

641

Vienna, January 23, 1936

No. 673

SUBJECT: DEVELOPMENTS IN THE AUSTRIAN INTERNAL AND
EXTERNAL SITUATION.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State

Washington.

Sir:

I have the honor to refer to my confidential
despatch No. 666 of January 16, 1936, and to supplement it
with the following information on developments in the Austrian
internal and external situation.

The two principal events in Austria since the
beginning of the new year have been the visit of the Chancellor
to Prague and the much heralded meeting of the Vaterlandische
Front in Vienna on January 19.

As

As reported in previous despatches, the visit of the Chancellor to Prague, which was originally planned to take place in December, was not intended to have any particular significance. The Czechoslovak Minister in Vienna had made an address early in December before a commercial organization here which created a very excellent impression and out of this grew the idea that it would be a desirable thing for the Chancellor to make an address before a similar organization in Prague. The negotiation of the Austro-Czechoslovakian trade treaty had come to a standstill after eighteen months of laborious effort and it was believed that the address of the Czechoslovakian Minister here and a similar address by the Chancellor in Prague would create a more favorable atmosphere for the negotiations which were to be resumed in January. An invitation to the Chancellor followed to speak before the Industrial Club in Prague and he immediately accepted. The situation at that time was such that I think it may be accepted as a fact that it was not intended that the visit should have any political significance nor was there any thought that it would arouse as much attention as it has.

The difficulties which arose in carrying through the program which had been planned for the succession to President Masaryk and the probability that there might be certain Cabinet changes also in Vienna, made it desirable that the visit of the Chancellor should be postponed and it was later fixed for January 18. In the interval, however, the developments in the general European situation, particularly the unfavorable reaction to the Hoare-Laval proposals respecting

Abyssinia

Abyssinia and the increasing uncertainty as to what action Italy and Germany might take with respect to Central Europe and particularly Austria, concentrated attention on Austria and on the Central and Southeastern European problem. The feeling of uncertainty in the states of the Little Entente and in Austria and Hungary was accentuated and particularly in Austria and Czechoslovakia attention was directed to the necessity for solution of the economic problems of Central Europe and for greater dependence and cooperation among these states. The press in Czechoslovakia began to give a good deal of publicity to the approaching visit of the Austrian Chancellor and this aroused corresponding uncertainty in Hungary which still views with displeasure any too great increase in friendly contact between Prague and Vienna. There is reason to believe also that in Yugoslavia and Rumania strong fears arose that Chancellor Schuschnigg would endeavor to prepare the way in Prague for restoration of a Habsburg monarchy in Austria. This fear was all the stronger as there has been an increasing sentiment in Yugoslavia and Rumania that the resistance in Czechoslovakia to restoration in Austria is no longer so strong.

During these few weeks also immediately prior to Chancellor Schuschnigg's visit to Prague considerable publicity was given in the European press to the general meeting of the Vaterlandische Front, to take place in Vienna on January 19. Persistent and widespread rumors in Austria and in neighboring countries were to the effect that Prince Starhemberg intended to declare himself Regent at this meeting and further credited

him

him with the intention of using the regency merely as a preparation for the restoration of a Habsburg in Austria in the near future. These reports, which in Austria are traceable directly to National Socialist sources and the impetus for which is believed to have come from Germany, gained extraordinary currency and aroused real concern in all of the states of the Little Entente.

The foregoing circumstances led to extraordinary publicity with respect to the Chancellor's visit. Practically all of these rumors and reports were in fact without foundation. The flood of newspaper comment did have the effect in Vienna and in Prague of making it clear that the Chancellor's visit could be used to strengthen the good feeling between the countries and prepare the way for more favorable progress of the negotiation of the trade treaty. The press in both Austria and Czechoslovakia therefore directed its comment to this end.

The Chancellor left Vienna for Prague on January 16, and returned on January 18. The address which he made in Prague, and which is covered in a separate despatch, No. 670 of January 23, which is transmitted with this pouch, was an excellent one and was devoted to the thesis that economic cooperation between Austria and Czechoslovakia and between the states of Central Europe is essential, and he emphasized that all of the rumors with respect to planned changes in Austria were without foundation. The speech had a very good press throughout Europe, except in Hungary where comment was reserved and in Germany where such comment as appeared was hostile.

The effect

The effect of the Chancellor's visit to Prague has been to strengthen the good feeling between the two countries and to prepare a more favorable background for the negotiation of the Austro-Czechoslovakian trade treaty. These negotiations are to be resumed actively within the next few days. In a conversation which I had since the visit, with the Foreign Minister here he informed me in confidence that while unquestionably the greatest good will existed between Prague and Vienna, and while the Chancellor's visit had created excellent background for the negotiations, he was not optimistic as to the results of the negotiations. He said that he had been a member of the Cabinet Committee on Economic Matters for many months and had given careful study to the problem. The technical difficulties in the way of reaching an agreement still remained and he regretted to say he feared they were for the present insuperable. Czechoslovakia had a favorable balance of trade with Austria of about 100,000,000 schillings a year. Even if one allowed 25,000,000 schillings a year for the expenditures of Czechoslovak tourists in Austria, there still remained an unfavorable balance for Austria of 75,000,000 which was too large for Austria to support indefinitely.

He said the Prague Government had been willing to make concessions which would reduce this balance by about 10,000,000 schillings, but this was not adequate. If the balance could be brought down to about 50,000,000, an agreement might be arrived at. The Austrian and Czechoslovakian industries, however, and their general economic organization ran so parallel to each other that more good will on the

part

part of the Prague Government he believed could not go far enough, keeping in mind Czechoslovakian interests, for adequate concessions to be made to Austria. He requested me to keep this pessimistic attitude towards the outcome of the negotiations confidential, but it was obvious that he spoke with sincerity.

With respect to the Chancellor's visit to Prague therefore it may be said in résumé briefly that it has increased the good feeling between the two countries and has created a favorable background for the negotiation of the trade treaty. As to the political conversations which the Chancellor had while he was in Prague, I am informed that all questions of interest to the two countries were discussed and that the Chancellor made it clear that the Austrian Government has no intention of doing anything to disturb the peace within Austria or among her neighbors. The questions of monarchy and regency were discussed, but I am informed on good authority that the Chancellor stated in this connection that the Austrian Government was not seriously considering any step in either of these directions at this time.

I have in previous despatches referred to the friendship which exists between the Austrian Chancellor and the new Minister-President in Czechoslovakia. This fact and the increasing feeling that the states of Central Europe must co-operate more completely with each other in political and economic matters do have their significance in the developments which are taking place in Central and Southeastern Europe.

The meeting

The meeting of the Vaterlandische Front which was held on January 18 in Vienna, was attended by the leaders of this patriotic group from every part of Austria. All the sensational rumors which had appeared in a section of the European press with respect to this meeting were proved, as forecasted in my previous reports, to be without foundation. It was a large, enthusiastic, and in many respects important meeting and the addresses made by the Chancellor and the Vice Chancellor, as the leader of the Vaterlandische Front, were significant. As they are covered in a separate despatch being transmitted by the Legation, only brief references will be made to them here.

Both the Chancellor and the Vice Chancellor emphasized the fact that the Vaterlandische Front alone has the right to make policy within Austria but that this does not involve the suspension of constructive criticism of the Government. Both emphasized that constructive criticism will be welcomed as long as it is constructive and is in the direction of the maintenance of Austria as an independent state. Both in their speeches made it clear that the whole direction of the Vaterlandische Front will be in the maintenance of Austrian independence and directed against interference in her internal affairs from any source. The statements which they made in this connection were unequivocal and emphatic. Both of them emphasized that if all the provisions of the Constitution had not been carried through it was because conditions under which Austria had no control had not yet made this possible and

that

that these provisions would be carried through as soon as it could be done without disturbing the internal peace or that of Europe. They stated that action in this respect, however, would be determined by the Austrian Government and not by influences or direction from without. This was a direct answer to the National Socialists' propaganda directly traceable to Germany recently to the effect that a plebiscite must be carried out in Austria in the immediate future. Both the Chancellor and the Vice Chancellor made it clear that such a plebiscite could not take place at this time under proper conditions to give a real expression of the will of the Austrian people. This opinion is shared by the great majority of objective observers in this capital.

On the question of monarchy and regency Prince Starhemberg was particularly explicit. With respect to regency he referred to the persistent rumors to the effect that he intended to declare himself regent and stated that they were without foundation. With respect to monarchy he said that this was an internal affair for Austria and that if there were restoration there was only one form of restoration which was conceivable and that was the return of a Habsburg. He made it clear, however, that the Government had no intention whatever of taking any action with respect to restoration, and stated specifically that the Government was not contemplating any changes of any kind which would disturb the internal peace or that of Austria's neighbors.

The remarks of the Vice Chancellor with respect to monarchy and restoration have caused considerable concern in Yugoslavia and Rumania. A section of opinion in both these countries is now more than ever convinced that the Vice Chancellor

as well as the Austrian Government, is preparing the way for regency and monarchy. Even in those circles in the Little Entente states in which the Austrian Government is not credited with this intention, the Vice Chancellor's emphatic statement that the question of restoration is an Austrian internal one caused concern. The states of the Little Entente have, and will continue to look for what they consider good reason, on the question of restoration as one of general concern. The emphasis on this point in the Vice Chancellor's speech will cause more concern than the fear that the Austrian Government may be planning restoration.

As I have indicated in previous despatches, this interpretation which is being given to the remarks of the Chancellor and Vice Chancellor on monarchy and restoration is not correct. As I have frequently stated, there is no question but that the majority of the leading members of the Austrian Government believe that a monarchical form of government is best suited to Austria for some years to come and are at heart in favor of a Habsburg restoration when and if this may become feasible. Prince Starhemberg himself is probably not averse to the idea of a regency and would not be unwilling to take over the duties of Regent. He and other members of the Government who are in favor of restoration eventually, much prefer the establishment of a regency which might last a considerable period and which might not ultimately turn into monarchy. In short, although the majority of the ranking members of the Government hold these ideas with respect to monarchy and restoration of a Habsburg, they consider such

restoration

restoration as out of the question for years to come unless there should be some catastrophic developments in Europe. If there is any step in this direction which they contemplate it is that of the establishment of a regency, and even that they do not consider opportune.

The Austrian Government does not fail to take into account the general European situation as well as the situation within Austria. It realizes that the time is not ripe for monarchy in Austria and certainly not opportune among Austria's neighbors. The serious object of the Austrian Government is to establish the idea of Austrian independence within and without Austria, to fortify that independent position and to abstain from all acts which will disturb the internal peace or that of her neighbors. It recognizes that restoration, and to a lesser degree regency, is a step which would not for the present be conducive to internal or external order and all the circumstances point, as I have continuously indicated in my despatches, that the Austrian Government will therefore take no action in this direction under existing circumstances.

The reason for the statements of the Vice Chancellor with respect to restoration are to be found first in his desire in the most definite possible way to put an end to the rumors that he himself desired to become King in Austria instead of a Habsburg; and second, to indicate to the legitimists who have entered the Vaterlandische Front, that as long

as the legitimists patriotically support the Austrian Government, the Government will not interfere with proper legitimist propaganda.

The questions of regency and restoration will continue to be the subject of rumor and of concern during the coming months. All the information, however, which I am able to obtain is to the effect that the Government is planning no step in either of these directions for the present and if the situation continues to develop as favorably for Austria as it has been for some months, both regency and restoration will become more remote contingencies.

The death of the King of England has aroused comment in the Austrian press which indicates very clearly the change of attitude which has taken place within the Austrian Government. As indicated in my recent despatches, the Austrian Government has slowly, carefully, but very definitely been orienting its policy in a recognition of its major dependence on the League and on England and France. In this respect the attitude of the Government has conformed to popular opinion. The slowness of Italian payments is becoming constantly more obvious and exports to Italy are correspondingly going down. This causes real concern and the ultimate effects on the Austrian internal situation will undoubtedly be unfavorable. So far there has been no real appreciable decrease in production and no let up in the improvement in the general economic situation which has marked the last year. It is recognized, however,

that

that within the next few months the issue of decreased exports to Italy will be felt to a degree which may be uncomfortable. The amount of frozen credits in Italy held in Austria is already at the most conservative estimate 65,000,000 schillings and in the opinion of some well informed observers it is in reality 80,000,000 schillings. Many well informed persons here already consider that there is little prospect of more than a few million schillings of this being actually transferred. Orders from Italy are being accepted here only on a cash basis.

The Minister of Finance is proceeding to London tomorrow in order to sign the agreements with the International Committee on the live claims against the Credit Anstalt. I had a long conversation with him the other day and he expressed great satisfaction over the settlement which has been arrived at. He expressed particular appreciation of the attitude taken by the American bankers interested in the live claims. It is clear that whatever doubts may have been entertained with respect to the course which would be pursued by the new Minister of Finance have been dispelled. He has taken his duties very seriously and is unquestionably a man of capacities. Whatever ideas he may have had in mind when he became Minister which caused concern here and elsewhere, it would now seem that he has abandoned them and is determined to maintain at all costs the credit of the Austrian Government. The budget which has been voted and the settlement of the live claims are both concrete evidences of the real desire of the Government in this connection. Dr. Kienbock, the President of the National Bank, who enjoys a very high reputation in Austria and in European

financial

financial circles, delivered an address in Vienna the other evening in which he emphasized the importance of maintaining Austria's credit. As indicated in previous despatches, some financing in favor of Austria may become necessary towards the middle or end of this year. The Austrian Government, however, realises the difficulties which are in the way of securing a foreign loan. The budget therefore has been arranged so that unless unforeseen circumstances arise such a foreign loan will not be necessary.

For the Department's confidential information I may say that I have information directly from the Minister of Finance that already for the first twenty days of January the position of the Treasury is more favorable than during the similar period of last year by 15,000,000 schillings. No mention is being made of this within Austria as the Government fears that many demands would immediately be made upon it which it would be unsafe to meet in view of the uncertain months which the country has before it. The principal uncertainty which has to be reckoned with is the effect which the decreased trade with Italy may have.

The visit of the Finance Minister to London will undoubtedly have a good effect in view of his performance up to this time. His assuming this ministry was viewed with a good deal of concern in financial circles in London. The recent visit to London of Dr. Alexis, who is one of Prince Starhemberg's advisers, contributed to lessen these fears. It has also been announced that Prince Starhemberg will personally go to London to head the Austrian delegation which will attend the funeral

of

of the King. This visit I believe can have none but good results. The recent speech of the Prince and his attitude have been such as to strengthen his position and although a quiet, unassuming, and very reserved man, he usually makes a very good impression on foreigners.

The contemplated changes in the Cabinet to which I have referred in recent despatches, are completely in the background. The changes which had been seriously considered, while not forgotten, will probably not be acted upon. There is now no reason to believe that there will be any change in any major position in the Government in the near future.

The developments in the general European situation are being followed by the Government closely and with unceasing concern, but at the same time with obviously increased confidence in the future. The Government unquestionably feels its position stronger within the country than at any time within the last two years and I believe that this conviction is justified.

Respectfully yours,

George S. Messersmith.

File 800
GSM-WF