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Vienna, June 18, 1936.

*Henry
C. Phillips*

Dear Mr. Phillips:

I sailed, as you know, from New York on the MANHATTAN on May 20, and on arrival at Plymouth on May 26 immediately proceeded to London. I was there for three days and then went on to Brussels and Antwerp. From there I went to Paris and after a few days there returned to Antwerp where I had our car come from Vienna to meet us and we drove to Berlin. After several days in Berlin we went to Prague where I spent a day, and then came on to Vienna where I arrived and took charge on June 13.

I saw so many interesting and worth while people on the trip and learned so much of value to me here that I must tell you at the outset how excellent an idea it was that I should return to my post by this route. I knew that great changes which might and which may yet be of fundamental importance to Europe and to us had taken place in the European situation since March 7, but it was of tremendous help to see the people I did on the way. The problem before me now is to try to give you my impressions gathered from this trip without including unessential details and not putting too great a burden on you.

At the outset I may as well say that what I have learned during this trip has in no way increased my happiness, but has strengthened the conviction which you know I have held and must now still hold even more definitely, that the situation in Europe is a most serious and precarious one and those who try to tell us that nothing is likely to happen would lull us only into a false sense of security. The situation in Europe is more ~~disturbed~~ and unstable than ever. Policy in practically all of the major countries is uncertain, with the exception of in the two dictatorships in Germany and Italy, which know definitely what they want.

The Honorable
William Phillips,
Under Secretary of State,
Washington, D. C.

There can be no change for the better in the European situation until an adequate basis for Anglo-French cooperation can be found and in the sphere of which Italy may be drawn. In spite of some signs to the contrary and the difficulties in the way of bringing back Anglo-French cooperation, I believe that the worst point in Anglo-French relations has been passed and now that some arrangement between England and Italy is certain, I think the ground has again been prepared on which Anglo-French cooperation can be built. This will all be a slow, difficult road, but it is the only safe road for Europe and there are at least definite indications that it will again be traveled. The grave danger is that the uncertainty created by what has happened since March 7 has let loose so many forces that it is a question as to whether that adequate cooperation can be re-established before the disintegration in Southeastern Europe proceeds too far and in time to serve notice on Germany that further faits accomplis may meet a definite response. As the next action of Germany would almost necessarily be beyond its own frontiers, I think there is still hope that the favorable factors may have time to work and get into action before Germany is prepared to proceed with her program beyond her frontiers. I am inclined to believe that nothing of a catastrophic nature may be expected in Europe for at least two or three months, but what will happen in the early autumn is dependent very largely upon the steps which England may take.

Before going into the details of my trip I think I should tell you as a matter of real importance to us that the MANHATTAN is really an admirably run ship. We can be distinctly proud of the MANHATTAN and the WASHINGTON, which I think not only from the point of view of ship's architecture, safety, and comfort are the two best ships on the Atlantic, but also two of the best run. The MANHATTAN carried on the way over 1100 passengers and in spite of this being practically her capacity, the services were exceptional in every way. Not only these two larger ships, but the HARDING and the ROOSEVELT and the smaller ships of the Baltimore Mail Line, are being exceptionally well managed and we have shown that we can run passenger ships as well as, if not better than, anyone else today. The MANHATTAN and the WASHINGTON are booked practically to capacity for months ahead, and if we

had two more ships like them they would be filled, and it is interesting that it is not only Americans who are using these ships, but many Englishmen and other foreigners, who use them because they find them comfortable and well run.

Owing to the difficulties in getting satisfactory mail contract and subsidy legislation for our Merchant Marine and to the extraordinary difficulties which are being imposed by well meaning people on new construction for passenger ships under our flag, no action has yet been possible with regard to the construction of the two ships which are necessary to provide an adequate service with the MANHATTAN and the WASHINGTON, and in the meantime we are turning over hundreds of passengers every week, if not thousands, to the ships of other nationality. To put it briefly, at a time when we have re-established our prestige in the passenger service through the way the MANHATTAN and the WASHINGTON have been constructed and run, we are failing to take advantage of our opportunity to consolidate the position of our Merchant Marine through the failure to provide adequate legislation and aid thereto, and through the placing of altogether impossible restrictions on the construction of ships to provide "absolute" safety. Such a thing as absolute safety cannot be achieved on sea any more than on land, and I am hopeful that the President, who has such a keen appreciation of these matters, will be able to see that the next Congress will provide sufficiently flexible legislation, as well as adequate support, for our Merchant Marine. Some of the Members of Congress have been more interested in carrying through personal ideas, if not vindictiveness, rather than in forwarding the interests of our Merchant Marine. I know probably more about shipping than I do of any other business, and I know that we have plenty of honest and capable shipping people, and it is wrong to consider that all legislation has to be devised to take care of the activities of a few people who have misused the Government subsidies and aid or who are guilty of mismanagement of their ships.

As from so many points of view an adequate Merchant Marine is absolutely essential to us, we should not neglect

this important arm of our defense and trade at a time when the world situation is so precarious and when we might find ourselves again faced by a situation which left us so powerless and so at the mercy of others at the outbreak of the last war and on our own entry therein.

I hoped to have the opportunity to discuss this with the President when I was home, but unfortunately there was no time for it and I feel that his active intervention may be necessary before the snarl into which we have fallen in this shipping legislation is untangled.

Before going into my trip I want also to tell you how satisfactorily Young and Rogers carried on here during my absence. Young is a man of very good judgment and he has already made a very good place for himself in Vienna where he is highly thought of. Rogers did most of the reporting while I was gone and he did it with an extraordinary accuracy, clarity, and perception. He is certainly one of the finest political reporting officers we have and his actual performance during the several months I was away shows this.

In London I purposely refrained from seeing anyone in British official circles except such friends with whom I came in contact. Mr. Bingham left for home the day I arrived, but I had several long talks with Atherton whose views I found amply justified and supported by the conversations which I had with others. I had the opportunity for long conversations with Lord Astor and Jeffry Dawson, of the TIMES, as well as with Major Atlee, Sir Stafford Cripps, and others in Parliament and in the newspaper field. I had touch with representatives of practically all sections of British opinion and it was on the whole rather discouraging for I had the definite impression that it might yet be several months before England's policy would find itself. There seemed to be only one point on which there was agreement and that was that England must rearm, has no other alternative but to do so, and that it is a measure of self-preservation for the Empire.

When I was there the attitude on sanctions and with respect to Italy was still unclear and the dissatisfaction with France and the feeling that it was impossible to work with her was at its height.

I found a rather unusual lack of appreciation among what should be well informed Englishmen, of the situation in Europe and particularly in Southeastern Europe, and of what the Southeastern European situation means for England and the Empire. One distinguished Englishman, whom I am sure you know very well, said to me, "What difference does it make to us if Austria is absorbed by Germany, and even if Czechoslovakia falls into her hands? I suppose if this happened Hungary would be with her also. But we would have our good allies, Turkey and Greece, still with us who would keep the Empire communications there open". I remarked to this man that I did not know whether he was really so ill informed or whether one could be sufficiently arrogant to believe that if Austria fell into the hands of Germany - not to speak of the other two countries which he mentioned so nonchalantly - Turkey and Greece would not immediately revise their positions and it could not be to England's advantage. I said that anyone who was really familiar with what had happened in Southeastern Europe since March 7 had to appreciate that Turkey and Greece were already no longer so secure in their pro-English position as they had been. It was a position which they certainly would not want to give up, but even if nothing happened in Austria for the present, if responsible members of the Government in England kept talking about England being too weak to do certain things, Turkey and Greece would probably revise their attitude more rapidly in the direction of seeking friendship with those who had force and were determined to use it. I pointed out to this Englishman that it would be rather dangerous to be so naïve or so arrogant as to believe that Turkey and Greece could remain firmly the allies of a country which proclaimed its own weakness and which showed disinclination to assume any obligations on its part towards its allies and friends in Southeastern Europe.

The thought expressed by this Englishman is unfortunately the idea which has obsessed so many Englishmen recently. They want to get rid of the Continental problem and the German menace to them by completely disassociating themselves from Southeastern Europe. This would indeed be a simple solution for England, and might be a safe one for some years, if she wishes to permit rapid Empire disintegration. Unfortunately anyone who knows this situation must realize that the only difference between England and France

as objectives of German policy, and Austria, Czechoslovakia, and Southeastern Europe, is that they are farther down on the list. It is quite true that Germany has no intention of attacking either France or England, and for that matter Belgium and Holland, for years to come, but after her grip is fastened on Southeastern Europe she considers the struggle with France and England inevitable.

One distinguished Englishman said to me that I did not seem to have much confidence in the possibility of such a thing as a firm Anglo-German friendship. I replied that if he meant by that Anglo-German friendship with the present National Socialist regime in power in Germany, then such friendship was certainly not possible. I said that if the Anglo-German friendship which he had in mind was to be bought with the price of England's giving Germany a free hand in Southeastern Europe, it would mean in my opinion inevitable conflict between Germany and England. With a Government in Germany really representing the will and spirit of the German people as these were still today, Anglo-German friendship was not only desirable, but essential for peace, but that the friendship must be between two governments having at least to a degree a like sense of responsibility to their own people and to others.

There was great difference of opinion as to what should be done about sanctions and Italy, but even the most ardent supporters of keeping sanctions in effect realized that England would stand alone and that alone they would have no effect on the Fascist regime either in destroying it or in changing the position in Ethiopia. These people realized that the only way to get rid of Fascism in Italy and the fait accompli in Ethiopia was by actual war with Italy which by no means could be considered. I was told therefore that during the Whitsuntide holidays Mr. Baldwin would determine whether or not Sir Samuel Hoare would be asked to come into the Cabinet as Lord of the Admiralty. If he were asked to return I was informed that this would definitely mean a policy of conciliation with Italy as Hoare had made it a condition that if he came back into the Cabinet it would be with authority to withdraw the fleet from the Mediterranean

at any time he saw fit. Now **Hoare** is back, and it seems probable that today in the Commons **Eden** will indicate that Britain will take the initiative towards the raising of the sanctions. This is a bitter pill for many Englishmen to swallow, but it is the only policy which she could take and which was obvious after her failure to act last September. Had England proceeded definitely and steadily when she had her fleet concentrated there in September of last year, it might have led, as I indicated then in my letters, to actual war, but it would have been localized, soon over, and France in spite of her hesitations would have been with England. By this time **Mussolini** would have been replaced long since by a strong Right Government and **Abyssinia** and **Italy** would not be the thorn in the flesh in the side of England and France that they will be now for years to come, in spite of the best solution which may be found.

In taking the initiative with respect to lifting the sanctions and in trying to find an understanding with **Italy**, England is following the only course which she can take now, for a war now with **Italy** would be even more dangerous than in September. If this policy, however, of conciliation with **Italy** is to have any success with **Italy** and in Europe it will, in my opinion, have to mean a strong hand with respect to **Germany** where the false hopes that have been aroused have done a great deal of harm already not only there, but elsewhere.

I am sure that you must have been told by many persons returning from Europe of what they deemed the extraordinary pro-German sentiment and anti-French feeling in England. While I was there I felt this current very strongly from many sides, but I think the real meaning of what has been passing in England has been misinterpreted and very much misrepresented. Even among thinking Englishmen there is a feeling that France has become an impossible bed-fellow, and as they put it, "It has become impossible to sleep with her any longer". The fear of German rearmament, especially in the air, almost caused a panic in England and certainly went a long way towards demoralizing financial circles in the City. But those thinking Englishmen who are most disgusted with France and who realize the difficulties in the way of cooperation with her, appreciate that that cooperation is the only safe course for England to follow. They know that no worth while agreements can be made with the present Government in Germany. They know

that no confidence in the long run can be placed in any naval, air, or military pact made with her. One concession to Germany merely results in another demand. But English public opinion has been badly led and has gotten very much out of hand. It is after all still a democratic country, fortunately, where the Government must respond to public sentiment. For the first time in generations popular public opinion has been allowed to lead in foreign policy instead of public opinion following the considered policy of Downing Street. The TIMES in an editorial pointed out day before yesterday that England is still a democratic country and that in democracies foreign policy on important questions is still formulated slowly.

I think it is a mistake to interpret the feeling in England as fundamentally pro-German or anti-French. There has been, in well informed circles, disgust with French policy which among the masses actually became anti-French feeling. Among the masses the fear of German rearmament and its menace led to the feeling that England must preserve her safety and could preserve it by disassociating herself from Central Europe and giving Germany a free hand there. This feeling became so strong that considerable pressure was brought by members of the Government for a policy of understanding with Berlin to the extent of giving this free hand. This was interpreted by many visitors to England as a pro-German feeling.

It is true that there are in England definite tendencies towards this pro-German attitude. The present King, it seems pretty definitely established, believes that Hitler has proven a bulwark against Communism and that therefore in spite of all that has happened in Germany and is happening, England must do nothing to interfere with the Hitler regime. This seems to be a sincere conviction of the King. I was, however, surprised to have a responsible Englishman tell me that when King George discussed the appointment of Eden as Foreign Minister with him, he said that he would permit the appointment of Eden as Foreign Minister on the condition "that he would not interfere with Hitler". The attitude of the present King may therefore be partially a heritage from his father. The attitude of King George and King Edward has undoubtedly had its influence recently on British policy with respect to Germany, but perhaps even stronger has been the influence of men like Astor, Lothian, Londonderry,

Harewood, and that school who believe that confidence may be placed in arrangements made with Hitler. Just in this connection I think I should bring to your attention an interesting bit of background which may have its significance. Astor and Lothian are, as you know, both interested in Christian Science and the promises made by the present Government in Germany that it would not interfere with Christian Science in Germany have been kept. This, it is said, gives them this feeling that confidence may be put in the German promises. This was brought to my attention in England and you will remember from one of my letters from Berlin of several years back that I may have been an unconscious instrument in that attitude.

While I was stationed in Berlin you will remember that Astor and three important members of Parliament came to Berlin in order to secure the reopening of the Christian Science Societies in Germany and the release of their property which had been confiscated. They tried through the British Legation ineffectively for three days to see a responsible member of the German Government. The correspondent of the CHRISTIAN SCIENCE MONITOR in Berlin then, who was an American, told me about it and I said that as the Mother Church was in Boston, if I could be of any help I would be glad to do so. Astor and his associates came to see me in consequence of this and while they were in my office I got in touch with the Minister of the Interior by phone at once and arranged for them to see him immediately. Within a few minutes they were on their way to see him and during the course of the day the reopening of the Societies and the release of the property was arranged for. I had told the Minister that Astor was one of the owners of the London TIMES and what an important part Christian Science has played not only in England but in America. This was at a time when the Jews had been the only ones attacked in Germany and before the Government was prepared to undertake its campaign against Protestants and Catholics generally. They began with the Christian Scientists and Baptists thinking that they were the least important and that it was a good way to begin. What Astor and Lothian and the others do not understand is that the only reason that the Christian Scientists have not been disturbed further is because Germany lays such value on their support and that of the TIMES.

I gathered the distinct impression in England, however, that the so-called anti-French, pro-German sentiment had reached its peak and that the swing towards closer cooperation with France would come and be accentuated by the conciliation with Italy, which seemed almost a certainty, and by the disappointment over the failure of the Germans to answer the British Memorandum. Both these impressions which I had have now, I think, been justified for the conciliation with Italy is in progress even though the road is a difficult one, and I think it is now sinking in in England that Germany has no intention of answering the British Memorandum, to which an answer was still confidently expected when I was in London.

With respect to this Memorandum, I think it would be well for me to say here that when I was in Berlin I was told by a very well informed observer there that Germany had no intention of answering the Memorandum. I was shown the report of a speech at a special meeting in a small German city by a Nazi professor to a confidential group, in which he said that it was impossible for Germany to answer this Memorandum as it presented too many specific questions on which the Germans could not commit themselves without too seriously disquieting England. This same observer, who has extremely close contact with the Foreign Office, tells me that Dieckhoff admitted to him that in spite of Ribbentrop's insistence with Hitler that some answer should be made, it was not likely that any would be made. Through another observer who has very close contact with National Socialist leaders, I was informed that Ribbentrop on his return from his Whitsuntide holidays with Lord Londonderry in England, said that some answer must be made so as not to disquiet the British too much. His recommendation was considered, but it was decided that no answer would be made and if any did eventually become necessary, it would be a verbal one. The attitude in the Party was "that with the course of time events would answer the points in the British Memorandum, one by one."

Here I might remark that while no one can tell whether an answer to the British Memorandum will be made, for the situation in Europe is so fluid, the probabilities are that none will be made. Even one who, like myself, realizes the sinister and cynical attitude of the present German

Government towards its promises and declarations, must give them credit that with regard to the Eastern and Southeastern borders Germany has consistently refused to commit herself. In Hitler's declaration after March 7, he therefore excluded the Eastern and Southeastern frontiers because Germany has such definite objectives there. When forced to do so under pressure of opinion, he was still sufficiently under the fear of consequences of March 7 to go so far as to say that he was prepared to enter into non-aggression pacts with Austria and Czechoslovakia. This, however, meant nothing. He offered no non-aggression pact to Russia, from whom aggression might be formidable, but he did offer such pacts to Austria and Czechoslovakia from whom aggression could not be expected under any circumstances and where he hopes developments will be such that they will fall into his hands without direct aggression from Germany. In this one respect German policy has left no doubt, and the Government has not been willing even to make quieting declarations, though it has a sinister and cynical attitude towards written and spoken promises. The simple reason is that her objectives are so definite and now that she has done practically everything inside of Germany that can be done, her next step has to be on the outside, and she sees no reason to make a promise to Russia or Southeastern Europe which she does not intend to keep. So far as her Western frontiers are concerned, she can make such promises and enter into all sorts of agreements with England and France, because she has no intention of proceeding in the West until she has carried through her program to the East and Southeast.

I left England rather saddened, but with the definite conviction that British policy will yet emerge in time in such a form as to save the European situation. Her rearmament is proceeding rapidly. It is a real program and she has the means to carry it through. She can proceed more rapidly with her rearmament than Germany, but it will take at least a year, if not two, before England will be prepared to speak with that definiteness which her safety and that of the Empire require. She has passed, and is passing, through a severe trial. She has lost prestige practically everywhere and it is a serious loss not only

for her, but for Europe and for civilization. It is important, even though she cannot speak with that authority which she might wish in the immediate future, that her policy should become more definitely formulated and more clearly understood, and be in the direction of cooperation with France and not giving false hopes to Germany. Otherwise things will begin to happen in this part of the world and a situation may be precipitated in which she is involved whether she wishes it or not, and whether her people know it or not, and for which she is not prepared.

So far as we are concerned, there is of course very real appreciation that she may have lost prestige with us at a time when she needs it most. A good many Englishmen realize that her policy towards us, starting with the failure to keep up the debt payments in some form, has been far from wise. Her inability to find her way clear towards a more sympathetic attitude to our trade agreements program has also not done her any good. Thinking Englishmen realize that the community of American-English interests is a very largely one of ideas and ideals and that a great deal has been done to shatter that community of ideals recently. I think there will be indications of a definite decision on the part of England to cultivate us and to re-establish that prestige which has evidently suffered a good deal in the United States, as it has elsewhere. While I feel myself that our interests are closely bound together in more than one part of the world, I could not see the United States supporting English policy which would involve British rapprochement with Berlin under the present Government there and which would involve inevitably the free hand of that Government in imposing itself on Southeastern Europe and preparing the way for an inevitable conflict with France and with England which could not leave us cold, no matter how strong our desire may be to remain entirely apart.

I went from London to Antwerp and Brussels where I saw many of my friends, some of whom you also know, and I found them quite pessimistic. They were utterly unable to understand the British position, and in view of developments in Anglo-German relations as they saw them, Brussels was turning more towards Paris in spite of the cooling which

had been taking place slowly but gradually between Brussels and Paris. So far as foreign policy is concerned, Belgium which had been inclined to follow the lead of London, was definitely turning more towards Paris. If developments proceed in England in the direction of Anglo-French understanding, as they seem to be doing, Brussels will turn again more towards London, for there is not much love between Brussels and Paris. The Belgians hold it against the French, and very properly so, for having tacked on Malmédy and Eupen to Belgium at the end of the war. The Belgians, when they went to Paris for the making of the Versailles Treaty, had no intention of asking for Eupen and Malmédy, but the French made them do it. It was one of the useless mistakes of the Treaty, for Eupen and Malmédy have become between Belgium and Germany today just what the French wanted them to be. They wanted the Belgians to have some German territory so as to tie Belgium to France. It has had just the contrary effect for the Belgians resent the French having brought them into this.

The Belgians will stick to Locarno, but as they consider German aggression against Belgium and France and England unlikely and impossible for a considerable period, they see no obligations which they may have to meet under Locarno for an appreciable time. So far as Belgium's taking any action with France in Central Europe and in maintaining the status quo there is concerned, I think it is definitely out of the question.

In reality I found the Belgian economic position much better, and as one well informed observer put it, "it was very much better, but still very vulnerable". The first Van Zeeland Government did a very good job, and Van Zeeland's original refusal to again form the Cabinet after the election was really a tactical step. The Socialists were the largest single party and it was felt that Vandervelde should at least be asked to form a Socialist Government, which it was known he did not wish to do, and would probably not be able to do. Van Zeeland has no real leanings towards political life and would prefer to have the post of Governor of the National Bank, of which he was Vice Governor. He would really prefer not to head

the Government again in order that he might be free to accept the position of Governor of the Bank when Louis Franck leaves. Franck, as you know, is getting old and there is a real movement from the inside to get him out. I think it has been arranged that Franck will not be molested while Van Zeeland is Prime Minister so that when he does leave the Bank Van Zeeland will be able to take the job.

The only feeling of reserve there was in Belgium with regard to Van Zeeland's forming the Government was that he might insist on too large powers from the various parties and in this way prepare the way to definitely for some form of dictatorship in the country. I think they are prepared to leave almost any power in Van Zeeland's hands, but it is feared that precedents may be created which might become disturbing. This feeling was all the more emphasized by the extraordinary vote which the Rexist received. It was totally unexpected. Degrelle was practically an unknown man a year ago and got into public notice through his attacks on Seegers and Van Cauwelaert. Seegers gave in and was completely eliminated from public life. He succeeded in forcing Van Cauwelaert's resignation from the Cabinet, but in the last election Van Cauwelaert decided to fight him in spite of Degrelle's threat to publish all sorts of documents, and although Van Cauwelaert was at the end of the Catholic list, he received the largest number of votes of any Catholic candidate. Degrelle made his campaign in the last election of a few weeks ago on the basis of support of the King and of the Catholic Church, and of honesty in politics. As a matter of fact, I learned from good sources that Degrelle is no friend of the King, certainly he is not interested in the Church, and received money, beginning six months ago, from Berlin. He got most of his votes in the Walloon districts, but is now studying Flemish two hours a day and it is beginning to be known now in informed circles that he is really a Separatist. It is interesting that the largest vote he got was in Eupen and Malmedy, and I learned in Berlin later from particularly well informed sources who had first hand knowledge, that German agents were sent to Eupen and Malmedy to help Degrelle's campaign there.

There was a tendency in Belgium to minimize the importance of the Rexist movement until it was seen that he got the largest vote in Eupen and Malmedy, and until it has

now become pretty clear where his financial support is coming from. While parallels are dangerous and you know I do not like to draw them, it is beginning to be seen that the Degrelle movement in Belgium has much in common with the initial activities of Hitler in Germany and Henlein in Czechoslovakia. While Degrelle has axes of his own to grind in Belgium, I believe developments will show that he is a German agent provocateur who will push the Eupen-Malmedy sore to the front. Moreover, he can be expected to further the Separatist movement in Belgium, although under cover, from the outset just as Henlein did in Czechoslovakia. To those in Belgium who consider the movement unimportant, it is becoming a real menace as it is realized that an alliance between the Rexist and the so-called Flemish National Party is not out of the question. They see Degrelle working towards a dictatorship in Belgium, or if that does not develop, a definite Separatist movement closely cooperating with Germany.

The strikes which are taking place in Belgium started with the dock strike in Antwerp and have assumed serious proportions, although I believe they will be settled shortly without real difficulty. The Belgian workers, like the French, have real grievances which the Belgian industrial leaders and bankers have not been willing to recognize. The concessions which are necessary to settle the strikes are quite possible and from our point of view at home would be considered most reasonable. The dock strike in Antwerp, however, is more serious as it was really instigated by agitators from outside the country in the pay of Dutch and German shipping interests. The port charges at Antwerp since the end of the war have been lower than at Hamburg and Rotterdam, and as a consequence Antwerp has developed to a degree that it has had almost consistently the heaviest in and out tonnage of any port of continental Europe. The dock workers have no real grievances and should their terms be met in the form in which they are made their position will be much worse than it is now. For a very considerable percentage of the traffic now going to Antwerp would move to Rotterdam and Hamburg so that any pay increases which they might get at Antwerp through the strike would

prove illusory through less actual working days. I mention this particular aspect of the Belgium strike situation only to show you how closely related all these problems over here are and how sinister are the influences which are at work.

I have the definite impression that things will continue to work out fairly well in Belgium, as Van Zeeland will provide a steady government. As the real nature of the Rexist movement is becoming known in time, and as men like Van Cauwelaert have been willing to stand up against him in spite of all sorts of threats, it is hoped that in Belgium at least this insidious movement will be nipped in the bud.

In Belgium there are no illusions with regard to Germany. Belgium needs friendly relations with Germany on account of the port of Antwerp which has for its natural hinterland the greater part of the Ruhr, but Belgium knows what the occupation army and the German authorities did towards endeavoring to set up a Separatist Flemish state which would have been an easy and natural prey for Germany. They know that saddled as they are with Eupen and Malmedy Germany can, and is using this to stir up feeling in Germany with respect to Belgium. She knows therefore definitely what she can expect in the way of benevolent attentions from a Germany in which the present Government is supreme. This is sufficient to keep Belgium in any concert with France and England and her most ardent wish is that the French-English cooperation be re-established on a firm basis. She sees in that cooperation her only eventual safety, even though she may be for a number of years safe from active aggression. In Holland we know that the Dutch have similarly no illusions with regard to the good intentions of the present German Government with respect to them, and for Holland Anglo-French cooperation is of primary importance.

In Paris I was glad to be able to have long conversations with Mr. Straus and also with Wilson, who seems to have worked into the French situation very thoroughly in a short time. I was able to have a number of interesting conversations with friends in Paris in French and in other circles, but the most interesting hour I had was with Vienot, who is the Under Secretary of State for Foreign Affairs and who besides having the confidence of his chief, Delyos, is also entirely in the confidence of Blum and Herriot. Vienot, as you probably know, is a comparatively young man in his late thirties or not much above forty, and has what is unfortunately so rare in high French political circles today, very clean hands. He was for almost five years in Berlin as the head of a Committee known as the "Etudes Francaises Allemand". This was founded by the Luxemburg steel magnate Meyerich, now deceased, who was an enormously wealthy man and whose daughter Vienot married. My contact with Vienot was accidental and we met at a luncheon arranged by a friend and had a whole hour to ourselves afterward. It was on the day that the Blum Government was taking over and the strike movement was approaching an acute stage.

Vienot spoke with extraordinary frankness. He was much interested in the reaction of Blum's speech before the American Club on the debts and I gathered the impression that if he did not instigate the speech, he had largely formulated what Blum had said. He was eager to know what the reception of the speech in the United States was, which I told him I could not give as I had not been there when it was made, but that I thought the effect of the speech would be marred by the feeling that it was rather a death-bed repentance and that Mr. Blum was wooing American sentiment only at a time when he felt France might be very much needing us again. Vienot said that he felt this was only too true and that the French debt policy had been a most unfortunate one. He could quite understand our attitude, he said. He said that he knew my point of view as to the importance of Central Europe and particularly Austria in the peace of Europe and he asked me some specific questions as to why I held these views.

I told him that my opinion as to the importance of Austria in the question of European peace was not based

on any sentiment, and certainly not because of any exaggerated importance I gave to a country of so small an area and so insignificant a population in Europe. I said that no one who lived in Austria could fail to admire the spirit which the people have shown in recent years and the services they have rendered in maintaining the principle of sanctity of debts and obligations in general, and also the tenacity with which they defend their cultural and national position. The maintenance of Austrian independence was, however, not so important because of Austria and her people themselves, but because the maintenance of that independence had become the keystone of peace in Europe. If Austria fell into the hands of the Germans, whether by aggression or by other means, it would mean the beginning of steady progress of Germany through Southeastern Europe and this would face France and England with the problem of accepting a definite secondary rôle in Europe which it was doubtful if they could accept without a struggle, and even if they were willing to accept it, it would lead to a struggle anyway, as France would not give up Alsace and Lorraine without fighting. Vienot said he quite appreciated this position and agreed with my point of view. As my contact with him was entirely unofficial I did not think it advisable to draw him out, but my friend, who had no such hesitations, asked him point blank whether in case Germany took aggressive action against Austria France would move. Vienot replied that under existing circumstances France would not move no matter what happened in Austria, because she could not.

Vienot then asked specific questions with regard to Czechoslovakia and expressed the opinion that that country was for the present more threatened than Austria. I told him this was undoubtedly so. My friend then asked him whether in case of German aggression against Czechoslovakia or if Henlein set up an autonomous state in Czechoslovakia France would act. The question embarrassed Vienot a good deal and he finally replied that he felt sure that in that case France would still go to the help of Czechoslovakia.

With respect to Italo-German cooperation and the conversations going on between Berlin and Rome, Vienot said that he did not think any agreement had been arrived at nor

would be as the interests of Italy and Germany in the Danubian Basin and elsewhere were so opposite and much more opposed to each other than Franco-German interests. Italy was playing a game of blackmail with both France and England and the Berlin Rome conversations were a part of that game, but he did not see them leading to any agreement. This, however, did not make the situation any less annoying.

Vienot was quite conscious of how serious the situation was because of the present position of Anglo-French relations and of the relations of both vis à vis Italy. He said that the road from Berlin to the Southeast was really open as in case of a German movement in that direction England would not move no matter against whom it was directed. France could not move in case of aggression against Austria and his own hesitating reply about Czechoslovakia showed clearly the truth of what well informed observers in France believed - that is, that the chances are very strong that in case of movement against Czechoslovakia France also would not be able to act.

Vienot admitted that there was a very strong movement in France not only for agreement with Germany, but for some form of cooperation with her. The strength of this movement he attributed principally to the new fears aroused in France through the attitude of England. He, personally, however, seemed convinced that no agreement of any kind with Berlin could be made with the present Government and that it would be fatal to do so. He quite understood the popular feeling in England against France, and evidently saw the only safety for France in reaching an adequate basis of cooperation with her. He saw the road towards this being prepared by the possibility of agreement between England and Italy.

I purposely returned by train to Antwerp from which I went to Berlin by automobile. I wanted to see what impressions I would have in going through Germany from the Belgian frontier. I will briefly give you these impressions. Just before we left Belgium we saw a new fort being constructed near Vise on one of the few high spots on the Belgium side of the frontier. A new Belgian barracks had also been constructed

in that vicinity. I saw no evidence on the German frontier near Aix-la-Chapelle, where we entered the country, of the refortification work which I am told is going on actively. But when we got to Paderborn we saw hundreds of airmen and a tremendous barracks which had just been completed. We spent the night in Hamelin and as they were loading the baggage into the car the next morning two long trains of automobiles, each with four men with rifles, passed the hotel. The cars were fast little cars built to carry four men, two with rifles, and an arrangement on which a machine gun is mounted. There must have been forty automobiles in each of the two trains which passed. A little further on at Hildesheim we passed two further groups of these automobiles.

At Braunschweig there is an enormous air field and there were sixteen to twenty machines in the air. Going out of the city we passed the enormous barracks and hangars which have been erected recently. Between Braunschweig and Helmstadt we passed two groups of officers on horseback and there were no less than thirty officers in each group. In Magdeburg we passed by the enormous flying field and hangars where, as you know, are also underground hangars for heavier machines. On the other side of Magdeburg, as we were passing a side road, a military car with two officers came out at high speed and almost ran into us, and it was only when they saw the foreign license tag on our car that they decided not to worry a civilian for getting into the way of the military. Between Magdeburg and Genthein we passed more military automobiles and trucks on the road than private cars and I noted at least four different types of army cars.

After several days in Berlin we went on to Prague by way of Dresden and about thirty miles out of Berlin I cut over from the main Leipzig road to the main Dresden road for this connecting road between the two main highways is about twenty kilometers long and the whole area between Treuenbrietzen on the Leipzig road and Jutebog on the Dresden road is already an armed camp. I literally saw thousands of young men in fliers uniforms and hospitals, barracks, underground hangars, and all sorts of military equipment have been concentrated here.

I will not go further into what I saw, but if one needs any evidence of the enormous preparation going on in Germany one need only get away from some of the main highways and to the spots where the barracks, hangars, etc., have been concentrated. One is tremendously impressed by the young men in the air force. They are a fine looking and intelligent looking lot. The country has undoubtedly been combed by Goering for the very best of the German youth between eighteen and twenty-four, and he is building up and has gone far towards doing so, the most formidable air force anyone could have dreamed of. This is exactly what he told me three years ago he would do and which I did not think he would be able to accomplish, but my then friend, Dr. Milch, formerly head of the Lufthansa and now General Milch had done the job for him.

If one goes by rail through Germany and to the larger cities one does not see anything of this military preparation, but it is there in an impressive degree to those who know where to go. One does not build up such military forces for the sheer fun of it and after all as no one has the slightest intention of or reason for attacking Germany, it takes more than Hitler's peaceful declarations to convince one of the benevolent intentions of Germany with respect to other countries.

In Berlin I had conversations with Mayer, Flack, and Geist, all of our own establishments, and with a great many friends who are in a position to know the Party position from the inside. It is not a comforting position.

In London I had been told that the position of Neurath had been greatly strengthened and that he really had something to say in the Foreign Office. I did not believe that this was so, for it did not fit into the picture, and in Berlin I found that Neurath's position is no better than before. He is really without power, and with less power and influence than before. The appointment of Ministers and Ambassadors and officers in the German Foreign Service has been completely put into the hands of Hess and Neurath cannot make the most minor appointment in the Foreign Service without the approval of Hess. When this was put

through some weeks ago Neurath again tendered his resignation, but was obliged to stay. The Foreign Office I find has been completely reorganized and there are now three principal divisions - the political headed by Diekoff; the economic by Ritter; and the legal by Gauss. The position of Diekoff has been much strengthened and he owes the favorable change he enjoys to the fact that his wife is related to Ribbentrop. One of the best informed observers in Berlin and a man whose sources of information I know, told me that Rosenberg and Ribbentrop and Hitler are the ones who decide finally on foreign policy and that Neurath and the Foreign Office continue to be the rubber stamps we have known them to be for several years. I mention this as these reports concerning the growing position of Neurath keep cropping up and are given credence by some otherwise well informed persons.

To me the most important and at the same time most distressing development in the German situation is the degree to which the Army has been brought into the Party sphere. Blomberg, as you know, remains the Minister for Defense, but there are now three separate Ministers for Air, Army, and Navy, with supposedly equal rank in the Cabinet. Goering remains as Air Minister, von Fritsch as Minister for the Reichswehr, and von Raeder as Minister of the Marine. Blomberg it is believed will soon retire from the picture as his usefulness to the Party is over. He was used as the instrument to turn the Army over to the Party and now he is no longer needed. Goering is rapidly getting complete authority over the armed forces of Germany in the air, on land and on sea. The restraining influence which the Army has been able to exert on the Party's foreign policy is becoming less and less. The higher officers, including almost all of the General Staff, still realize the danger of the Party's expansionist policy, but the younger officers are practically all imbued with the Party policies. As one high officer told me with tears in his eyes, in another year practically all of the officers to the rank of Major will belong to the Party and "where will we and the Staff be with all the officers in direct contact with the men beyond our influence". This is a very serious development in the German situation which perhaps the Party foresaw, but which certainly the General Staff did not foresee.

How important the part is that the Army has played in restraining Party policy is clearly shown by the following. In London I was told what a great mistake had been made on March 7 in not taking joint action with France on the German reoccupation of the Rhineland as it was quite clear that the General Staff of the German Army had been against this move and after the Party will prevailed, insisted on giving orders that if the French moved into the Rhineland the German troops were to withdraw without resistance. In Paris I found that in French Government circles, as well as in other informed quarters, it was believed that such orders had been given, but of course they did not know it at the time. In Berlin I was able to get almost as definite confirmation of this as it would be possible to have. In other words, it is true that in spite of German rearmament it has not reached the stage, nor is Germany in a position to maintain a struggle now with a major power. I learned in Berlin from this source that on March 9, as the French made no move, the orders to the units in the Rhineland were changed to resist if any move should be made by France. All this confirms what I said in one of my previous letters that the Party chiefs were trembling in their boots on March 7. They had determined to take the risks believing that they were right and that the General Staff was wrong, and once again the Party proved to be right.

It is too much to say yet that the Army has become a servile instrument of the Party, but it is clear that the Army is already much further on the way of being the instrument of the Party than seemed possible some months ago. It is no wonder that more and more officers are becoming converted to the Party's expansionist program when they see Europe apparently prostrate before it. The higher officers in the General Staff still realize what the real power is in France and England, and that they cannot count on France and England's permitting these fait accompli, but we have learned alas in Europe, as well as in the Far East, how far the wisdom and the vision of the elder statesmen can influence and restrain the younger and hot elements.

You will remember the importance which I attached in my letters in March to the German rearmament of the Rhineland. This is the principal objective behind

the German move on March 7 and is a definite part of the Party's program to move in the direction of the East and Southeast. France must be mobilized on her frontier to give Germany a free hand in other directions. Just because there is no talk of this refortification for the present, there are a lot of kindly souls who believe it is not happening. The facts speak for themselves. Our Acting Commercial Attaché in Berlin, Miller, who is very much on his job and a very good officer, tells me that German production statistics of cement doubled in March. The April statistics were not yet available. As the cement production had already been increased to meet the needs for the automobile highways which are being constructed, there can be only one destination for this tremendous increase in cement. In Paris and in Berlin I was informed in French, German, and other quarters that there was definite evidence of tremendous activity in refortification. This is the way in which the Party works. And they will keep on fortifying the frontier while the talk is going on, which is what they are after, and it is only too likely that by the time England and France find themselves together again they will encounter a new position - that is, a Germany entrenched on the Rhineland and with her striking power in the East and Southeast tremendously strengthened.

I got the definite impression in Berlin from all sides that Germany does not intend to take any aggressive action in any direction for the next few months. I have frequently mentioned to you the extraordinary significance which is given to the Olympic Games by the present German Government. Tremendous preparations have been made for these Games and the Party expects them to be the biggest propaganda for the new Germany abroad that could be organized. The Olympic village which has been constructed near Berlin for the athletes is certainly the best thing of its kind which has ever been done and the athletes will be treated like princes. This Olympic village, by the way, will later serve as a huge barracks. The Unter den Linden which you saw so torn up because of the subway, will be cleaned up before the end of July. Germany

wants nothing to interfere with the Olympics and she will endeavor to avoid any action which will upset public opinion outside for the present. It is extraordinary that such a thing as the Olympic Games could play such a part in the far-reaching policy of the Party, but one must know the mentality of the Party leaders to appreciate it.

Another reason why Germany is not contemplating anything for the present is that it can do nothing within Germany's own frontiers to further raise morale. The only further step within the German frontiers would be in the direction of the corridor and Germany does not wish to upset its agreement with the Poles for the present. You know that already last year Hitler said that the revolution within Germany was at an end. By that he meant that all the social measures of the Party had been put on their feet and it was a question of working them out. The revolution within Germany is not at its end, for the implacable carrying through of the social program is going on every day and still has a long way to go to be effective in the way they wish it to be against the Jews and against the Protestant and Catholic Churches, etc. The internal social and political program, and the external political program have in the meantime not undergone any change and, as I have so often pointed out, no change can be expected unless there should be a complete breakdown of the Party. One significant thing is that in Germany one now begins to speak, in high Nazi circles, that "Hitler must get rid of the Party". The Party's unpopularity has increased. The last "election" showed how keenly Hitler recognized this for he hardly mentioned the Party in any of his speeches, as I pointed out at the time. Hitler is undoubtedly stronger in Germany and the Party weaker. This is why for the maintenance of the system, within the Party leadership one now speaks of getting rid of the Party, feeling that in this way the Party system can best be fixed on the country. I think they are a long ways from this, but I mention it as one of the interesting and significant evolutions in the German situation - if one can properly speak of any evolution in the Nazi system.

It is quite clear that the Party has no intention of taking any action with respect to Austria at the present time. There are, besides the ones I have already indicated, a number of reasons for this. The Party believes that the European position is so shaping itself that Austria will gradually be forced into the Reich without any aggressive action against it. Then, too, the German people who before were disinterested in Austria except as an economic hinterland, have now been educated to believe that Austria is only waiting eagerly for the opportunity to join Germany. If Germany were to take any aggressive action against Austria which could be pinned against her, it would still meet with resistance in Austria. And this would further destroy the prestige of the Party within Germany. This is a risk which the Party leaders do not see fit to take for the present. Then, too, as you know, it has always been the basic policy of the Nazi Party to endeavor to bring the "German minorities" within the German sphere by stirring up trouble among them and causing dissensions in the political units of which they now form a part. They have preferred this method to aggression and still prefer it. For this reason we see the Party activity for the time being directed towards Eupen and Malmedy and towards Czechoslovakia, and towards the endeavor to strengthen German economic control over Southeastern Europe.

Perhaps here I should say a word concerning the trip of Schacht to various Southeastern European capitals. One must give the Party credit with a Machiavellian cunning which is almost beyond conception. Practically all of the Southeastern European states have an active balance with Germany. In some cases it is an enormous balance, as for instance with Yugoslavia and Bulgaria. Germany has for her own purposes kept up her purchases in these countries and built up these debits and held out the hope all the time through the clearing agreements of payment. Now payment is not forthcoming and these states are forced to buy from Germany, in many cases articles which they don't want. Germany hopes to impose and facilitate her economic penetration of Southeastern Europe through these debts and Schacht's visit to various capitals is for the purpose of arranging for a larger taking of German goods.

I learned from a source very close to Schacht and one I know to be very well informed, that Schacht purposely took practically no one with him on this trip which he is making on his own, in order "to repay visits to the heads of the various banks of issue". He is purposely taking no one with him so that when he is confronted with these figures showing a huge debt by Germany he can say that he is very much surprised and that while he knew the clearing agreements were not working out satisfactorily for Germany, he had no idea that the debt was so great. He intends to confine himself to the promise that he will look into things when he gets back to Berlin, and at the same time make all possible arrangements to wipe out the balances through the taking of goods. You will remember that it was formerly Goering who made these trips for the Party to Southeastern Europe, but he is pretty well discredited as an emissary for they know that he promised the most opposite things in different capitals. Now Schacht is to go because of the reputation which he enjoys and he goes with just as sinister designs as Goering ever had in mind, and yet this man Schacht is the good and close friend of Mr. Norman, the head of the Bank of England, who maintains full confidence in him. Schacht told a friend of mine that he had no intention of offering anything on this trip but German goods and that he was going to get away with it.

How insidious the whole thing is and how dangerous is realized by very few. The Bulgarian Minister here came to see me yesterday. He was formerly a General in the Bulgarian Army and Military Attaché in Berlin in my time there. He was one of the few men who had personal contact with Hitler. He said to me very frankly yesterday that through the force of circumstances Bulgaria was already practically economically in Germany's pocket. Over fifty percent of Bulgaria's exports went to Germany, not because Bulgaria wished it, but because she had no other taker. Unquestionably Germany's objective was to follow economic penetration with political dependence.

I was glad to see the Department's circular telegram about the Schacht visit to these capitals and I will answer it at length next week. One has to realize situations like this to understand how sinister these Fascist

and dictatorial governments are. We have developed a trade agreements program at home through the President and the Department which is going to be, I believe, in many ways one of the greatest achievements of the last years. The services which the Secretary has rendered in carrying through this program against so many objections will write his name large in economic history. The program is, I understand, sufficiently elastic to take into account certain special situations and such a special situation I believe does exist among the Danubian States. The situation in this part of the world is such that I think we must admit the principle of certain preferences among these states as long as we share with the major states all privileges. I believe that we could make agreements with Czechoslovakia, Austria, and all these other states within the framework of our trade agreements program and admitting these preferences among the smaller states themselves on the basis that we stand on the same footing with the major powers such as France, England, Germany, Italy, etc. But the autocratic governments of Italy and Germany will not permit this. Italy has special privileges with Hungary and Austria under the Rome Protocols, but it is true that she gives compensations. Italy could be brought into an amenable position on the question. Germany, however, is insistent on playing the dog in the manger policy. Czechoslovakia and Austria took the first constructive step towards bringing about a solution of the economic problems of Southeastern Europe through the trade treaty which was signed before I left for home. The treaty has not been put into effect because Germany has lodged definite protests in Prague and Vienna and simply blandly stated that she must share in all the concessions. Her objective is not for the present to share in the concessions, but to prevent the treaty from being put into effect. She has other plans for imposing her economic, as well as political, will on Southeastern Europe. I have mentioned this in this letter for it is one of the concrete ways which shows so definitely how impossible these dictatorships are. There are those who persist in believing that they can support a dictatorial regime in one country and think it dangerous elsewhere. Dictatorships are dangerous everywhere and all the time. There is a difference in degree only, and it is true, I believe, still that the Italian dictatorship is one which can be brought into line, while I don't believe that is the case with the one in Berlin. The Department is quite right in saying in the activities of Schacht a distinct threat to our trade agreements program, but this is only one of the ways in which these dictatorships will continue to upset all reasonable and wise arrangements between people as long as they are permitted to exist.

While in Berlin I found Geist still to be far the best informed man in our establishments, and he is really doing a splendid job there. He is an upstanding man of infinite tact, real character and courage, and with an appreciation of the various types of German character. All these things are necessary in Berlin today, and he is a tower of strength to our interests. There is hardly any reward which we could give to him for the services which he has already rendered which would be in proportion to what he has earned, but he is so necessary in the Berlin situation that he can certainly not be spared there. He carries a weight in party and government circles which is of inestimable value to us. I only make this mention of Geist in parenthesis because I know so many people in Germany, and he has the unqualified respect of everyone and is a most effective officer as a consequence.

From Berlin I went to Prague, where I spent only a day. I had an interesting talk with Butler Wright and with Orme Wilson, but my Czech friends whom I hoped to see were unfortunately out of the country.

The Czechs realize the seriousness of their position. They know that they are for the present more in the minds of the Germans than the Austrians. They appreciate pretty well that in the present state of English opinion France would get no support from England in any action which she might take on behalf of Czechoslovakia. They feel that although for the present the striking power of France with respect to Czechoslovakia is much hampered, they can still depend on French support. It is important that the Czechs should have this confidence still, even though the basis for it is for the present really lacking. The Czechs have been rearranging their position for months, knowing that Southeastern Europe must more and more stand on its own. So, while interested in maintaining unity within the Little Entente, they are not making themselves any illusions, for they know that Yugoslavia, under German economic pressure and because of its internal situation, is drifting into the German orbit. It was this feeling that impelled the Czechs to enter into the Austrian-Czechoslovak Trade Treaty, which is now held up because of German objections, and which has decreased their opposition to Hapsburg

restoration in Austria, and which has led to the raising of the very large internal defense loan. They are entirely conscious of the dangers in the Henlein movement and know that Henlein is as undependable as any dictator, even though he may still be an embryo. They appreciate that Henlein hopes to set up an autonomous state among the Sudetendeutschen which would eventually be turned over to the Germans, and which would lead to the complete disruption of Czechoslovakia. They know that in the case of the setting up of such an autonomous state they could not even be sure that they would be able to move against it or to have any help from anyone in suppressing it. The Czechs, however, are a hard-headed and a calm people, and they are going to be hard to down. They are not going to lose their heads and they will not be so easy a nut to crack as some in Berlin persist in thinking. You have heard of the splits in the Henlein Party, and while too great hopes must not be placed on these, they do have their meaning, and Henlein's path is by no means as clear as he would like it to be. Benes is making the best of his position and is very active. He is doing what he can to satisfy the minority elements in Czechoslovakia and is certainly making some progress.

I came on to Vienna, and I shall not endeavor to go into the Austrian situation fully in this letter, which has already grown to too great length. Rogers really covered it splendidly in his despatches while I was gone and was unusually accurate. It was really a very fine job which he did. I feel, however, that I must cover a few phases of the situation.

There has been a good deal of discussion as to whether the recent conversations between Rome and Berlin began on German or Italian initiative. There is a wide difference of opinion. I believe that it is quite evident that they were initiated by Rome with the clear object of bringing pressure on London and Paris. You will remember that I have said consistently in my letters, and repeated it at home, that all basis really for agreement between Rome and Berlin is lacking. I still think that this holds. Berlin is probably more anxious for an agreement with Italy than Rome could possibly be. In fact, I am quite confident that an agreement with Italy would be welcomed in Berlin, for Berlin feels itself the

stronger partner and could break the agreement any time she chose to do so. On the other hand, Mussolini realizes that through any agreement with Berlin he might have temporary advantages which would be rapidly dissipated, and he would soon find himself in a very bad position, much worse than if he had had no understanding whatever. This, however, has not prevented Mussolini from taking the initiative in conversations with Berlin, in order to bring pressure on London and Paris, on sanctions, and for the rehabilitation of himself before the world. All dictators are proud and sensitive, and Mussolini, who has some good qualities, has felt his position keenly. He sent Rossini, the Minister of Agriculture, to Germany, and he traveled over the whole country for three weeks. There have been all sorts of important Italians in Berlin. You know that the Countess Ciano, the daughter of Mussolini, has been making a long visit with the Counselor of the Italian Embassy in Berlin, and she has been very active. All this was careful preparation and background for the feelers which Mussolini put out to muddy the waters, but I do not believe that he has had the slightest intention of really arriving at any agreement. I learned in Berlin through a very responsible source that Hitler had been told by Mussolini through a private emissary that "Austria must not stand in the way of better relations between Italy and Germany" and that Hitler had replied by the same emissary that he was for the present much more interested in Czechoslovakia. When Schuschnigg made his unexpected trip to Rome, he undoubtedly wanted to explain to Mussolini the real position between him and Starhemberg, but he also wanted to know just where Austria stood in these conversations going on between Rome and Berlin. Chancellor Schuschnigg informed one of my most interested colleagues here in Vienna about ten days ago that there was no agreement between Rome and Berlin and he did not believe that there would be one. He also said that Mussolini had repeated to him his most formal assurances that he would stand by Austria.

It is nevertheless equally clear that Mussolini indicated to Schuschnigg that he would not be averse to more active conversations between Vienna and Berlin on the question of better relations, provided they were carried on on the basis of Chancellor

Schuschnigg's well known stand. This, of course, was part of Mr. Mussolini's game to frighten England and France, who although they would probably not move for Austria today, nevertheless realize what the Austrian position means.

The Chancellor did have conversations here with the German Minister and made it clear that he was prepared to negotiate on the following basis for a modus vivendi for better relations. First, on the recognition by Germany of Austrian independence; second, on agreement not to interfere in her internal affairs; and third, with the understanding that Austria is free to take any steps within her own limits, such as a sovereign state may from time to time undertake. The Chancellor hinted pretty broadly in various speeches that such conversations were in progress, and it all caused a good deal of concern here and elsewhere.

My interested colleague who had had a conversation with the Chancellor asked him the direct question day before yesterday as to whether these conversations with von Papen had made any progress. The Chancellor replied "No". My colleague then inquired further as to whether the Chancellor had any hope of these conversations leading to anything, and he replied, "Leider nicht", which is equivalent to saying: unfortunately, no. There have been doubts as to the Chancellor's sincerity, but I am convinced that as long as he sees any hope for Austria's position, he is not going to negotiate with Germany on any other basis than the above.

I think we can take it for granted that there is no agreement between Berlin and Rome yet, and now since England will take the lead in the removal of the sanctions, the probabilities are less than ever for such agreement. It does not mean that the situation by any means is cleared up, for once a black-mailer always a blackmailer, and Mussolini has found it a weapon which he will not give up easily. But he has other problems as well, and in some ways he is as happy to be out of this impasse as London is.

Berlin will not make any agreement with Austria on the basis of her independence and non-immixion in her internal affairs, or with complete freedom for Austria in her internal relations, simply because

Berlin is determined to absorb Austria and to control her internal and external policy. In a talk with the Bulgarian Minister yesterday, he said that it was too bad that no agreement between Germany and Austria seemed possible. I said that I agreed with him, but that I understood that Austria was prepared to enter into a modus vivendi for better relations on the basis of recognition of her independence and of the principle of non-immixion. To this he replied that such an offer had been made by von Papen and that von Papen had assured him that it had been made. I only mention this as it gives you an idea of how irresponsible the agents of the Berlin Government are, for Papen when he told the Bulgarian that he had offered an agreement knew that no such offer had been made. The Bulgarian honestly believed that Papen was telling him the truth. This is the way the waters are muddied in this part of the world.

In any event, I think we may be certain that there is no agreement between Rome and Berlin and that no agreement between Berlin and Vienna exists, and that in neither case is any in sight.

The Legation has covered the Schuschnigg-Starhemberg situation so completely in its despatches that I only want to add that while it would be a mistake to think that Starhemberg is completely down and out, it is true that his position has been very greatly shattered. I do not see how he can come back for the present. His principal lieutenants, Baar-Baarenfels and Draxler, have pretty well established themselves in the new order of things, and they are not very likely to sacrifice their positions for their former chief. Just as in Germany the Party is eager not to have anything happen until after the Olympic Games, so here in Austria there is a real sort of truce between Starhemberg and Schuschnigg until after the summer tourist season is over, for it means so much to the country. It is too early to venture any worth while predictions, but I almost feel safe in saying now that there will be no trouble here fostered by Starhemberg and that it will not come to the civil war after the truce which some speak of. As I have frequently pointed out, Starhemberg is in many respects just as great a patriot

as Schuschnigg, and I feel confident that he would not go as far as to raise civil strife to maintain his own position. It is not impossible that the solution will yet be found in finding a decorative post for Starhemberg.

The Government here is quite aware of the European situation, and I think after having made this trip around I can say more definitely than ever that one can feel the pulse of Europe here in many respects more clearly than even in the more important capitals. The Government, therefore, realizes that it is more than ever on its own in view of the present English and French positions. It is keenly sensitive to the weakness of the Italian aid which it is still promised, and eagerly hopes for the re-establishment of something resembling the Stresa Front. As a realist, however, the Chancellor has to face a situation which is indisputable, and there are those who believe, and I think with good reason, that in his own mind he is considering restoration as something not so much in the distant future as before. It is something which he does not wish to envisage in the near future, but I think it is true that in the present state of Europe restoration would be more of a protective measure for Austria than it was before. The Chancellor, however, knows that no matter how much it might help in consolidating the internal situation now, it is a step which is still impossible. I think that restoration now would meet with no definite resistance from Czechoslovakia and almost certainly not from Rumania, but would still start up, if not war, such a disturbance by Yugoslavia that it would prejudice the Austrian position in the end more than it could benefit it. One of the cardinal principles of Austrian policy has been, and I still believe remains, not to disturb the European position by any of its acts, and restoration now or in the near future would still, if it would do nothing else, split up the Little Entente, and that is something which would not be to the advantage of Austria, but would lay her more prostrate than ever before Germany. Nevertheless, it is true that in the present state of affairs in Europe restoration has become somewhat more actual, and some of the observers here are apt to interpret this as meaning imminence and have so reported. That is why

I telegraphed the other day that nothing in this direction may be expected in the near future, and I think the background which I have submitted in the past still covers that position.

This letter has grown to an unpardonable length, but I have felt it necessary to give you the situation as I have found it. It is not a pleasant picture and not an encouraging one in most respects, but there are rays of hope emerging here and there. It is interesting that Germany, with the way practically open to her to Southeastern Europe, and with the position which she ardently hoped for a few months ago there to be availed of, is now not taking any action, as other factors are restraining her. While it would be far too much to say that the Italian-English situation is settled, a way to a settlement is open if Mr. Mussolini will show that prudence and restraint which at times he has shown he is capable of. The way to Stresa, I think, is too difficult, but I do believe that the way towards Anglo-French cooperation with a degree of Italian cooperation is open, and to a sufficient degree to restrain Germany from any overt acts which now would have to be beyond her frontier. In the meantime Germany is going to continue to re-arm as far as her means permit, to refortify the Rhineland and to push her economic subjection of Southeastern Europe. Perhaps while this is going on, England will be able to gain that strength so that she can speak again with authority, and France will be able to clean up her internal position so as to present a more attractive partner to London. The flush of victory in Italy will have passed, and the internal problems there may bring certain prudence to her dictator, which will make him inclined to assume more closely the former position of Rome towards Paris and London. If this trend can be achieved and sufficient progress made on it in time, catastrophe over here may yet be avoided.

On the other hand, I feel it important that we not lose sight of the fact that the last war started in this part of the world where I happen to be, and that in my opinion the tinder is here again in greater quantity than in 1914. As I pointed out to you while I was home, confidence has been undermined in this part of the world so much that no one can tell what may happen. If the progress on the road

indicated in the previous paragraph is sufficiently rapid, it will do a lot towards holding the situation together here. If the progress is slow, we are bound to see disintegrating influences accentuated in Austria and in Czechoslovakia and in all of South-eastern Europe, and then no one can look sufficiently far into the future to determine what will happen.

And the moral for us is that no matter how benevolent our own intentions may be, there is nothing that we can do to help to clear up the situation over here. I do not see anything that we can do in an active way, but I think we should remain in that attitude of in the meantime not doing anything which in any way can give aid and comfort to those dictatorships which are causing all this disturbance. There are concrete things in this respect which we have been and which I hope we will continue to keep on doing. Our attitude has been one which, as I pointed out in a previous letter, is beyond reproach, and one which is a credit to the Department and to our people.

Although I have deemed it necessary to write to you at this great length, there are still important aspects of my trip and specific comment on the situation which I have not been able to include therein, as I must get off the pouch today to catch the steamer. There are particularly certain aspects of the German internal situation, the economic and re-armament position there, and also certain important factors with respect to Austria and her neighbors in Southeastern Europe, which are essential to the complete picture, which I have not been able to cover in this letter. I hope that what I am sending may give you some interesting and helpful background for the interpretation of reports on daily developments which reach you through the press.

With all good wishes,

Cordially yours,