

873

Confidential

Vienna, March 8, 1937.

My dear Secretary Hull:

I last wrote you on February 23, and wish to supplement briefly that letter. Since that letter has reached you, you may have seen or had summarized for you my strictly confidential despatch No. 1067, of February 26, reporting in full on the Neurath visit, and my strictly confidential despatches No. 1068 of February 26, and No. 1073 of March 2, giving further information on the status of the restoration question. I shall take it for granted in this letter, which I wish to keep as brief as possible, that these despatches have come to your attention.

The significance which this visit of Neurath to Vienna on February 22 and 23 assumed shows how delicate the situation in Europe is and it has brought out, what the Spanish situation had caused some to forget, how important the maintenance of the Austrian position continues to be in the problem of the maintenance of peace. The reports which have been circulated in the press and which have been given credence in some official quarters concerning this visit have been really extraordinary, and most of them without foundation. The reports in a section of the English press that a four power agreement between Germany, Italy, Austria, and Hungary had been reached has been traced to German sources. This applies to the

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

reports that arrangements had been reached for Austro-German Anschluss in the near future. Where the report originated that Neurath had proposed an exchange of letters with Schuschnigg in which Schuschnigg gave up the idea of restoration it has not been possible to trace further than French sources here, but the French Legation in Vienna definitely denies that it has any knowledge of this and I can find no substantiation that such an exchange was proposed, certainly it did not take place. Neurath did raise the question of restoration, as I reported in my despatch No. 1067, and I believe in the form therein reported. The Austrian comment in reply was brief and amounted to practically a refusal to discuss the question. The Italian press comment caused surprise and disappointment in government circles in Vienna, but not much concern as the Austrian Government was assured here by the Italian Minister that the press comment did not indicate any change in the Italian attitude on either restoration or the independence of Austria. The Foreign Office here states also that Ciano gave formal assurances to the Austrian Minister in Rome.

In view of the many reports in the press and others being given an official flavor, I thought it best to telegraph the Department the position as seen from here which I did in my telegram No. 14, of March 6, 11 a.m. There is no question but that the Chancellor is disappointed that the Italian press reaction should have been so strong. He lays it, however, entirely to the desire of Mussolini not to impair further the Berlin-Rome cooperation which he needs as much as ever and which he felt had been sufficiently impaired by the London-Rome gentlemen's agreement of early January of this year. The Government here believes that the maintenance of the Austrian position is fundamentally just as important for Italy as before and that if it has to reach a decision the decision will be again definite support of Austria.

Now that the smoke has cleared away, I think we can definitely accept the following as results of the Neurath visit:

1. Austrian policy with respect to Germany has in no sense been changed by or during this visit and no new agreements or understandings were reached during the visit except the formation of a so-called joint Cultural Committee.
2. The fundamental differences between the political and social systems in Austria and Germany came out strongly during this visit and resulted in Austro-German relations for the present being worse and more strained.
3. Germany again placed on record her definite opposition to restoration which the Austrian Government has to take into account but concerning which it was already fully informed.
4. The Italian pressreaction caused surprise and disappointment here, but no particular concern as the Italian Government gave assurances that its stand on independence and restoration had not changed.
5. While Austria believes that in a crisis she can depend on Italy, she has to realize that reliance on Italy must be less absolute and therefore the Chancellor will endeavor to strengthen his ties with England and France.

The Chancellor had planned to go to Rome in the early or the latter part of March in order to talk over the question of restoration with Mussolini. As Mussolini is planning to be in Libya about the middle of March, the

Chancellor will now have to go towards the end of the month. He is planning to go as he wishes to talk with Mussolini before his Secretary of State for Foreign Affairs, Dr. Schmidt, goes to London for the coronation. It is the Chancellor's intention that Dr. Schmidt shall talk over the Austrian position, including if possible restoration, with the British and French Governments on this trip, and for this reason he is so anxious to make his trip to Rome before Schmidt leaves for the coronation. My own belief is that Mussolini desires to put off the visit of the Chancellor to Rome as he is not likely to wish to discuss the Chancellor's restoration plans at this time. It is quite obvious that Mussolini does not wish to discuss restoration with Austria for the present and certainly does not wish to be put into the position of having to take a decision which he does not believe the Austrian, Italian, or European position makes necessary at this time.

The restoration movement is for the time being going into the background and less will be said about it, but the Chancellor's course remains unaltered. He feels confident of the internal position and is apparently pursuing a course less influenced directly either by Berlin or Rome. Italy realizes this and does not wish to have its position in Austria weakened. This accounts for the assurances which have been given in such strong form to the Austrian Government by Italy in both Vienna and Rome recently. The Chancellor, however, can take no action on restoration under present conditions in Europe without a definite attitude by Italy, and as this is not likely to be forthcoming in the near future, it is equally unlikely that the Chancellor will take any precipitate action for, as I have so frequently pointed out, his desire is to do nothing to disturb the internal and external position.

The general position has undergone a good deal of change recently which on the whole is for the better.

There have been developments in Southeastern Europe of primary importance which I think I should briefly summarize. I have been continuously bringing to your attention the subversive German activities in most of the Southeastern European states, which have been accompanied by a political and economic pressure from Berlin. In Rumania it was possible some months ago to get rid of Titulescu who had kept a strong hold on the situation in Rumania. You will be interested to know that Emil Ludwig was in to see me a few days ago and said that Titulescu had shown him the written evidence that he had been poisoned. The Iron Guard in Rumania, which is German supported, was becoming more aggressive, as I reported in my last letter, and in view of the generally difficult situation within the country the political position was very unstable. The Government saw the danger and realized that a small group under this German pressure was planning active steps to get control of the Government. The assassination of a University professor by Nazi groups brought the position to a head and precipitated strong action by the Government, which has gone fairly far towards re-establishing the situation in Rumania. The German effort in Rumania to overthrow the Government may therefore be considered as having failed, but this does not mean that there will not be further efforts. On the whole, however, the position in Rumania so far as the Government is concerned, may be considered as strengthened.

In Hungary the pro-German elements have been active and, as in Rumania and other countries, have been supported by the German Legation. The German Minister von Mackinson, who is the son-in-law of Neurath and the son of the Field Marshall, was at first very popular there because of his background and his own rather careful attitude. Already before the death of Goemboes his popularity had declined, for it was realized in government circles that he was interfering too much in Hungarian internal affairs. Baron von Hahn, who had been in the German Legation in

Vienna as Press Attaché and who was obliged to leave as the Austrian Government informed the German Government that his activities could no longer be tolerated here, was transferred to the German Legation in Budapest. He is totally unscrupulous. With the death of Goomboss, combined with other factors, the German influence in Budapest began to recede and it was realized in Berlin that strong action would have to be taken. It was therefore planned because of the difficult situation among the farmers in Rumania and Hungary, to start a movement in both countries to establish a Fascist regime. When the recent movement in Rumania failed the Nazi agitators and their supporters in Hungary realized that they would have to work fast. A movement was therefore started among the farming population in the eastern part of the country where conditions are the worst, for a march on Budapest. Tibor Eckhardt, who is the leader of the small Farmer Group, naturally got wind of this, gathered together the ~~forces~~, and went to the Minister President and together they went to the Regent. They had evidence that a march on Budapest was planned for this last Sunday. The Regent and Daranyi were convinced of the danger as was Eckhardt, and they took the necessary measures so that nothing happened and the cold putsch in Hungary has failed.

The position of the rural population in Hungary is even worse than that, in fact much worse, than in Austria and Czechoslovakia. As a matter of fact, the position of the Hungarian small farmer is really pitiful. It was therefore among these that the Germans hoped to get the support for their movement, of course entirely under cover of the promise that the new Government would abolish all debts of the farmers. This putsch in Hungary, of which the details are most interesting but which I cannot go into here, has therefore failed. The Hungarian Government will be more than ever on its guard. Those officers of the Hungarian Army who had been influenced by the German agitators who will not come to reason will be put out of the

Army. The danger for the present is over, but the basic pitiful position of the Hungarian farmers remains the same and therefore the fertile field for political agitators remains.

In Yugoslavia the Minister President made a speech in Parliament about a week ago in which there were strong references to the friendship with France and with England, more friendly references to Hungary than since the war, and the references to Germany showed the Yugoslav disappointment in her relations with that country. He did emphasize again the strong Yugoslav objection to restoration.

In Czechoslovakia the Government assumes an attitude of greater satisfaction with the position and speaks of the dangers from Germany as being gone. As a matter of fact, while the danger to Czechoslovakia from German aggression is for the present less than it was, the Prague Government has no illusions as to the real situation and its expressions are much more confident than its feelings. The dissatisfaction in labor quarters in England with the Prague Government's treatment of the Sudeten Deutschen and the increasing necessity for English support of and interest in the Czechoslovak position made it necessary for the Government in Prague to reach an agreement with the more reasonable elements in the Sudeten Deutschen Party. As the Department has full details on this agreement from other sources, it is necessary here only to indicate that by its action the Czechoslovak Government has already taken the ground from under the feet of Henlein who is such a poorly concealed agent of Berlin. The immediate and ill advised reaction of Henlein to the action of the Prague Government showed that he was more interested in himself and in union with Germany of Bohemia than in real alleviation of the situation of the Sudeten Deutschen. His ill advised action did much to show him up not only abroad in those quarters in which he had been given a hearing, but also to the Sudeten Deutschen who realized that he was more interested in himself than in them. If the Czechoslovak

Government proceeds on the program which it has laid out for itself in Bohemia the position in the country as a whole and its external position will be greatly strengthened.

This strengthening of the position in the four countries above mentioned will be pleasing in Turkey and in Greece which watch the way the wind blows and are influenced thereby, but which prefer that it should blow in this present direction. Certainly the position in South-eastern Europe is better and the recent setback to the National Socialist minorities and German activity in Rumania, Hungary, and Czechoslovakia will be most discouraging in Berlin. The economic relations were already working out badly for Germany. The political pressure from Berlin was becoming increasingly distasteful, and now the agitators, native and foreign, working in these countries have had a distinct setback.

All this is helpful to the Austrian position for it is the Austrians and the Czechoslovaks who have been consistently obliged to remain the principal bulwark against the German aggression. Now the general position in Southeastern Europe is such as to strengthen the confidence of the Austrians and of the Czechs. I need not tell you how delicate the situation in this part of the world and in Europe generally is, and to what frequent and unexpected changes it is subject. This favorable position of today therefore may be weakened in the not distant future, but I am inclined to believe that my statement to you in a letter a few months ago - that the peak of the power of the Fascist regimes had passed - is correct and that we will continue to see a gradual strengthening of this position against Germany. The English rearmament program has had a tremendous effect all over Europe and particularly in Berlin and in this part of the world.

I shall not refer in this letter to the situation in Germany although I have received recently some very interesting information concerning developments in the

internal position of that country which I will send you in the near future. I just wish to tell you here that the other evening there was given in a leading theater in Berlin a representation of Schiller's play "Don Carlos" at which Goebbels and others of the Government were present. At one point in the play the King is addressed with the sentence "It is necessary to re-establish freedom of thought". The phrase brought down the house. It is these things which indicate the German people's feelings which can only be given expression to under such circumstances for the terrorism which is exercised in Germany is as definite and as thorough as ever. I still contend that 85% of the German people are healthy if they had an opportunity to express themselves.

I have recently had the privilege of seeing several well informed observers living in Rome. One of them is a friend and associate of Cardinal Pacelli. He said that the rather inactive attitude of the Vatican in the German question at this time was due to the health of the Pope who, while better, was a sick man. Pacelli did not wish to take too strong a stand as after all he might become Pope and was influenced by certain considerations of caution. My friend, however, confirmed what I have previously written you with regard to the situation of the church in Germany. The Vatican considers the position of the Church more desperate than at any time, and more definitely threatened. My friend stated further that the general situation in Italy was very disturbing. He was not a friend of Fascist regimes anywhere, but he thought it was much better that the Fascist regime in Italy should break up after and not before that in Germany. This he thought was in the interests of peace in Europe.

The financial position in Italy was almost as bad as in Germany, he said. Mussolini was getting to the bottom of the bag and there had of course never been as much in the bag as there was in Germany. Mussolini

was disturbed over the situation in Ethiopia and finding it increasingly difficult to do anything there without outside help, and Germany though full of promises, could give nothing but certain goods which did not fill the need. Mussolini was also preoccupied with his Mediterranean plans and this, together with Abyssinia, made it impossible for him to give the internal situation the time it demanded. He was leaving more and more to Ciano and this did not please Balbo nor the Army. There was, he said, dissension among the members of Mussolini's family, and that all in all, Mussolini had aged a great deal in the last few months, and was obviously nervous and worried. He saw the game which he had been playing come to the danger point for him.

I am also informed that a diplomatic observer of an interested country and of long experience in Rome has recently informed his Government in the foregoing sense. He has indicated that for the first time that Embassy must consider the stability of the present Government as uncertain and threatened. This observer did not wish at the moment to go further than to make this broad statement, nor to indicate in what directions he thought the changes might be.

I am only mentioning the foregoing reports with regard to Italy which have reached me from such good sources as I believe they have a certain interest in interpreting the recent Italian press reaction to the Neurath visit here and restoration. The Austrian Chancellor undoubtedly had had Mussolini's blessing on his endeavor to shape the restoration movement as one acceptable within and without Austria. He had undoubtedly given encouragement to the Chancellor to believe that the final favorable word would at the proper moment be given. The Italian recession from this attitude, at least in the press, may have been influenced by the increased necessity for Rome to maintain its cooperation with Berlin as far as possible.

The Italian position externally, and perhaps also internally, may not have been such as to make Mussolini happy over the idea of being faced by a decision on this point.

One of the points which is not clear in the Italian position is the personal attitude of Ciano. In some quarters Ciano is considered as being very pro-German and in others as being anti-German. I have no view on this subject as I do not have adequate information. I only know that when Ciano was here some months ago on the visit reported on at that time, he was anything but flattering in the comment which he made to the Italians here on the present German Government and its Austrian policy. It is believed in the Government here that the original press reaction to the Neurath visit and restoration recently was influenced by Ciano directly and that the later reassurances to the Austrian Government in Rome and Vienna were made at the instance of Mussolini.

Of one thing I think we can be fairly sure and that is that the information passed out by any authoritarian, totalitarian Governments to diplomatic observers and others must be viewed with suspicion. They are just as unreliable in what they say as they are unstable in their position.

With respect to the information which I gave above concerning the nervousness and not too good health of Mussolini which came to me from this well informed source in Rome close to Cardinal Pacelli, it is interesting to note that Webb Miller was recently given an interview by Mussolini which was given wide publicity and which was practically entirely on his good health and spirits. It looks almost as though it were felt necessary to give out some statement on this subject in this way.

In my telegram to the Department of February 26, 11 a.m., I indicated that at a cabinet meeting that day Heustädter-Stürmer would be eliminated and that it was

probable that Glaise-Horstenau would be dropped. It was intended to take this action at this meeting, but as the Austrian Government is placing an internal loan of 180 million schillings at this time, it was decided that it would be better to postpone this action. Neustädter-Stürmer has been practically suspended from all functions as Minister of Defense and what I have said in my despatches and letters on this subject holds true. He will be dropped and it is only a question as to the convenient moment, which will probably be some time after the middle of this month. Glaise-Horstenau will most likely be permitted to remain in the cabinet as he is considered relatively harmless.

With all good wishes, believe me,

Cordially and faithfully yours,


George S. Messersmith.

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