopeful that the information which I gave in my despatch No. 813 of June 24th arrived in time, for it covers aspects of the German objectives and program which it is necessary for us to keep in mind. The iniquities of this German policy in Europe and elsewhere are really almost beyond comprehension when practiced as the commercial policy of what is still a great nation, and, what is more important, which we must continue to reckon with as one of the major factors in international commercial policy. When Schacht was in Belgrade recently he amazed the Yugoslav bankers and government officials to whom he made an address by referring to the present German commercial policy as the new policy which would control throughout the world. He said the Yugoslavs could consider themselves as fortunate in being among those with whom Germany had decided to first carry through this policy, and that they would realize how fortunate they were in time through its beneficent

effects. He made no mention whatever of Germany's not being able to pay, but pointed out that countries like the United States, which were backward in their commercial policy, were bound to suffer, as could be seen from the fact that we were obliged to compensate our cotton farmers for the cotton they had been obliged to plow under because they could not sell it to Germany. The Yugoslavs knew there was a catch somewhere in all this and are sure there is a catch in it, because the fine words of Schacht are not bringing them any money but only more German goods, most of which they do not want.

This economic bondage which Germany is trying to force on Southeastern Europe, Schacht believed they could force on South America as well, and the check which they have met in Brazil has not added to the comfort of the Germans. Aside from this policy of economic force which Germany is trying to carry through and which really parallels the Nazi ideology of political and military force, there are other questions in Germany which are very serious so far as we are concerned. The question of our capital invested in industrial establishments in Germany is one which has been kept in the background, but which is bound to come to the fore.

Through the discriminatory measures which Germany has employed within Germany against firms which have foreign capital, the volume of this capital investment has been considerably reduced. When the present Government came into power we had tremendous sums invested in various manufacturing enterprises. We had painfully built up sales and distributing organizations, which had cost us a great deal of money. These organizations have practically all been destroyed by the discrimination against American goods. I could write almost a volume of detail regarding this. The investments which we had in smaller firms has in the last two years practically disappeared, because the American firms decided to get rid of their participation at varying losses, but always real losses, from the feeling that in the end their investments would become entirely worthless. They were quite right about this, for if the present régime remains in power even our major investments in Germany will disappear.

It is these major investments which I think are going to come into the foreground. The National Cash

Register Company, which had an important plant near Berlin, had so much difficulty after the Nazi régime came in that they finally found it necessary to merge with the Krupp plant making cash registers. The identity of the American company is maintained, but the control is now really German and the Company is not getting any of the earnings of the firm out of Germany. Practically the only use which it can make of the earnings of the Company is in expanding manufacturing capacity in various lines and along the lines desired by the Government. The story of this particular company is interesting, but I must not burden you with it.

The International Telephone and Telegraph Company has two factories near Berlin and these have been busy for the last two years working day and night on three eight-hour shifts almost entirely on military and government orders. While I was still in Berlin it had already reached the point where the two American officials of the company were no longer allowed in the plants themselves, and I am told - and I think it is true - that Colonel Behn for over a year has not been permitted to go into the factories themselves on his visits to Germany. The two factories are, naturally, earning a good deal of money, but not a cent of it can they get out of Germany. I am told on good authority that last year the I. T. & T. had 20,000,000 marks in Germany which they wanted to show in their balance sheet in order to help the conversion loan which they planned to make this spring in New York for the Company as a whole. The Schroeder Bank, which acts as the German Government's agent, helped them to find some arrangement, but the plan for the conversion loan in New York fell through, as you know, because it was realized that this money in Germany is definitely tied up. I am told that the I. T. & T. has now about 40,000,000 marks in Germany representing earnings during the past few years, not one penny of which it can transfer out of the country and the use of which it can make within Germany is so circumscribed by law and regulation that practically the only outlet is increasing plant capacity to help the rearmament program. The bald fact which we must face is that this American capital invested in the I. T. & T. in Germany is being used to keep up the German armament program, and who knows all of the countries against which this program will be eventually directed?

General Motors is in a similar position. They

bought the Opel plant at Russelheim some years ago, and it is probably today the principal automobile factory in Germany. They have been earning a lot of money in the last few years, for the policy of the German Government has been to stimulate automobile production. I think the record will show that during the last seven years the Company has been unable to take practically any of its earnings from Germany. The exchange difficulties already existing before the National Socialist régime made transfers difficult, but some transfers were possible. Since the National Socialist régime has come in no transfers at all are possible. The Company has been greatly disturbed about these huge sums it is building up, and has explored various ways by which transfers could be made through goods. Up to now they have had no success. Within the last years the German Government practically forced the Company to use a good part of its earnings in building a large factory near Berlin, I believe, and in this factory practically nothing is produced except motorized material for the German Army. Goering and other high-ranking officers of the Government recently visited this plant, which is really to all intents and purposes a plant functioning solely for the German Army. I, naturally, do not have the intimate details here concerning this plant, but they can be secured, and I am sure we would find that this plant built solely out of the profits of the General Motors plant at Russelheim is devoted to the German rearmament program. It simply means that the American capital invested by the General Motors Corporation in Germany is completely immobilized and the investment being used by the German Government for its armament program. I think the officials of the company at home are more than unhappy about this and the matter has become one of major concern to them. They do not want to work for the German Government and certainly not for the German rearmament program, but this is the position into which they have been forced at the new plant.

The United Fruit Company has been obliged to reduce its business in Germany very much through the restrictions on imports, but even the money for the business which it has been doing it cannot get out of the country. They have, therefore, been having some ships built, but as they do not need any more ships, they are in a quandry as to what to do further, for there is no use in building up these balances which can neither be transferred or used.

The Gulf Oil Company, which did a good business in Germany, similarly has been unable to move its profits from Germany, and, therefore, has been having ships built, but they, too, have reached the building limit. The Standard interests in Germany are very important, and there is a probability that Standard may have been able to move a little of its profits from Germany. Germany needs oil and needs the Standard, and, while I cannot affirm it, I have always had the feeling that with regard to transfers they may have had some more favorable treatment, but the Standard, too, already several years ago found it necessary to build ships in order to avoid the accumulation of funds. The Standard has been allowed, too, to spend very considerable sums on its distribution system in Germany, but it has merely resulted in increasing their investment, without a penny coming to the American investors.

I must not burden you with further details on this subject at this time. I have only wanted to point out that huge quantities of American capital in Germany have been destroyed by discriminatory measures and now our remaining capital, which is still important, is definitely immobilized and how a good part is being used for the maintenance of the German industrial program and in some important directions for German rearmament, which is so obviously not intended for defensive but for aggressive measures. The American firms which have the responsibility to their stockholders, as well as to their country, are not blind to what all this system in Germany means, and, although this question has been kept in the background, I think that it will in the not distant future require important decisions on their part. So far they have been obliged to go along or have felt themselves obliged to go along, fearing that otherwise their whole investments would be seized or destroyed. Perhaps they may yet find themselves in a position where they will consider it better policy to let the investments go to nothing rather than permit this capital and their organizations being used as a part of this tremendous armament program so definitely directed against the peace of the world.

These are the things which the German delegation in Washington would find extremely disquieting and which they would be unable to answer, because they know the facts. As long as we know the facts we are not going to allow the National Socialist régime in Germany to pull the wool over our eyes or to dictate to us what our

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own commercial policy shall be.

I cannot tell you how much I enjoyed seeing you at home and the opportunity to talk things over with you. I know what a burden you carry and appreciate the time which you were able to give me. Mrs. Messersmith joins me in all good wishes to you and Mrs. Hull and in the hope that you may from time to time get relief from the hot days in Washington.

Cordially and faithfully yours,

Spa.