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Vienna, July 1, 1936.

*Personal +
Confidential*

Dear Mr. Ambassador:

I have been back here, as you know, for a month and have not ceased to regret that I saw you only so short a time on our way through Berlin, as there were so many things which I would have liked to talk over with you. There was, however, an administrative problem here in Vienna which required my attention and made it advisable for me to return as soon as possible, so that I did not feel justified in staying over in Berlin.

However, since my return here I have often wished that I could compare impressions with you, particularly in view of the developments in the general situation. The developments in Germany naturally influence developments here so much that it would be helpful for me to check up my impressions with yours. I am taking my first opportunity to give you a few of my impressions in the hope that you may be able later to write me. It would be very helpful for me to know whether we are in agreement on some of the major factors and if not, where the points of difference may be. I shall try to give you some of the picture as I see it.

For your personal and confidential information I may tell you that while I was home the question came up again as to whether we should negotiate with Germany. Luther, as you know, has been raising this question again and again and no rebuff seems to stop him - and I think this already is an indication which shows how important the matter is to the Germans. I am led to think that this insistence is directly due to the really serious financial situation which is developing in Germany. If I am correctly informed, the amount of the Arbeitsbeschaffungswechsel in the banks reached the total of 12 billion marks at the beginning of this year and the limit of absorption by the banks has apparently been reached. Schacht got some elbow room through the half-billion marks from the savings banks. In April he got more elbow room through the private insurance companies. The crippling of these companies I understand is already felt through the increased difficulties in getting out deposits, etc.

The Honorable
William E. Dodd,
American Ambassador
Berlin, Germany.

Now the question is where the next half-billion to keep the work program going is to come from. The billion to be levied on industry to help out exports may be difficult to raise in its entirety, but apparently a good part of it can be got. This will give relief to a degree in the raw material situation, but will not help materially in the maintenance of the internal work program. Where the money is to come from to keep the industrial program going seems not to be clear, and from what I understand, Schecht is really finding this situation impossible and is saying that unless they get some kind of help from England and America by October, a break will come in Germany. I understand that he says that this break will mean his elimination and that of Neurath and other conservative elements, and a strengthening of the radical course of the Government. On the other hand, I understand he says that if they can get help from England and from us he can guarantee a more reasonable course from the Government in both its political and social program.

I am also informed on what appears good authority that aside from the levy on industry of a billion marks to help exports, a general capital levy is being considered in order to keep the work program going, which of course means the rearmament program. The information which we get here is that although devaluation has been studied very definitely from time to time by the Reichsbank, it is not considered that it offers any real relief and is to be avoided except as a last and extreme measure. Of course if there should be general devaluation or stabilization they would undoubtedly devalue, but would desire to play a lone hand and reap what special benefit out of it they could. The possibilities in connection with German devaluation in relation with general stabilization are something which I will not go into here, but which I am sure you have given much thought to.

As I was saying at the outset, while I was home the question came up as to whether we should negotiate with Germany. There are, of course, all kinds of interests which believe that ~~we~~ we should and that we could do so with advantage, and among these may be the cotton and copper people. One can understand why there should be this real interest from sections of opinion at home, because we have a real problem, and I would not be surprised if the pressure on Washington is

sometimes pretty severe. There was a meeting of some of the officers of the Department in Mr. Sayre's office to which White and I were invited as both of us happened to be there on leave.

My views were asked and I should like to tell you what I said. I said that in my opinion our Government had been taking the right attitude consistently and that I could see no reason why we should change that attitude. I said that in my opinion no arrangement which we might make with Germany now would work out satisfactorily for us or be kept by the Germans simply because the Germans have no intention of adhering to any agreement of this kind longer than they find it worth their while. I observed that the head of the German Government in his confession of faith has made it clear that he considers treaties and agreements only as a means to an end and to be observed only as long as they serve their ends. This is something we cannot disregard for it is primary National Socialist doctrine and neither the head of the Government nor those who make policy for the Party have disowned this attitude. Second, and more important, I said that in my opinion any agreement which the Germans made with us which had any advantage for us they would not be able to keep even if they wished to, for their internal situation was such that they could not carry out any agreement of this kind.

White's views were asked also in connection with the matter and while he approached the subject from a somewhat different point of view, the net result of our opinions was the same, that is, that we could not expect anything out of any agreements which we might make.

I went further and said that aside from these two considerations which I considered controlling, there was another which I believed was of equal importance. I said that in my opinion the present Government of Germany was definitely threatening the peace of Europe by her political, expansionist, and socialist program and that as long as this Government remained in control in Germany we had not a single reason as yet to believe that this course would be changed or could be changed. I pointed out that those

who really made Nazi policy from the outset were still in the saddle and that those who have fallen by the wayside have been almost entirely instruments of the Party in exercising its physical force rather than makers of policy. Certain policy makers, like Feder and others, of course, have passed out of the picture, but there has been no giving up of any important aspect of the radical social and economic program.

I ventured to say in this meeting that a definite effort was being made by certain countries in Europe to maintain the peace and that as we might not be able to do very much in a positive sense to help in this effort, we should at least refrain from doing anything negative. Quite conscious of our interests which we have at stake such as cotton, copper, lead, etc., and even though a temporary outlet for certain quantities could be secured, I said that I still felt we should refrain from negotiations because of the political factor. If we were to negotiate with Germany now it would have a depressing and discouraging effect in those major countries which are trying to work for peace. It would discourage the conservative elements in Germany and merely encourage the radical group; and here in Southeastern Europe all negotiating at this time would have a particularly disturbing effect on stability. I remarked that although it was known here in Southeastern Europe and in Austria that we were not directly interested in this European problem as others are, yet the fact that we had refrained from negotiating with Germany had exercised a tremendous moral influence and that one of the reasons why Germany wished to negotiate with us was to secure the moral advantage it would undoubtedly give her in this part of the world. I said therefore that I felt that even if there were a temporary advantage for us, which I could not admit, this major political factor should control on the ground that we are very much concerned with the maintenance of peace in Europe and must take a long view of all these problems - a longer view which particular interests among our own people could not be expected to altogether appreciate.

I do not know how much attention was paid to these facts or what decision was reached, but apparently we are not negotiating for the present and I doubt whether we will. I felt that I had to express myself frankly, as outlined in the preceding paragraphs, for my opinions are convictions

reached only after the most careful consideration of the facts as I know them. In my opinion we certainly will be wise if we do not negotiate, for any moves which we may make in this direction will undoubtedly further complicate the situation which is developing over here.

I don't know whether you agree with the point of view expressed in the foregoing paragraphs. I may say, however, that the developments within the last few weeks have only strengthened my conviction that we should maintain our attitude of reserve. I will not go into the major political situation which had developed through the negotiations of the Naval Pact and through the apparent eagerness of England to negotiate an Air Pact as you know this better than I. The pressure, of course, from Germany in the direction of both of these pacts has been enormous and their eagerness and insistence and their willingness to make almost any concession is, I think, the sure reflection of what they know to be their seriously developing financial crisis. Behind the German pressure and willingness to agree with England we must see, I think, the definite decision to placate public opinion and thus prepare the way for financial assistance and trade agreements. The present German Government believes that once England has given way we will, after some further resistance, give way at home also. Perhaps they are right, for there are certain interests in the United States which certainly would be glad to see this come about no matter what our real immediate or long view of ~~business~~ interests in the United States may be.

I am one of those who believe that the Naval Pact does not indicate a definite change of British policy. I realize what the difficulties in England are, but I believe that they will end by facing the facts and that the British, French and Italian front with respect to the National Socialist regime and its political and social program will be maintained. In that case it means no financial help from England and certainly none from us, and I consider this most important.

I realize that there are those at home and in England who say that this Government is in power in Germany

and may be there to stay and that we might as well treat with them now as later. I know that there are those at home who advocate strongly that we should seriously consider negotiations and that some of them are well meaning people. They are people, however, who really know only part of the picture. The officers of the British Admiralty who were so eager for the Naval Pact would not have been so willing to negotiate that Pact if they had the same background of the German situation that the Foreign Office has. The great trouble is that in spite of all the news that we have had, there are still people in responsible positions who have not taken the pains to inform themselves and who are not thinking and who look only to the immediate future. If, however, we are to accept the view that we might as well treat with this Government because it happens to be there, and disregard everything else about this Government other than the fact that it is there, then we must know definitely and must accept definitely that we are negotiating with a Government which has a political and social program which can only bring war in Europe and a war that is inevitable. If we negotiate now we must be willing to accept the consequences. We must accept that we are negotiating to give help which will strengthen that government in a critical period and at a time when its existence is threatened and put it in a position to make this war a more disastrous and costly one - and whether we are in it directly or not it is going to be a costly one for us. These are the facts I think which we must face.

I am one of those who believe that in order that there should be peace in Europe there must be a strong and healthy and contented Germany. I have no sympathy with that point of view which sees the solution of the European problem in the dismemberment of Germany. We have seen the economic consequence of that in the dismemberment of the former Austro-Hungarian Empire. I am one of those who believe that there are elements in Germany which can govern her in such a way that she will be a good neighbor in Europe as well as to us, and that under such men there can be developed in Germany a regime which will have due regard for the rights of its neighbors and at the same time give Germany

the important position to which she is entitled in Europe. I do not believe that we at home should do anything which will interfere with such a favorable development even if something which we did had temporary advantage - but even those temporary advantages I cannot admit as possible except those which might accrue to a small group which might finance certain arrangements. We have certainly not reached the point where our ~~business~~ interests can be subordinated to a small group. This would be contrary to the whole tendency of our Government and of our public opinion. I think we have had wonderful direction of policy in Washington and I am confident that we will continue to face the facts no matter what may be done elsewhere.

As I have already said, I feel confident that in England there will be a steady and progressive facing of the facts. Some of the surface indications are ^{not} in this direction. One of the things which is certain is that Germany is trying to clear the way in England through these agreements and in other ways for a favorable reception for a policy of credits, access to raw materials, and trade advantages. You and I know that in Berlin they feel that once London gives way there is no doubt that we will too and that this means a saving of the present regime, *perhaps for some time.*

So far as I can see the facts, there has been no change in the policy of this regime and there can be none as long as the men who control it at present are there. It has undertaken a course which it is bound to follow to the bitter end. Under economic and financial pressure there has been a temporary abandonment of a part of the economic program and Mr. Schacht has been given certain powers in the economic field. Mr. Darre and Dr. Ley are for the time being in the background and may even remain there, but should the difficulties with which the regime is confronted be overcome, it will be Mr. Schacht who will eventually go and the policies of Darre and Ley which will control even though they may have been dropped by the wayside. Mr. Schacht can say very briefly that if England and America will help him he can promise a change in the radical political and social program, but I think we must know by this time what his promises mean. If he were able to carry through any real modification of the program we would have undoubtedly seen

evidences as a move of good faith; but he cannot make any changes now which would bring about better sentiment abroad and he would be less able to do so once the help so eagerly being pressed for and desired was accorded.

The net result of all the foregoing is that it is still my conviction that we should maintain an attitude of reserve and abstain from negotiations.

The general political and economic situation in Austria is very much better. Politically the National Socialists have not been so disorganized and so powerless for several years. The position of the Government within the country is definitely stronger and it is well established. The economic and financial situations are definitely better and are very slowly, but definitely improving. The whole situation of Austria, however, as you know depends on its external support. Should that support disappear or even be definitely weakened, the political and economic situation here will be greatly disturbed and it may be with disastrous consequences. It is felt here that the intentions of the present German Government with respect to the integrity and independence of Austria remain unchanged and that it is a continuous and clear threat to Austrian independence as long as there is not a definite and binding expression of German policy towards Austria which will mean complete lack of interference with her internal affairs and recognition of her independence. No matter what happens here within Austria, her position is insecure as long as the external situation is not clear.

Those of us who follow the Austrian situation therefore have to keep these external situations in mind and I have taken the liberty of giving you some of the facts with respect to the German end as they are seen from here. It would be a very great help to me to know whether you are in major agreement with the views which I have expressed. I need not tell you how much I miss the conversations we had with regard to these matters when I served with you in Berlin.

I am afraid this letter will be late in reaching you as I have to send it by the next courier via Paris and if you write me you will undoubtedly wish to do so by the same channel as it is hardly save to send any confidential matter through the open mails.

I hope Geist is having a pleasant holiday at home for he has so much deserved it. I hope, too, that when the next list of promotions comes out he may get recognition for the splendid work which he did while I was there and which I understand he is continuing.

If you and Mrs. Dodd should be taking a holiday we would love to have you come this way and spend some days with us for we have plenty of room and would be most happy to have you. It is perhaps impossible for you to come to Vienna now even on a holiday, but if at any time you feel that you can do so, we would love to see you.

I have written rather categorically and directly in the expression of my views in this letter, which I know you do not mind, and it would be extremely helpful to me in my interpretation of events here if I could have a few words from you at your leisure.

Always cordially and sincerely yours,

George S. Messersmith.