

## **Friedrich Flick and German Industrial Policy in Polish Upper Silesia (1921-35)**

(Work in progress – please do not quote from this version)

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### Abstract:

This paper analyzes the interplay of (private) business activities and (political) diplomacy. It covers a specific case of business and diplomacy during the inter-war period marked by secret German government involvement in business activities across the German-Polish border, which allowed for corporate moral hazard and hold-up. Due to overall revisionist political aims, Friedrich Flick was able to enforce financial support for otherwise uneconomical industrial activities in Upper Silesia from the German government. The government's involvement and diplomatic restrictions created 'insurance' on Flick's different business activities. He played the diplomatic game more successful than his political counterparts did, and he was able to exploit this political 'insurance' for his purposes.

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## **Friedrich Flick and German Industrial Policy in Polish Upper Silesia (1921-35)<sup>\*</sup>**

### **1. Business and Diplomacy – and the specific problems in Upper Silesia**

Business diplomacy, a growing field of research in international business, is mainly concerned with stakeholder relationships of international business.<sup>1</sup> This paper, however, is concerned with business and diplomacy, i.e. the interplay and the respective strategic interests of (private) business activities and (political) diplomacy during the inter-war period.

Usually, the interaction of business and diplomacy aims at political or at economic aims, or both of them, the improvement of economic transactions perhaps being the most prominent one. Even though power interests may be important for both political and business strategies,<sup>2</sup> during two centuries of capitalist development, diplomacy has supported international economic activities, and by doing this, it has improved the economic conditions of the respective national economies. Diplomacy aims predominantly at avoiding political conflicts and at economic interactions as smooth as possible (and other social interactions, too) between citizens and companies of two or more states. Whilst it might be debated whether business activity allows for 'good' political relationships between states, it seems rather obvious that business activities are necessary conditions for any relationship between citizens of different states. Therefore, the improvement of these activities is a major aim of diplomatic activities and it more or less serves the business interest; from time to time, however, human rights policy advances to the major aim as compared to business activities, yet this is a more recent development.

Over time, three general issues of diplomacy relevant for business (apart from consulate activities offering access to information on foreign markets, products, or possible business contacts) can be identified:

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\* This paper is based on research in connection with Reckendrees, *«Stahltrust»-Projekt* (2000) and in connection with an article on the so-called „Gelsenberg-Affair' (1932) written together with Kim C. Priemel: Reckendrees/Priemel, *Politik* (2006). This article took Flick's engagement in Upper Silesia as a starting point in order to analyse the 'Gelsenberg-deal', this paper concentrates on the relationship to the German Government and its policy in Upper Silesia.

*Titles of archive materials, quotes from documents and from German publications are translated into English by the author.*

<sup>1</sup> See e.g. Kingsley, *Diplomacy* (1967); Carroll/Mackie, *Mediation* (2001); Steger, *Diplomacy* (2003); Marques, *Policy* (2009).

<sup>2</sup> See e.g. Fischer, *Aims* (1967), on German business strategies and German foreign policy in the course of World War I; Smith, *United States* (1961) on the US and pre-revolutionary Cuba.

1. The establishment of bi- or international trade agreements (e.g. withdrawal of barriers to trade, most-favoured-nation agreements, state guarantees for international trade).
2. The improvement of conditions for international capital transfers and foreign direct investment (rights to establish a business, security of property rights), and in the more recent period of economic development, and
3. economic integration based on positive or negative international regulation.

Business activities may also support diplomatic activities. Sometimes they even have been instruments in the pursuit of a major long term political strategy, the trade between West and East Germany aiming at social, economic, and political convergence (*'Wandel durch Annäherung'*)<sup>3</sup> being perhaps the most prominent example (diplomacy, nevertheless, has been necessary to establish the trade agreements at first). – If this is the bright side of international political and economic relations, diplomacy has also supported the dark side – the domination and the expropriation of foreign countries (see e.g. the broad range of diplomatic and business activities of Imperial Germany in order to create a colonial empire). Moreover, failed diplomacy very often restricted international business activities and, in the case of war, it even terminated international business activities (including the expropriation of capital) – yet, these are not the most awful aspects of war.

This paper covers a very specific case of business and diplomacy marked by secret German government involvement in business activities across the German-Polish border, which allowed for corporate moral hazard and hold-up. Due to revisionist political aims explained below, Friedrich Flick was able to enforce (secret) financial support for otherwise uneconomical industrial activities in the Western and in the Eastern part of Upper Silesia from the German ministry of economics and from the Foreign Office. For Flick, the government's involvement and diplomatic restrictions created 'insurance' on these and other business activities. He played the diplomatic game more successful than his political counterparts did, and he was many times able to exploit diplomatic and political aims for his purposes, as he was able to enforce further financial aid from the government.

The paper continues with a brief account of the political situation in Upper Silesia after World War I, the formation of the new Polish state, and the revisionist aims of German politics; it follows a summary of the Upper Silesian divide in 1921 and its effects on the industrial district. Friedrich Flick's early industrial activities in Upper Silesia (1921-26) up to the secret Government involvement are analysed in chapter two; his further exploitation of the diplomatic situation (1927-32/35) is the topic of chap-

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<sup>3</sup> Niedhart, *Elemente* (2002).

ter three. The concluding remarks return to the interplay between business and diplomacy (and politics) emphasizing the problems of moral hazard and hold-up.

### 1.1. Upper Silesia after World War I

After World War I, the Treaty of Versailles regulated that some of the eastern provinces of the German Empire (Poznan, parts of West Prussia and Pomerellia, East Upper Silesia) should become Polish territory (Appendix, A1, and A2). However, none of the major political forces in Germany did accept the new eastern borderline; rather, its revision was a major political aim of German foreign (and economic) policy during the 1920s.<sup>4</sup> Millions of Reichsmark (RM) were distributed in support of the 'Germans'<sup>5</sup> living on the new Polish territory. In 1928, State Secretary Schubert (German Foreign Office) explained coherently the reasoning behind these payments: *'the Reich government has always viewed it as an essential object of our foreign policy to preserve by all means those Germans still living in the ceded territories, for this is a prerequisite for the favourable solution of the Corridor and Upper Silesia questions'*. In a time of hyperinflation and fragile economic development, it was, however, also cheaper financially to support 'Germans' living in Poland than coping with millions of immigrants: *'For domestic-political, economic and financial reasons too, such a continued influx of Germans from foreign lands into Germany is undesirable. ... A large part of these returnees have lost their base of support and become a burden on public welfare'* argued the German Minister of Foreign Affairs, Gustav Stresemann, in 1924.<sup>6</sup>

The larger territories cede to Poland (see above) were purely agricultural, Upper Silesia was however a highly industrialised region. It was a centre of German heavy industry (coal industry, iron and steel industry, zinc industry, see map Appendix B11)), and it contributed relevantly to the German coal supply (app. 25%). In Upper Silesia, according to the Treaty of Versailles, a referendum should decide whether the people wanted to stay with Germany or whether the territory should fall to Poland. Soon after the war, Polish and German paramilitary groups fought about the territory; thousands of allied troops based at Upper Silesia were needed to control the situation.<sup>7</sup> The referendum in March 1921 did not yet solve the political problems: the

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<sup>4</sup> Krekeler, *Revisionsanspruch* (1973), pp. 13-64; for a general discussion: Krüger, *Außenpolitik* (1985), pp. 132-38, pp. 279-84, pp. 301-12, pp. 468-73, pp. 501-05.

<sup>5</sup> Since 1913, the German citizenship law was based on the 'ius sanguinis': Gosewinkel, *Staatsbürgerschaft* (1995).

<sup>6</sup> Quotes cited by Blanke, *Minority* (1990), p. 93. Blanke argues that German revisionism was not militant and 'references to revisionist goals may represent an effort to sell a fairly expensive programme to sceptical cabinet member' (ibid: p. 94), but research on German foreign policy consistently emphasizes the revisionist approach towards Poland in spite of reconciliation policy towards the West. Summarizing: Krüger, *Außenpolitik* (1985), on Stresemann see: Koszyk, *Stresemann* (1989), and Arnold, *Stresemann* (2000).

<sup>7</sup> On the violent conflicts and the paramilitary fights; see especially Doose, *Bewegung* (1987) and Tooley, *Violence* (1988), Campbell, *Struggle* (1970).

majority of in total ca. 60% voted on behalf of Germany, but the votes were concentrated in the towns whereas the majority in the surrounding countryside voted pro-Polish. No matter what subareas were constructed, no borderline emerged out of the plebiscite; the Polish-German conflicts became, however, militant again. Moreover, the Interallied Commission could not agree on the territorial question and it finally asked the League of Nations, which in October 1921 decided on the partition of Upper Silesia (the allied troops withdrew seven months later).<sup>8</sup>

Fig. 1: Divided Upper Silesia, 1921



Figure 40: The partition of Upper Silesia, 1919-1922.

Source: Pounds, *Boundaries* (1958), p. 144.

The Upper Silesian divide did not affect ownership, but from an industrial perspective, the economic unity of the industrial district had been sacrificed in order to permit a high degree of self-determination. The integrated industrial district of Upper Silesia was divided in two distinct parts, and the inner-regional division of labour was broken up (see below). The League of Nations suggested a special agreement between the German and the Polish governments in order to alleviate the most crucial economic effects of the partition. The Polish-German Upper Silesian Convention, signed in Geneva in 1922, consisted of a range of temporary agreements (3-15 years)

<sup>8</sup> See the results in: *Wynki plebiscytów*, (1923), p. 358; Tooley, *Violence* (1988), p. 89.

that allowed for the protection of minority interests, the inhabitants' right to travel across the border, the free transfer of agricultural goods, the access to and transport of water, the cross border trade of half-finished goods and so on. With this convention, Poland relinquished also some rights concerning German property. A Mixed Commission should supervise that the economies in both parts developed as smooth as possible, but in fact, the League of Nations in Geneva received more complaints about the violation of the agreements than it could cope with.<sup>9</sup>

### *1.2. The industrial effects of the Upper Silesian divide*

The Upper Silesian divide dissolved the industrial district's infrastructure consisting of streets, canals, railways, streetcars, electrical power, gas- and water-supply (Appendix, A3 - A5) and it broke up the inner-regional division of labour as well as the operations of companies engaged on both sides of the new border. It had major impacts on the zinc industry, coal mining, and the iron and steel industry; this paper, however, deals mainly with the iron and steel industry.

**Coal.** The coalmines did not suffer so much from the divide (Appendix, A7); yet, many of them had to find new markets. Approximately 75% of the coal extraction of 1913 came from the eastern part of Upper Silesia. Then, it was sold mostly to the Berlin region and after the divide, the mines had to look for new customers. It was more difficult for those mines that belonged to companies in the iron and steel industry or in the zinc industry, whose operations were separated by the new border (examples below). In 1925, the problems became more serious after Germany had introduced an import tax on Polish coal leading to restrictions on mutual trade (German-Polish tariff war) and stronger Polonization activities of the Polish state.<sup>10</sup>

**Zinc.** As for the zinc industry, two of altogether six companies were situated completely on the Polish side, but now all the zinc roasting and smelting furnaces were in Poland, with some of the furnaces cut off from ore and coal supply. This created enormous problems for the two major zinc companies (that possessed coalmines, too) with operations in both parts of Upper Silesia (Fig. 2 and 3). The largest company, 'Georg von Giesche's Erben AG' (*Giesche's Erben*), incorporated its eastern estates and plants into a wholly owned subsidiary company *Giesche Spółka Akcyjna (Giesche SA)*, which rented its properties from the German *Giesche's Erben*.<sup>11</sup>

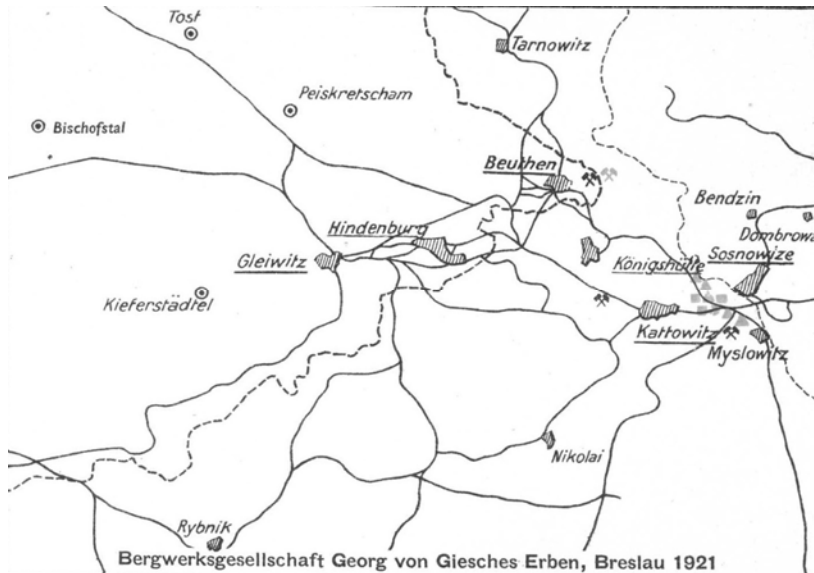
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<sup>9</sup> Documentation: Kaeckenbeeck, *Experiment* (1942); Hartshorne, *Boundaries* (1933); Pounds, *Boundaries* (1958), pp. 147-55, Tomaszewski, *Capital* (1983), p. 235; with respect to the iron and steel industry: Kufietta, *Lage* (1931), pp. 30-32.

<sup>10</sup> Tomaszewski, *Capital* (1983), pp. 235-37; Kaeckenbeeck, *Experiment* (1942), pp. xxx-xx.

<sup>11</sup> Giesche SA held also the shares of the porcelain and chemicals producing, 'Giesche Fabryka Porcelany SA' and 'Fabryka Chemiczna dawniej Carl Scharff and Co. SA.' and the majority of 'SA Miniere et Industrielle' (Belgijska Górnicza i Przemysłowa SA), Tomaszewski, *Capital* (1983), p. 233.

Fig. 2: Situation of the plants of *Giesche's Erben*, 1921



Source: Gieseler, *Oberschlesien-Atlas* (1938).

Fig. 3: Cross border zinc operations of *Giesche's Erben*

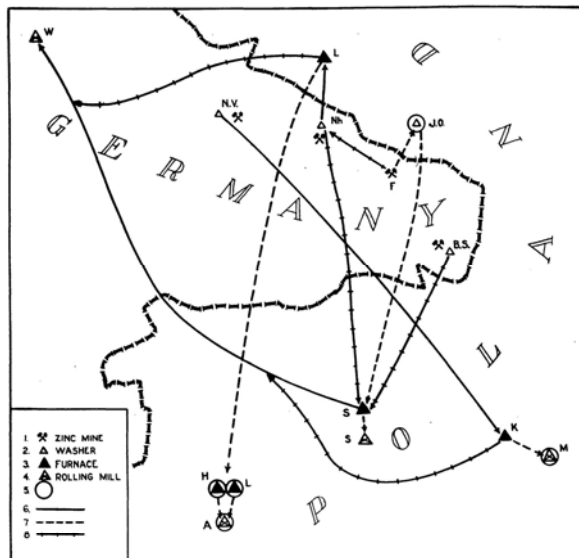


FIG. 16.—Diagram of Operating Connections Across the New Boundary of One of the Principal Zinc Companies (not exact as to scale).

Symbols:

- 1-4 as indicated on the diagram
  - 5. Abandoned, in whole or in part because of boundary change
  - 6. Movement of commodities little changed
  - 7. Movement discontinued because of new boundary
  - 8. New movement resulting from the boundary
  - W. Several rolling mills in Germany, considerably west of this area
  - B. S. The new Blei-Scharley mine built because of the new boundary
- Recent consolidation of the Neue Victoria washery with the Neuhofer washery is omitted to avoid confusion

Source: Hartshorne, *Boundaries* (1933), p. 30.

Other companies used similar practises; sometimes the Polish companies had to purchase the property from the German parent companies on credit and were deeply indebted; for the German parent companies, this meant a steady flow of liquidity.



Tomaszewski interprets the relationship between the '*Silesian companies towards the new-born Polish Republic [as] hostile, combined with some fear concerning the future of German property and mistrust in the stability of the new frontiers.*'<sup>12</sup> In 1925, the German-Polish tariff war stimulated discussions on nationalising the Polish companies, at least on a stronger influence on the Polish companies (Polonization).<sup>13</sup>

Under uncertain political conditions, *Giesche's Erben* (and *Giesche SA*) had been reluctant to invest in new equipment, but with the German-Polish tariff war, the company was close to bankruptcy. The new buyer was the American *W.A. Harriman & Co. Inc.*, who, in 1926, joined forces with *Anaconda Copper Mining Company of Montana*. Both companies hold 50% of the shares of the *Silesian-American Company of Delaware (SACO)* that took over 51% of the Polish *Giesche SA*.<sup>14</sup> Afterwards *SACO* agreed with the Polish government on tax reliefs and with the German government on free trade of ore and metal. In the following years, the American company was successfully manoeuvring through the diplomatic difficulties; it was better able to fulfil the political demand of the Polonization of management and workforce than a German company could have been. It was also able to attract financial support by the German government in order to erect a new electrolytic furnace in Germany, capable of smelting the German zinc ores. *SACO* was also profitable because the Polish company fulfilled the credit demands that *SACO* required for the lending of funds for investments, and it paid at least moderate dividends to its owners during the period from 1927 to 1938.<sup>15</sup>

In this paper on the iron and steel industry, *Giesche's Erben* is insofar important as the 1925 deal with Averell Harriman, and Harriman's excellent political relationship to the Polish government and local authorities was paralleled in 1928 when Flick and Harriman set up an American company for the control of the East Upper Silesian iron and coal industry.

**Iron and Steel.** During the late 19<sup>th</sup> and early 20<sup>th</sup> century the companies of the iron and steel industry had developed to integrated works comprehending coalmines, coke oven plants, iron foundries, steel works, rolling mills and other finishing works. They were mostly organized in the form of a 'concern' where a parent company owned different subsidiaries; the parent company might have been a holding company, but usually it had production facilities as well.<sup>16</sup>

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<sup>12</sup> Tomaszewski, *Capital* (1983), p. 235 (quotation), pp. 236-37.

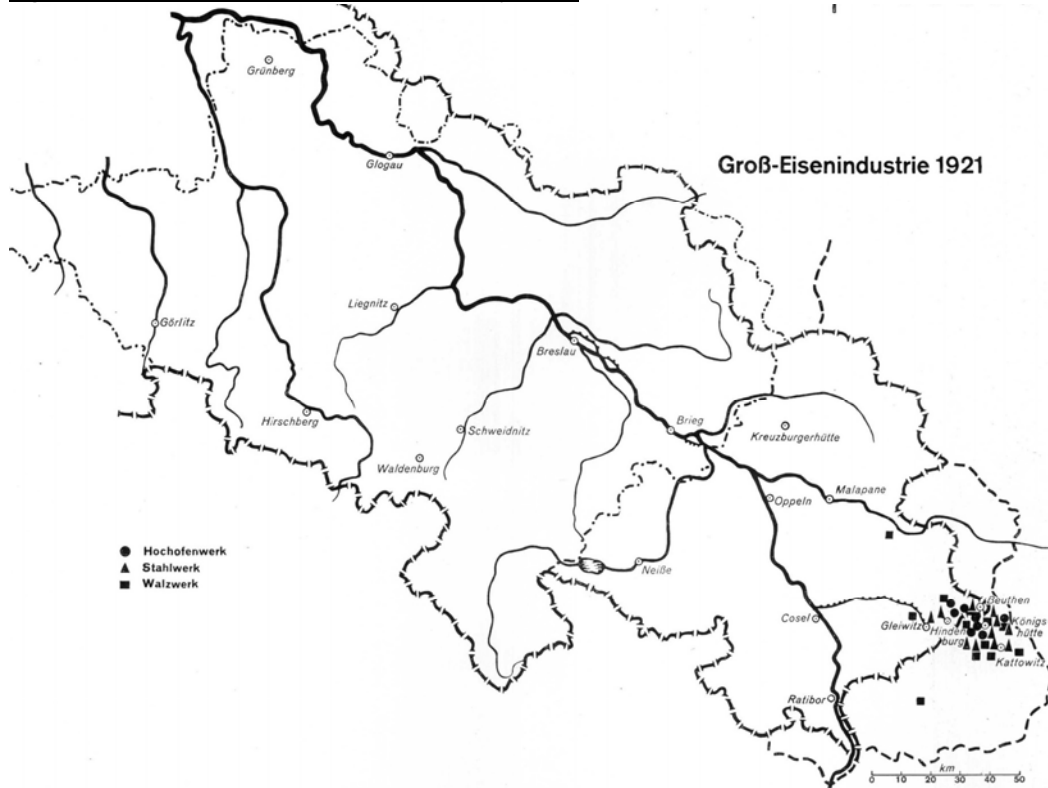
<sup>13</sup> The Polish government tried to increase the Polish influence e.g. by pressure in order to appoint Polish members to the boards of directors and stronger Polish representation in the management, Tomaszewski, *Capital* (1983), pp. 235-37; Stone, *Giesche* (1997), pp. 681, 686.

<sup>14</sup> Stone, *Harriman* (1993), pp. 101-102; Stone, *Giesche* (1997), p. 681-83.

<sup>15</sup> Stone, *Giesche* (1997), pp. 686-97, Pounds, *Silesia* (1958), pp. 184-87.

<sup>16</sup> Deutsch, *Montanindustrie* (1926); Lattka, *Konzentrationsbewegungen* (1927); Kufietta, *Lage* (1931); Budniok, *Entwicklung* (1940).

Fig. 4: Location of the Iron and steel industry, 1921



Source: Gieseler, *Oberschlesien-Atlas* (1938)

Two examples may explain the problems: *Oberbedarf* in West Upper Silesia (Appendix B4) lost its coalmines, coke plants, and rolling mills (Friedenshütte), but kept the finishing works in the Gleiwitz area. *Obereisen*, on the other hand (Appendix B3), lost two finishing works (Baildonhütte and the Silesiahütte) and kept blast furnaces, steel works, and beam mills (Julienhütte). The losses of raw material or finishing capacities required the reorganisation and a partly reconstruction of the works that cannot be described here.<sup>17</sup> The East Upper Silesian works were incorporated in new Polish joint stock companies (nostrification), e.g. *Friedenshütte AG*, *Baildonhütte AG*, and *Eisenhütte Silesia AG*. Yet in 1926, Germans still owned more than 80% of the shares of the Polish Upper Silesian iron and steel companies.<sup>18</sup> [See tab. 1].

The resulting reconstruction will be dealt with in the case of the Upper Silesian industrial empires that Friedrich Flick established in the early 1920s in West Upper Silesia and, from the mid 1920s onwards in East Upper Silesia.

<sup>17</sup> Kufietta, *Lage* (1931), pp. 20-27; Pounds, *Silesia* (1958), pp. 161-63. Best description of the reorganization: Kufietta, *Lage* (1931); also: Lattka, *Konzentrationsbewegungen* (1927), pp. 75-77.

<sup>18</sup> PAAA R35631: Secret German ownership in the private heavy industry in Polish Upper Silesia, 1926.

Tab. 1: Upper Silesian iron and steel industry, 1922: Companies/major works

**I. Companies with production facilities wholly within the German boundaries:**

**Borsigwerke AG [= Borsigwerke]**

**Donnersmarckhütte, Oberschlesische Eisen- und Kohlenwerke AG, Hindenburg**  
 [= **Donnersmack**] (5 blast furnaces, iron foundries, pipe and fittings foundry)

**II. Companies with production facilities in both parts of Upper Silesia**

Headquarters in the West:

**Oberschlesische Eisenbahnbedarfs AG, Gleiwitz [= Oberbedarf]**

Huldschinsky works, Gleiwitz  
 Blast furnace, Zadwanski  
 Steel pipe mill Gleiwitz  
 Iron foundry Colonowska

Ownership in East Upper Silesia

**Friedenshütte AG, Nowy Bytom [= Friedenshütte]** (blast furnace, steel work, rolling mills, press plant and forging mill) with Friedensgrube (coalmine)

**Oberschlesische Eisenindustrie AG für Bergbau u. Hüttenbetrieb, Gleiwitz [= Obereisen]**

Julienhütte (coke ovens, blast furnaces, steel works, beam mills)  
 Wire and nail work Gleiwitz  
 Ironwork Herminenhütte, Laband (beam mill, strip mill, rail mill, tool steel)  
 Iron tools Königshuld, Oppeln

Ownership in East Upper Silesia

**Baildonhütte AG, Katowice [= Baildon]** (steel work, rolling mills, press plant and forging mill, cold rolling mill, ...)

**Eisenhütte Silesia AG (Huta 'Silesia' SA, Paruszowice) [= Silesia]** (sheet mill, enamelling work)

1921  
sold to

1921 influenced  
by Flick

Headquarters in the East:

**Kattowitzer AG für Bergbau und Eisenhüttenbetrieb, Katowice [= KAG]**

Hubertushütte, Lagewniki (blast furnace, iron and steel foundry, steel work)  
 Martahütte (puddling work, rolling mill)

Ownership in West Upper Silesia

**Preußengrube** (joint stock company, coalmine)

1921 controlled by  
Flick

**III. Companies with production facilities wholly within the Polish boundaries:**

**Bismarckhütte AG, Katowice [= Bismarckhütte]**

Bismarckhütte, Nowe Hajduki (steel work, rolling mills, press plant, forging mill)

**Bethlen-Falvahütte, Swientochlowice** (blast furnace, foundry, steel work, rolling mills, pipe mill)

**Vereinigte Königs- und Laurahütte AG für Bergbau u. Hüttenbetrieb, Katowice**

**[= Königs-Laura]**

Eintrachthütte, Zgoda (iron and steel foundry)  
 Königschütte, Krolewsk Huta (blast furnace, iron foundry, steel work, rolling mills, press plant, construction works)

**Laurahütte, Huta Laura** (blast furnace, steel work, rolling mills, cold iron mill)

**Ferrum AG, Katowice [= Ferrum]**

Ferrum, Bogucice (steel work, pipe mill, ...)

Source: own construction; iron ore mines are not mentioned.

## 2. Friedrich Flick's early industrial activities in Upper Silesia

Friedrich Flick started his remarkable career from a managing director of *Charlottenhütte AG* (in Niederschelden, Western part of Germany) to a key-figure in the German iron and steel industry during World War I. Until 1920, he became the major shareholder of *Charlottenhütte*, and he stayed in charge as the CEO. He had an appetite in undervalued investments; respectively he took more risk than other German iron and steel industrialists.<sup>19</sup>

**East Upper Silesia.** The uncertain political conditions in Upper Silesia created an excellent playground for the ambitious newcomer in the German iron and steel industry, who wanted to be a major player as soon as possible. As new acquisitions for *Charlottenhütte* at the Ruhr, the predominant iron and steel region in Germany, were not yet possible, Flick concentrated his expansion on Upper Silesia, where *Charlottenhütte*, already in 1920/21, bought the majority of the *Bismarckhütte* shares (51%, his position, however, was stronger as the company owned 30% of its own shares). Next, Flick purchased the majority of *Kattowitzer AG für Bergbau und Eisenhüttenbetrieb (KAG)* (Appendix B6) from Count Thiele-Winkler (50%) and sold these shares for the price of £ 300.000 to *Bismarckhütte* (Appendix B1).<sup>20</sup> This combination made sense insofar as *Bismarckhütte* did not own coalmines, whereas *KAG* was well equipped with coal but had only limited iron and steel capacities. From Flick's perspective, pyramiding was a cheap solution for staying in control and keeping liquidity at same time. Pyramiding and re-selling acquisitions to companies owned by *Charlottenhütte*, or other companies of the Flick-empire, was a regular means of his system of corporate finance.<sup>21</sup> Next to these acquisitions, Flick had taken interest in *Obereisen* in West Upper Silesia (at first 15%, 45% in 1923<sup>22</sup>). Furthermore, *KAG* sold its *Preußengrube* to *Obereisen* that now had its own coalmines in West Upper Silesia.<sup>23</sup> In order to safeguard the companies from Polish claims Flick established three Dutch holding companies that formally possessed the shares of the companies in Poland.<sup>24</sup>

<sup>19</sup> The best history of Flick's business activities (1915-55) is: Priemel, *Flick* (2008); see also: Bähr et al., *Flick-Konzern* (2008), and Frei et al., *Flick* (2009).

<sup>20</sup> ACDP I-220 095/5: Flick (AG Charlottenhütte) to Hugo Stinnes, 19.12.1921. PAAA R94082: Buntzel to Dönhoff, Prussian State Secretary for Trade and Industry, 20.11.1921; *ibid*: R117954, vol. 1: Frank, Merger plans in the Polish Upper Silesian heavy industry, 27.4.1923. SAA NL Haller 11/Lb389: CF v. Siemens (note), 19.4.1923.

<sup>21</sup> The purchase of *Bismarckhütte* was financed by a partial debenture of 20bn. German Marks that due to inflation could be bought back easily, Priemel, *Flick* (2008), p. 95; on Flick's system of corporate finance see also: Wixforth, *Wachstum* (2008).

<sup>22</sup> ACDP I-220 095/5: Vögler note (without date, app. April 1923).

<sup>23</sup> Priemel, *Flick* (2008), p. 97.

<sup>24</sup> NV Nederlandsche Agentuur- en Handel-Maatschappij »Nedahand«, NV Finantieele Maatschappij »Metafina«, NV Handel- en Administratie Maatschappij »Commerce«, Priemel, *Flick* (2008), p. 96.

Due to the uncertain political situation, Flick looked for partners to share his risk in Upper Silesia; at the same time, he wanted to get influence on the iron and steel industry at the Ruhr. After long negotiations, he reached this aim and managed to sell half of his stakes in *Bismarckhütte* (including the majority of *KAG*) to the largest German industrial combination – *Siemens-Rheinelbe-Schuckert-Union (SRSU)*<sup>25</sup> controlled by Hugo Stinnes and Carl Friedrich von Siemens – for a relevant amount of shares in two of the *SRSU* companies and £ 250.000.<sup>26</sup> Flick's stake in the *Bismarckhütte* stayed with his Dutch companies; *SRSU* copied this strategy; it sold its shares to a Dutch company, which again sold them to an Austrian subsidiary of *SRSU*, *Österreichische Alpine Montanindustrie AG*.<sup>27</sup> By using Dutch subsidiaries, the companies not only tried to defend the companies in East Upper Silesia against possible Polish claims, they were also able to create international accounts in gold currency during the period of highest hyperinflation in Germany.

**West Upper Silesia.** During the same years of 1923 and 1925, Flick increased his stakes in the West Upper Silesia. At first, he sold his *Obereisen* shares to *Linke-Hofmann-Lauchhammer AG (LHL)* in Breslau, a major producer of railway equipment, against 20% of the *LHL* shares. Then he bought additional *LHL* shares (paid from the return on his deal with *SRSU*) and he agreed with *Darmstädter und Nationalbank* to block voting at *LHL*; both together had a comfortable stake of 31% among dispersed shareholders.<sup>28</sup>

*Obereisen* suffered from the economic difficulties in Upper Silesia, it had 'lost' its finishing works (*Baildonhütte* and *Silesiahütte*, see above). The situation was similar for *Obereisen* (see above), but this company had 'lost' its iron and steel works and kept the finishing mills. What followed was the concentration of the iron and steel industry in West Upper Silesia. Both companies permanently needed cash; in 1924, they both asked the Prussian state government for a public credit, or else they could no longer cope with the economic problems of the divide. Each of them received 23m RM; but the Prussian government, backed by the German government, required that the companies started with merger negotiations.<sup>29</sup> In spite of the structural problems and the financial incentives, merger negotiations were difficult because of conflicts of the

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<sup>25</sup> See: Reckendrees, «*Stahltrust*»-Projekt (2000), pp. 100-108; Feldman, *Stinnes* (1998), 662-78.

<sup>26</sup> On the negotiations Priemel, *Flick* (2008), pp. 98-102; contracts and protocols of the agreements in: ACDP I-220 095/5; see also: Reckendrees/Priemel, *Politik* (2006), pp. 69-70.

<sup>27</sup> ACDP I-220 095/5: Agreements between 'Deutsch-Lux' and 'Alpine', 16.5.1923. The Dutch company was named *Hollandsche Staal Maatschappij*, The Hague.

<sup>28</sup> Priemel, *Flick* (2008), pp. 103-06; Reckendrees/Priemel, *Politik* (2006), p. 71.

<sup>29</sup> *GStA PK I. HA Rep. 120C, Abt.VIII, Fach 1, nr. 159, vol. 2: Memo on the consultations of 28.8.1924; ibid: vol. 3: letters to von Flotow (Hardy & Co. bank), Ritscher (Reichskreditgesellschaft), Breckenfeld (Preußische Staatsbank), draft, 16.9.1925. BAB R8122/28: Flick to Weidtmann (on the project *Obereisen/Oberbedarf*), draft, 2.3.1925. BAB 31.01/17977: Contract between *LHL*, *Oberbedarf*, and *Donnersmarckhütte*, *Oberschlesische Eisen- und Kohlenwerke AG*, 14.6.1926.*

owners, because they wanted to omit losses, because they wanted to transfer the credit to a long-term loan, and because *Donnersmarck* (Appendix B2) was included in the negotiations, too. In spring 1926, the merger was settled and *Vereinigte Oberschlesische Stahlwerke AG (VOH)* was founded (30m RM share capital; Appendix B7),<sup>30</sup> the name rephrasing its blueprint, *Vereinigte Stahlwerke AG* (800m RM share capital). The new corporation received a 15-years loan of 36m RM and a 10m loan by the *Preußische Seehandlungsgesellschaft*, a public bank. The public loan was relatively easy accessible, because a priority of the German ministry of economics was keeping the industry in West Upper Silesia alive in order to sustain the revisionist aims: With West Upper Silesia de-industrialised, the economic arguments for the revision of the border would have disappeared.<sup>31</sup> Hans Schäffer, State Secretary in the ministry of economics, emphasized: '*the collapse of the Upper Silesian industry must be avoided under all circumstances, already because of East Upper Silesia*'.<sup>32</sup>

In the end, there was one big player in West Upper Silesia, *VOH*. Only *Borsigwerke* did not enter the combination. Its Upper Silesian production sites provided semi-fabricated goods for *Borsig* Berlin, a producer of finished goods and machinery and thus *Borsigwerke* did not fit into the combination within the iron and steel industry.

Tab. 2: Vereinigte Oberschlesische Hüttenwerke AG, 1926

**Shareholders:**

25% Oberschlesische Eisenbahn-Bedarfs AG (Graf v. Ballestrem)

25% Donnersmarckhütte AG (Graf v. Ballestrem)

50% Linke-Hofmann-Lauchhamer (Friedrich Flick)

**Works:**

Donnersmarckhütte (*5 blast furnaces, iron foundries, pipe and fittings foundry*)

Huldschinsky works, Gleiwitz

Blast furnace Zadwanski

Steel pipe mill Gleiwitz

Iron foundry Colonowska

Julienhütte (*coke ovens, blast furnaces, steel works, beam mills*)

Wire and nail work Gleiwitz (*rolled wire mill, nails, rivets, screws*)

Ironwork Herminenhütte (*beam mill, strip mill, rail mill, tool steel*)

Iron tools Königshuld

**Preußengrube AG**

Source: Reckendrees, «*Stahltrust*»-Projekt (2000), p. 331; Priemel, Flick (2008), p. 155.

<sup>30</sup> Priemel, Flick (2008), pp. 150-155. In this process Obereisen and LHL were merged into LHL, the works of Obereisen became part of the VOH.

<sup>31</sup> BAB 31.01/15206: Chief President of Upper Silesia (memorandum), 4.10.1923. GStA PK, I. HA Rep.120C, Abt.VIII, Fach 1, nr. 159, vol. 3; On the situation of the Upper Silesian iron and steel industry, dateless ministry draft. PA-AA R31138k, Bd. 4: Memorandum on the credit supporting [Obereisen] and [Oberbedarf], Minister of Economics to the chairman of the Reichstag budget committee, 14.6.1926.

<sup>32</sup> BAB 31.01/17977: Memo on the consultation about the situation of the Upper Silesian iron and steel industry for the Minister of Economics [10.9.1925], 21.9.1925.

By the merger with *LHL*, *Obereisen* was dissolved [*Oberbedarf* and *Donnersmarck* served as holding companies for its owner, Graf von Ballestrem]. Shortly later, *LHL* sold its stake at *VOH* to *Mitteldeutsche Stahlwerke AG (Mittelstahl)*, in summer 1926 newly founded by *Vereinigte Stahlwerke (VSt)* and *LHL*.<sup>33</sup> The shares of both companies, *Mittelstahl* and indirectly *VOH*, were under control of *VSt*, but Friedrich Flick still played a central role in these two companies. In the following years, Flick was able to achieve a controlling position in *VSt* as well, but this would be another story.<sup>34</sup>

With respect to our argument, two factors are important for the strategy of Flick in East Upper Silesia. The first one was the concentration of the West Upper Silesian iron and steel industry and its (partial) integration into the complex of the *VSt*. The second was that Flick was able to establish relevant connections to officials e.g. in the German ministries of economics and of finance, in the Prussian state government, and in the state owned Prussian banks. This network of people was involved later in the secret policy towards the iron and steel industry in East Upper Silesia.

Indeed, Flick was heading west, but he had not withdrawn from Polish Upper Silesian. He had sold 50% of his stakes in the region to *SRSU*, and yet he was still in charge in the supervisory board of *Bismarckhütte* and *KAG*. During 1926 and 1927, Flick re-established ownership in Polish Upper Silesia; first, he bought back the *KAG* shares,<sup>35</sup> then he formed a community of interest between *KAG* and *Vereinigte Königs- und Laurahütte AG für Bergbau u. Hüttenbetrieb (Königs-Laura)* that integrated most of the still existing iron and steel companies. In 1931, Flick indirectly controlled this industry in Polish Upper Silesia. The strategy and tactics of his industrial empire building depended on Government founding and political support for illegal business practices. Flick's tactical masterpiece turned politics into a 'means of production'<sup>36</sup>: political involvement created an asset –aside from capital, labour, technology, and resources– that was crucial for his business activities. It served like an insurance-contract, on which Flick, however, did not pay any premium.

### 3. Flick and his diplomatic 'insurance'

Since 1923, Flick had been interested in the acquisition of *Königs-Laura* (Appendix B5). Its major shareholders were the Austrian financial speculator Siegmund Bosel and the Czech industrialist Fritz Weinmann. In 1925, when due to bad speculation

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<sup>33</sup> Reckendrees, «*Stahltrust*»-Projekt (2000), pp. 330-32; Priemel, *Flick* (2008), pp. 129-32.

<sup>34</sup> Reckendrees, «*Stahltrust*»-Projekt (2000), pp. 278-91; Reckendrees/Priemel, *Politik* (2006), pp. 72-73; Priemel, *Flick* (2008), pp. 134-45.

<sup>35</sup> BAB R8122/257: Upper Silesian heavy industry/relationship to the west and possible combinations, 27.1.1927.

<sup>36</sup> Reckendrees/Priemel, *Politik* (2006).

Bosel's financial empire collapsed and when the German-Polish 'tariff war' had started, *Königs-Laura* was close to bankruptcy. This was the hour of Friedrich Flick.

### 3.1. 'Convincing' the Reich to pay for Flick's acquisitions

First, Flick lanced the rumour that he wanted to sell *Bismarckhütte* and *KAG* to Weinmann and by doing this prompted activities of the German consulate in Katowice (von Grünau) and by the German representatives in the Upper Silesian Mixed Commission (Budding). Budding argued that the selling of 'German' property must be prevented, as Germans would lose important positions in Polish Upper Silesia.<sup>37</sup> Some months later, Grünau was more specific, he wanted to combine *KAG* and *Königs-Laura*: If the government wanted the revision of the German-Polish border, he argued, it must support financially the German industry in Polish Upper Silesia, being the effective 'economic source of German nationalism in East Upper Silesia'.<sup>38</sup> Germany should try to buy share capital of those companies in Upper Silesia that are controlled by foreign capital in order to get a major influence on these companies. *Königs-Laura* would offer this possibility.<sup>39</sup> An intermediary, who was familiar with the situation in Upper Silesia, was necessary; Friedrich Flick would be suited best for this purposes.<sup>40</sup> – What looks like a program of Flick, probably originated from his activities; in Upper Silesia, he regularly met with Grünau. Moreover, Flick had already started to negotiate with Weinmann on *Königs-Laura* and to debate the problem with the German Minister of Finance.<sup>41</sup>

In the second half of 1926, the general political approach to financial support of the 'German' industry in Polish Upper Silesia had changed due to the German-Polish tariff war and increasing efforts of the Polish government to 'Polonize' the industry.<sup>42</sup> In the years before, financial support went only to agriculture and small trade, whereas big business was expected being able to work profitably. Now several officials in the Foreign Office wanted to support financially the 'German' industry in Polish Upper Silesia; yet the documents are not related explicitly to the iron and steel industry.<sup>43</sup> If the German government wanted to be prepared against potentially increasing pressure on German companies by the Polish government, one of the memorandums ar-

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<sup>37</sup> PAAA R 31136k: Budding to Zechlin (Foreign Office), 16.9.1925.

<sup>38</sup> PAAA R 31138k: Grünau to Foreign Office, 25.6.1926.

<sup>39</sup> In 1926, *Königs-Laura* had changed its headquarters to Berlin and turned into a holding company. It had sold its Silesian property to a Polish *Königs-Laura* (Górnośląskie Zjednoczone Huty Królewska i Laura SA Górnicy-Hutnicza) and received 82.5% of the shares. The rest of the Polish company was held by the Polish state as compensation for a tax relief (Tomaszewski, *Capital* (1983), p. 237). The shares on sale were shares of the German company.

<sup>40</sup> PAAA R 31138k: Notes on the Polonization of the East Upper Silesian Industry, 27.11.1926.

<sup>41</sup> See: Reckendrees/Priemel, *Politik* (2006), p. 75; Priemel, *Flick* (2008), pp. 162-63.

<sup>42</sup> Examples: Tomaszewski, *Capital* (1983), p. 237.

<sup>43</sup> Krekeler, *Revisionsanspruch* (1973), p. 103-5.



gued, 'massive funds must be hold available in order to take influence on these companies by credits and thereby being able to prevent undesirable influence of Polish circles on the industry. In the transactions, it must of course be avoided that German creditors appear directly.' In cooperation with large German banks, it should be planned to establish a holding company, if possible under a British or another foreign flag.<sup>44</sup> These plans did not materialize; they nevertheless demonstrate the general readiness of the Foreign Office, and explain why convincing the Government had been so easy for Flick.

In January 1927, the German government provided 15m RM for buying *Königs-Laura* shares.<sup>45</sup> One week later the government was forced to step back and the negotiations stopped for a while.

The Foreign Office, however, pushed to continue the negotiations, and provided Flick with the possibility to gamble for more. He argued that, due to the unbearable political conditions in Upper Silesia, he could not take such a risk, as he was responsible to his shareholders to use their capital properly. Normally he should sell his property in East Upper Silesia, but he would not doubt that the national requirements would lead to a financial solution for the best of both parts. He, however, demanded that the Government had to take the larger part of the risk. At the same time, he threatened to withdraw from the deal.<sup>46</sup> Flick was confident that the Government had no alternative; an open support to the *Königs-Laura* was impossible because of political reasons, this had probably prompted the nationalization of the property in Polish Upper Silesia. The officials in the ministry of economics were yet convinced that Flick would keep on track. – Flick, however, intensified his lobby activities. Again, he lanced the rumour to retread from Upper Silesia and the German officials, especially the German consul, campaigned on behalf of Flick at the Foreign Office.<sup>47</sup>

Flick was no longer satisfied with stakes in *Königs-Laura*, he wanted to integrate *KAG* (which he owned to 85%, see above) into *Königs-Laura*, and to receive a financial compensation for the company. It seems as if already the re-purchase of the *KAG* shares had been part of the strategy. The government did not know that Flick was the owner of the shares at that time; the officials in the ministry of economics still thought that those shares would belong to the *VSt*. They asked the chairman, Albert Vögler, to conciliate with Flick, but Vögler simply repeated Flick's position: 'in the circles of the Steelunion [*VSt*] there is the tendency to sell the shares of *Kattowitz Bergbau-Aktiengesellschaft*'. If the government wanted to prohibit the sale of *KAG* to

<sup>44</sup> Memorandum Nöll v. d. Nahmer, Dec. 1926 (quoted in Krekeler, *Revisionsanspruch* (1973), p. 103).

<sup>45</sup> Erdmann/Booms, *Kabinett von Papen, Bd.1* (1989), p. 510-11, fn. 9: Kabinettsitzung 22.1.1927; Krekeler, *Revisionsanspruch* (1973), p. 103-4, does not mention the steel industry or Flick.

<sup>46</sup> PAAA R31138k: Flick to von Schubert (Foreign Office), 24.2.1927; *ibid*: Flick to the minister of economics, 8.3.1927.

<sup>47</sup> Reckendrees, «*Stahltrust*»-Projekt (2000), p. 482-83; Priemel, *Flick* (2008), pp. 164-65.

Poland, 'the shares of this company must be bought by the [Swiss] holding [that was to be constructed for the control of *Königs-Laura*]'.<sup>48</sup> The Government had chosen the wrong intermediary.

Flick was cleverer; he mobilized his lobbyists again, now including H. von Richthofen, member of the German Reichstag and former official in the Foreign Office, who had good contacts to the ministry and to the Minister of Foreign Affairs, Gustav Stresemann. – The German government was caught in a trap: in the case of *Königs-Laura*, it had demonstrated willingness to support German property in Polish Upper Silesia, but this would make no sense, as Kim Priemel has argued, if another German company would be sold to foreign owners.<sup>49</sup>

Under massive pressure, the German Government finally accepted an ultimatum due to the Minister of Foreign Affairs' support. The German and Prussian governments (political group) and an 'industrial group' under the leadership of Flick's *Charlottenhütte* agreed on secretly setting up a Swiss holding company, *Fiduciaire Industrielle SA (Fiduciaire)*.<sup>50</sup> Each group participated with 15m Swiss Fr. (12,15m RM),<sup>51</sup> and additionally the Government provided *Fiduciaire* with a 25m RM credit with an interest rate of only 3% [the discount rate was 5.8%, the Lombard rate 7.2% in 1927].<sup>52</sup> *Fiduciaire* should buy the shares of *Königs-Laura* and it should buy the majority of *KAG* at 30.4m RM. At the same time, *KAG* should buy 20% of own shares at 40m RM from *Charlottenhütte* (see fig. 5). The credit necessary for this purchase was to be organised and guaranteed by *Charlottenhütte*. The 'industrial group' also guaranteed the 'German' influence at *Bismarckhütte* for 15 years and insured to aim at a similar position at *Silesia* and *Ferrum*.<sup>53</sup>

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<sup>48</sup> First quote, PAAA R35631: Notes (for Stresemann, minister of foreign affairs), 9.6.1927. Second quote, PAAA R117954: Memorandum on the development of the contracts with [Flick and Vögler], 19.5.1928. For more details see Reckendrees, «*Stahltrust*»-Projekt (2000), p. 483-84; Reckendrees/Priemel, *Politik* (2006), p. 76; Priemel, *Flick* (2008), pp. 166-67.

<sup>49</sup> Priemel, *Flick* (2008), pp. 167.

<sup>50</sup> PAAA R35631: note, 27.5.1927; *ibid*: Vögler to Schäffer, 4.6.1927; *ibid*: Flick to Schäffer, 7.6.1927; *ibid*: note, 9.6.1927; *ibid*: note on directors meeting (20.6.1927), 21.6.1927. PAAA R117954: [without title], 16.6.1927. BAB R8136/3433: Salzburg agreement 16.6.1927, 7.4.1932. BAB R8136/3429: Protocol of the first general assembly of *Fiduciaire Industrielle S.A.*, 25.7.1927. For more details see Reckendrees, «*Stahltrust*»-Projekt (2000), p. 484-85; Reckendrees/Priemel, *Politik* (2006), p. 76-77; Priemel, *Flick* (2008), pp. 167-68.

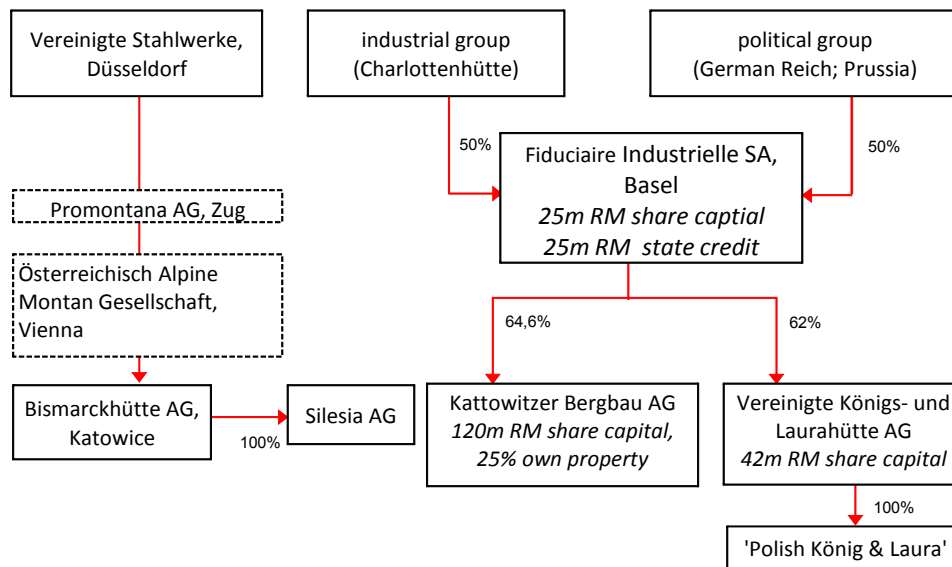
<sup>51</sup> Exchange rate according to: <http://www.measuringworth.org/exchangeglobal/> [2010-07-20].

<sup>52</sup> Deutsche Bundesbank, *Geldwesen* (1976), p. 278.

<sup>53</sup> BAB R2/15480: Short description of the development of the so-called East-position [undated, 1932]. Later Flick and Vögler had to sign a personal guarantee because the government wanted to be able to enforce the agreements, BAB R8136/3451: *Charlottenhütte* to Reichskreditgesellschaft, 20.7.1927; *ibid*: Vögler/Flick to Reichskreditgesellschaft, 21.7.1927. PAAA R117954: Memorandum on the development of the contracts with [Flick and Vögler], 19.5.1928.

Superficially, the outcome looks like a public-private joint venture, but the arrangement was constructed in a way so that the German government had no chance to influence the companies; it was as if Flick was the single owner of the major part of the Upper Silesian steel industry. The latter part has been recognized by Polish economic history; but the agreements between Flick and the Reich (and the Prussian State) were so secret that neither Polish<sup>54</sup> nor German historians researching the revisionist interwar policy<sup>55</sup> could establish a connection between Flick and the State.

Fig. 5: Ownership of VSt and Charlottenhütte in the Polish iron and steel industry, 1927



Source: Reckendrees, «Stahltrust»-Projekt (2000), p. 485

Flick had successfully played the 'political card'; he had used the revisionist political aims in order to get support for his business activities; and he had used German diplomats as lobbyists for his interests. His high-value card was the secrecy of Governments' involvement; the German government, in fact, had no alternative to Flick. Another 'straw man' was not only difficult to find; it was almost impossible to establish someone else than Flick. Only an industrialist already engaged in Upper Silesia was able to cover the political involvement as no one was expected to invest newly in Upper Silesia. Flick was therefore able to argue, either you follow me or I will leave you alone.

Flick kept this strategy during the next years: as the economic outlook for the iron and steel industry was rather positive, the industrial group wanted to purchase the shares of the state – without paying too much, of course.

<sup>54</sup> See: Tomaszewski, *Capital* (1983).

<sup>55</sup> Krekeler, *Revisionsanspruch* (1973): 'when and if a decision was taken, cannot be decided today as the state of documentation does not allow for a complete reconstruction.' *ibid*: p. 105.

### 3.2. Cheaply purchasing from the Reich

In 1928, KAG now producing on profitable terms and *Königs-Laura* being able to repay the taxes that it owed to the Polish state and being able to finance the modernization of its works with retained earnings, should be separated from Government influence. Flick, however, wanted neither to pay a high sum nor to invest new capital. Therefore the 'industrial group' 'offered' either to buy the *Fiduciaire* shares from the 'political group' at 12.5m RM or to sell its own shares to the 'political group' (at 10m RM), knowing very well that the German and Prussian state could not bear the risk of such a state owned holding of Polish investments. Flick and Vögler argued that such a clarification would be a damage limitation, as the state involvement had become known in 'Polish circles'. They further argued that the Reich had initiated the 'East activity'. Yet internal documents show that expected profits were more relevant for this 'offer'.<sup>56</sup> Speculations on a State involvement would have been a serious problem for the German government, and this issue was even a topic at the cabinet meeting; all the information on this speculation stemmed, however, from people very close to Flick.<sup>57</sup> Flick used the same strategy as in the year before.

Having been convinced that Flick participated because of his nationalist ideology and patriotism, the officials in the ministries were rather disappointed. State Secretary Schäffer (ministry of economics) was annoyed by these impositions; the proposal would cost the Governments 11m to 14.5m RM. In a lengthy letter, he accused Flick not having followed political aims but only profit interests.<sup>58</sup> Accusing an industrialist having followed profit interests looks rather naïve, but it shades light on the perception in the German ministries. – In the end, the Government agreed on Flick's proposal, again.<sup>59</sup>

The Governments readiness to agree on the deal might have been enlarged as the 'industrial group' wanted to co-operate with an American partner (see above on the general politics of the Foreign Office). It wanted to create an American holding for the Polish companies, Averell Harrimann (*W.A. Harriman & Co. Inc.*), already known as the investor at the zinc company '*van Giesche's Erben*' that worked quite well for all parts.<sup>60</sup> Increasing political pressure from the Polish officials on the Polonization of

<sup>56</sup> TKA VSt/926: Memorandum (Steinbrinck), 2.5.1928. BAB R8122/153: Flick to Vögler, 13.1.1928. PAAA R117954: Flick to Schäffer, 31.1.1928; *ibid*: Charlottenhütte (Flick/Vögler) to Schäffer, 27.4.1928; *ibid*: Memorandum on the development of the contracts with [Flick and Vögler], 19.5.1928.

<sup>57</sup> Erdmann/Booms, *Kabinette Marx III und IV, Bd. 2* (1988), p. 121: cabinet meeting and ministers consultation, 3.2.128; PA-AA R31138k: German consulate Vienna to Foreign office, 5.1.1928.

<sup>58</sup> PAAA R117954: Ministry of economics [Schäffer] to Vögler and Flick [undated, 24.5.1928].

<sup>59</sup> For more details see Reckendrees, «*Stahltrust*»-Projekt (2000), p. 486-87; Reckendrees/Priemel, *Politik* (2006), p. 79; Priemel, *Flick* (2008), pp. 171-73.

<sup>60</sup> Stone, *Harriman* (1993), Stone, *Giesche* (1997).

the staff at *KAG* and *Königs-Laura*, and the need for new capital investments were probably also responsible for this decision. Harriman had demonstrated being able to create trust with the Polish government and being able to work on good terms with the Polish officials. In this case, Harriman received the confirmation of the Polish government that it would not insist on Polonization and would not make use of its right to dissolve the company (according to the Geneva Convention) if Harriman would 'take an interest in a former German company'.<sup>61</sup>

However, what from the outside looked like an American holding with German participants, was exactly designed for this purpose: 'To the outside, the Upper Silesian property will be dressed as a corporation based on American law, which sails under American flag; internally, the German influence on the companies is secured and the companies are controlled by the German group.'<sup>62</sup> Flick stayed in control; together with Irving Rossi (*Harriman*) and Oskar Sempell (*VSt*) he formed the 'European Supervisory Committee' of the *Consolidated Silesian Steel Corporation (Consolidated)*, as the holding was named.<sup>63</sup>

Following the blueprint of *VSt* and *Mittelstahl*, the Polish Upper Silesian companies were integrated into one concern in order to make use of synergy-effects, especially being able to concentrate production and to make use of economies of scale. *Bismarckhütte* and *Silesia* were merged into *KAG (Katowicka SA dla Górnictwa i Hutnictwa, new KAG, Appendix B8)* and new *KAG* formed a 'community of interest' (*Wspólnota Interesów*) with the *Polish Königs-Laura (Górnośląskie Zjednoczone Huty Królewska i Laura SA Górnictwo-Hutnicza, Appendix B10)*.<sup>64</sup> The new combination had a majority in the Polish iron and steel cartels<sup>65</sup> that should be used to increase the German influence in the international cartels.<sup>66</sup>

This deal was closed with help of an extreme amount of contracts, agreements, letters of understanding and so on; the transactions involved not only *VSt* and *Charlottenhütte* but also German banks, Dutch companies, Swiss companies and trustees. Figure 6 summarizes the results of these transactions.

<sup>61</sup> PAAA R35972: The Polish minister of trade and industry to W.A. Harriman & Co., 3.8.1928 (response to the request as of 31.5.1928); *ibid*: Steinbrinck (*Charlottenhütte*) to v. Moltke (Foreign Office), 25.8.1925 (attachments).

<sup>62</sup> TKA VSt/926: Memorandum (Steinbrinck), 2.5.1928.

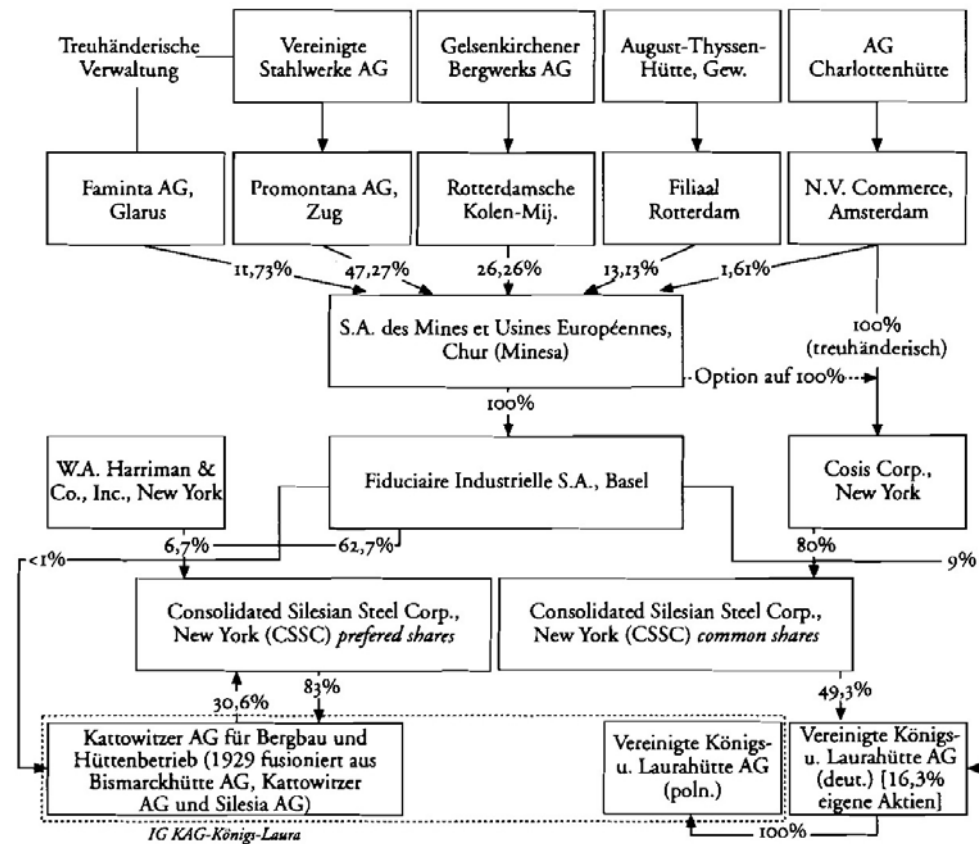
<sup>63</sup> PAAA R35972: Development of the so-called Harriman transaction [Flick], 5.9.1928. TKA VSt/925: Board Meeting of Consolidated, 29.5.1929. BAB R8122/1021: Tomalla to Steinbrinck, 6.2.1930.

<sup>64</sup> Reckendrees, «*Stahltrust*»-Projekt (2000), p. 487-91; Reckendrees/Priemel, *Politik* (2006), p. 79-81; Priemel, *Flick* (2008), pp. 174-77. See also Tomaszewski, *Capital* (1983), p. 238; Kufietta, *Lage* (1931), p. 96-97.

<sup>65</sup> Kufietta, *Lage* (1931), p. 100-01.

<sup>66</sup> Reckendrees, «*Stahltrust*»-Projekt (2000), p. 490.

Fig. 6: Ownership structure. Polish Upper Silesian iron and steel industry, 1931 (simplified)



Source: Priemel, Flick (2008), p. 174 [the figure has to be clarified and translated yet]

Even today, it is difficult to disclose these agreements; it seems as if at that time only very few knew about the real ownership structure and property rights. For example, trustees were used in order to hide the investments from the chartered accountants that controlled *VSt* (*Price, Waterhouse & Co.*, Düsseldorf). When it came to a tax investigation at *VSt* in January 1932, the official agreed that the ministry of finance 'will not mention the relations to the East, neither in the investigation report nor in any official file note'.<sup>67</sup>

It seems as if the property in Polish Upper Silesia now was separated from Flick; this is not true, because in the course of the years of 1929 until 1931, he gained a controlling position at *VSt*, and his *Charlottenhütte* was already the major shareholder of *Gelsenkirchener Bergwerks AG* (*Gelsenkirchen*, see fig. 6). Flick used the strategy of pyramiding that we already have seen, for example, in the case of *KAG* and *Bismarckhütte* – in fact, he controlled a Central European steel empire. He kept his hands on Polish Upper Silesia, on West Upper Silesia (*VOH*), on Central Germany (*Mittelstahl*), on West Germany (*VSt*), and on Austria (*Alpine Montanindustrie*). He was, however,

<sup>67</sup> BAB R2/15478: note, 8.1.1932.

forced to cooperate with two other people that had less stakes, but who were needed for decision making purposes (Fritz Thyssen, the second major shareholder of VSt) and for running the companies, the chairman of VSt, Albert Vögler.<sup>68</sup>

In the first year, the *new KAG* worked profitable and its results were not too bad in 1930; all the years during the Great Depression, it was able to repay the credits that it had taken from the American *Consolidated*. These credits rather than dividends that were not paid<sup>69</sup> were the major source of income for the owners, because the *new KAG* 'had to pay much higher interest rates than the holding had to pay'.<sup>70</sup> *Charlottenhütte* and *VSt* had also received money for the sales of the assets of *Bismarckhütte* and *Silesia* to the *new KAG*. These payments and the high level of interest rates, an investigation report of the Ministry of Finance (1934) concluded, 'led to a certain financial erosion of the community of interest companies'.<sup>71</sup> The profits expected by Flick and others in 1928, yet, could not be earned; just like most other companies,<sup>72</sup> the *new KAG* and *Königs-Laura* suffered from the economic crisis. Special ventures with Russia so-called 'Russian-Deals' (Russengeschäfte) that were guaranteed by the government, to a certain degree helped to reduce the problems (until 1932), but then the problems were getting worse. Flick also had to negotiate with the German Foreign Office about the lay-off of German workers that the German officials did not accept because of the political agreements with Flick. However, due to the crisis, rationalisation and lay-offs were necessary and they could not be restricted to Polish workers. Due to the lack of economic success and due to problems of refinancing the credits that the companies had taken in order to invest in modern equipment, Flick was looking for opportunities to sell the companies in Polish Upper Silesia.<sup>73</sup>

### 3.3. Blackmailing the Government

Between 1926 and 1931 Flick had achieved a central position in the European iron and steel industry (see fig. 7); he very often had used similar strategies as in Upper Silesia to reach his aims. What was specific in the case of Upper Silesia was the exploitation of the German government's political aims as a financial resource. But Flick's position in general was based on three factors: First, his extraordinary readiness to

<sup>68</sup> See Reckendrees, «*Stahltrust*»-Projekt (2000), and Priemel, *Flick* (2008) for a detailed analysis of VSt and Flick.

<sup>69</sup> Priemel, *Flick* (2008), p. 208-09.

<sup>70</sup> TKA VSt/926: Memorandum (Steinbrinck), 2.5.1928; *ibid*: VSt/925: Report Steinbrinck on the Board Meeting of Consolidated, 29.5.1929. See also Tomaszewski, *Capital* (1983), p. 241, he argues rather general and does not refer to specific transactions.

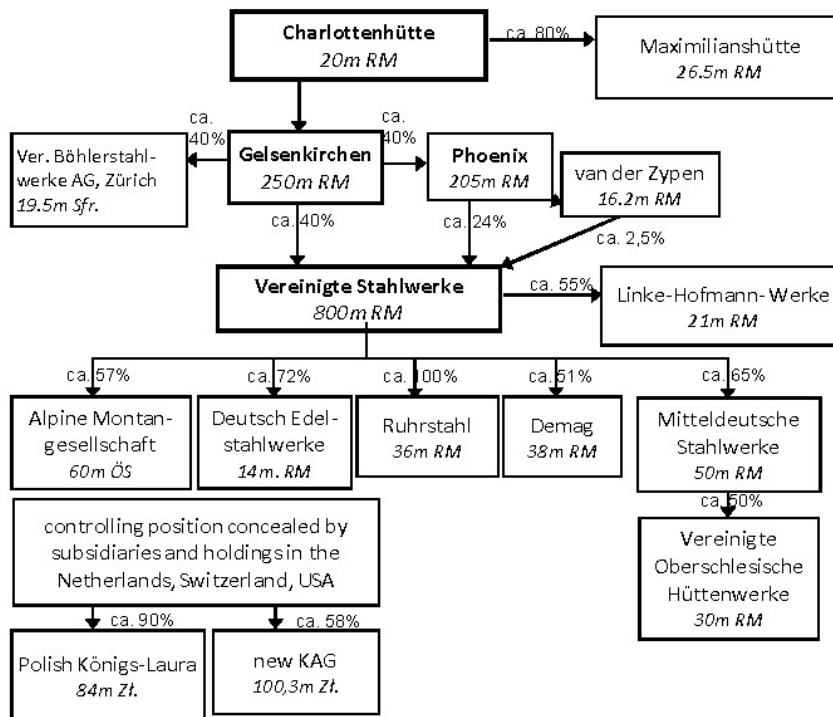
<sup>71</sup> BAB R2/15480: Materials for the evaluation of the community of interest new KAG/Königs-Laura and the allowance of a put-option [undated, 1934].

<sup>72</sup> Regarding Germany see: Spoerer, *Scheingewinne* (1996)

<sup>73</sup> For the economic and political problems of new KAG and Königs-Laura in the period of the Great Depression, see Priemel, *Flick* (2008), pp. 208-16.

assume risk; second, the use of pyramiding as a means of control and internal transactions (e.g. ceding the stakes of one company to another controlled company against cash; internal credits; and so on) as a source of liquidity for, in the end, Flick's *Charlottenhütte*; third, regional combination and rationalization in order to achieve monopoly-like positions on the markets.<sup>74</sup>

Fig. 7: Flick's industrial empire, 1931



Source: Reckendrees, «Stahltrust»-Projekt (2000), p. 290 [yet to be redesigned]

During the Great Depression, the huge empire collapsed. The major problem was re-financing Flick's industrial empire that was built on credit. *Charlottenhütte* that acted like a holding for Flick's empire had been dependent on dividends from its shareholding in order to pay interest on the credits and to repay the debt.<sup>75</sup> It did not possess any own assets. – When dividends stayed away, its financial situation became critical. In fall 1931, *Charlottenhütte* was close to illiquidity. Flick took a drastic step, he decided to sell his largest investment, *Gelsenkirchen* (that gave control on *VSt* → *Mittelstahl* → *Vereinigte Oberschlesische Hüttenwerke*, and, via *VSt*, on *Alpine Montan* in Austria and also the companies in Polish Upper Silesia). Flick was able to 'convince'

<sup>74</sup> This element could not be researched in this paper, but the Polish Upper Silesian group, the VOH, Mittelstahl, and VSt used this strategy; see Reckendrees, «Stahltrust»-Projekt (2000), and Priemel, *Flick* (2008).

<sup>75</sup> For a short general analysis see Priemel, *Flick* (2008), p. 257-59.



the Government to buy his *Gelsenkirchen* shares. The revenue he used for repayment of *Charlottenhütte* debt. There has been a huge discussion about the reasons for the Government to buy-out *Charlottenhütte*, to take control of *Gelsenkirchen* and, indirectly, *VSt*. This so-called '*Gelsenberg-deal*' is analyzed elsewhere,<sup>76</sup> it is not central for our discussion of industrial policy in Polish Upper Silesia. What is, however, interesting is the evaluation of the *Charlottenhütte* creditors. The European representative of Banker Trust Company, for example, wrote to his chairman: '*an excellent work on part of Mr. Flick, which realises him a substantial profit*' – German banks evaluated the buy-out rather similar.<sup>77</sup> It provided Flick with the means to build up a new industrial empire within NAZI-Germany based on *Mittelstahl*.<sup>78</sup>

The internal decision making between Dietrich, Minister of Economics, and Brüning, Chancellor of the Reich, is unfortunately not documented. Only some ex-post statements try to legitimize the buy-out; but the reasons provided are not convincing (the threat of a sale to French capitalists, effects on the German banking system). The problems in Upper Silesia, and the urgency to keep the legally doubtful government involvement secret, could not be mentioned in public. Whether Flick used the political 'argument' to put pressure on the Government is not documented; it was, perhaps, so obvious that it was not even necessary. As a parliamentary commission was suggested that should uncover the deal between Flick and the Government, Flick was rather relaxed. He argued a public investigation would not harm him, though it might have '*serious impacts on the present government [...] he only mentions the keyword: East Upper Silesia!*'<sup>79</sup> This, at least, indicates that the opportunity for blackmailing the Government had been present.

Apart from these general findings, in 1931/32 Flick and Vögler forced the government to take over the preferred shares of *Consolidated* (188.000). Flick had used *Gelsenberg* shares and *VSt* debentures as security for a credit by the state owned *Reichskreditgesellschaft*; but in order to solve the financial problems of *Charlottenhütte* he asked the Government to accept a change of these securities against the preferred shares of *Consolidated*. Of course, the government was reluctant, but it could not resist the pressure of Flick and Vögler. The latter argued they would be forced to take the shares on their balance sheet, if they could not 'sell' them – this, however, meant

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<sup>76</sup> The literature on the much discussed '*Gelsenberg-deal*' starts with Hallgarten, *Hitler* (1952); very often research did only use limited archive material, e.g. the state's or the bank's perspective. For a comprehensive analysis see: Reckendrees, *«Stahltrust»-Projekt* (2000), p. 493-501; Reckendrees/Priemel, *Politik* (2006), p. 82-86; Priemel, *Flick* (2008), pp. 220-28, 237-43.

<sup>77</sup> BAK R111/24: Eric Archdeacon [to O.P. McComas], 23.6.1932. BAB R8122/429: note Kaletsch, 28.6.1932.

<sup>78</sup> In 1931/32 *Mittelstahl* had been partly dissolved from *VSt* and came in control of *Charlottenhütte*, which took over all the shares in 1933. The two companies were merged. On Flick's new industrial empire, see: Priemel, *Flick* (2008), Bähr et al., *Flick-Konzern* (2008), Frei et al., *Flick* (2009).

<sup>79</sup> BAB R431/2179: Consultation with Mr. Dr. Flick, 29.6.1932 afternoon.

nothing else than making the involvement public. Being under pressure, the ministry of economics finally accepted the exchange of securities shortly after the '*Gelsenberg-deal*' was settled; this did not, however, mean that Flick lost his superior position: the voting rights (common shares) were still under his control.<sup>80</sup> The exchange of securities and the way it was induced also indicates that the government's Upper Silesian involvement was permanently in the background of the negotiations about the bail-out. It might have been a major 'argument' in order to convince the government.<sup>81</sup>

### 3.4. *The dissolution of the property in Polish Upper Silesia*

In 1932/33 *VSt* were completely reorganized. Flick was not involved anymore, but the dissolution of the Upper Silesian 'engagement' was among the subjects of discussions between the management of *VSt* and its new major shareholder, the German Ministry of Economics. Although the German government had supported the 'community of interest' of *new KAG* and *Königs-Laura* during the Great Depression with additional payments,<sup>82</sup> *VSt* wanted to dispose of the Upper Silesian investment. After they had dissolved from *Mittelstahl* (see above), they had no interest in the West Upper Silesian iron and steel industry anymore. More important, the Polish shareholdings did not create earnings but required new investments in order to work profitable, and with respect to the *VSt*-reorganization, it created serious difficulties. In summer 1932, Albert Vögler wrote to Fritz Thyssen: *VSt* could keep the investment anymore, he had asked the Government '*whether it regards the situation still as political, as it did before, than it had to step in, or not – than we have to get our hands free.*'<sup>83</sup>

The reorganization included complex regulations with American bondholders and agreements with the chartered accountant *Price, Waterhouse & Co.* and it was rather difficult to hide the involvements. *VSt* wanted to sell the Upper Silesian participation to a trustee of the German government, but the NAZI-government was not yet prepared for a decision. After personal talks between Fritz Thyssen and Adolf Hitler, the two parties finally agreed on a put-option that allowed *VSt* no to disclose the participation in the balance sheets. A few months later, however, the government rejected the put-option as East Upper Silesia was no crucial issue anymore, since the relations between Poland and NAZI-Germany had so much improved with the non-aggression pact.<sup>84</sup>

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<sup>80</sup> Priemel, *Flick* (2008), p. 225-26, 306-7.

<sup>81</sup> See Reckendrees, *«Stahltrust»-Projekt* (2000) on the effects of government control on *VSt*; surprisingly it was the first shareholder, who did not presume an industrial policy strategy but rather was interested in return on investment.

<sup>82</sup> Priemel, *Flick* (2008), p. 306, calculates that the Government altogether spent 51.5m RM until 1933.

<sup>83</sup> TKA *VSt/925*: Vögler to Thyssen [undated, August 1932].

<sup>84</sup> Reckendrees, *«Stahltrust»-Projekt* (2000), pp. 541-42.

In the following years, *VSt* (and also *Flick*) wanted to get free from the responsibilities in Polish Upper Silesia, where the companies of the 'community of interest' suffered from the economic depression, on the one hand, and became subject of stronger Polish influence, on the other hand. After an investigation about tax evasion in fall 1933, *new KAG* and *Königs-Laura* lost their independence and went into receivership.<sup>85</sup> Tomaszewski, however, mentions that the 'community of interest' went insolvent because of '*unsuccessful financial ventures of Flick [...] at the two companies' expense*'. When the companies went into receivership, they were indebted with mortgages of 156m Zł; unpaid taxes and other public liabilities amounted to 112m Zł.<sup>86</sup> Finally, the 'German' control was lost.

In 1936, *VSt* (and *Flick*) saw the chance to dissolve the agreements with the Government concerning Polish Upper Silesia. The management and the major shareholders, especially Fritz Thyssen, wanted to reduce the possible political influence on *VSt* and to buy the shares owned by the Government; it was the general agenda of the iron and steel industry get independent from the state regarding property rights. In this process, the put-option of the investment in Polish Upper Silesia should be realized. It is not necessary to describe the complex agreements and compensations here.<sup>87</sup> As for Upper Silesia, the agreements between the 'industrial group' and the 'political group' were dissolved and the Governments participation in *Fiduciaire* was paid out. *VSt* sold the participation to the Polish State for Polish industrial debentures; the German government participated with 40% of the earnings from this operation.<sup>88</sup> All in all the German government had lost at least 10m RM in Upper Silesia.<sup>89</sup>

After the German attack on Poland in 1939, *VSt* and the NAZI-government agreed that the ownership question should be decided after the war.<sup>90</sup> It was decided, but not in the way German revisionists have been hoping for.

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<sup>85</sup> See the detailed analysis in Priemel, *Flick* (2008), p. 305-11.

<sup>86</sup> Tomaszewski, *Capital* (1983), p. 242.

<sup>87</sup> See: Reckendrees, «*Stahltrust*»-Projekt (2000), pp. 560-63; more detailed Priemel, *Flick* (2008), p. 313-17.

<sup>88</sup> BAB R2/25071: Contract between Bankhaus Hardy & Co. and Deutsche Bank und Discontogesellschaft, 18.3.1936; *ibid*: Agreement on the so-called East-engagement between group B and the industrial group represented by Mittelstahl, 16.3.1936; *ibid*: Note on I.G. Kattowitz Laura (RFM, F6600a-46I), 14.12.1936. BAB R8122/215: Contract between Deutsche Bank und Discontogesellschaft and *VSt*, 16.3.1936. Tomaszewski, *Capital* (1983), p. 242.

<sup>89</sup> BAB R2/25071: Notes on the financial results of the sales of *VSt* shares in the ownership of the Reich, undated 1936; *ibid*.: Attachment to the overview on the calculation of a sales price for the RM 133.501.000 shares of *VSt*, undated 1936.

<sup>90</sup> TKA *VSt*/896: Note, 6.2.1940.

#### 4. Moral hazard and hold-up

Financially, like other investments those years, the industrial engagement in Polish Upper Silesia was not profitable – as far as the Polish companies were concerned. The economic decline holding on until the mid 1930s was an obvious reason. However, the Polish companies were able to pay high interest rates on their mortgages (in order to being able to pay, they avoided tax payments), and it seems as if they transferred further money to the American *Consolidated* and to the German owners, though the transactions are not yet clear. – A business history of the KAG and the *Königs-Laura* would need a sophisticated financial analysis, and it is still not available.

Friedrich Flick did not suffer from his engagement. It may be doubted whether it was profitable in terms of money, but at least it was an investment that crucially contributed to the building of his industrial empire. Indeed, this empire collapsed in 1932, but Flick got out of this trouble without any harm; in fact, after the '*Gelsenberg-Deal*' he was probably better off than before. Several times in the years between 1921 and 1932, he was able to re-allocate those funds he had already invested in the Silesian steel industry in new companies without losing control on the old investments. This was possible due to pyramiding and the sales of owned companies to other controlled companies. For a risk-taking entrepreneur like Flick the specific political situation in Upper Silesia offered great chances, first in the German part, later in the Polish: In the German part the industry should not collapse after the Silesian divide and therefore the German governments, the Reich and the Prussian state, subsidized the local industry. Few industrialists wanted to take that high risk. Flick, however, exploited the opportunity and the public subsidies and, within five years, created a regional iron and steel monopolist, *Vereinigte Oberschlesische Hüttenwerke*. He was following a greater ambition, achieving a major influence in *Vereinigte Stahlwerke*, and he used his Upper Silesian and other companies, and also the investments in Polish Upper Silesia for this purpose.

The situation in Polish Upper Silesia was much more complicated than in the Western part, but basically, Flick used public funding again in order to establish a regional monopolist on the other side of the border. He was able to influence the officials in the Foreign Office (and Minister of Foreign Affairs, Stresemann, who supported Flick very much) and the Ministry of Economics so that they provided the necessary funds, on the one hand, and that they engaged in a Swiss holding company, on the other hand, that literally violated the Geneva Convention. The tactics and instruments Flick used were quite simple: rumors, lobbyists, and political blackmailing. Yet they were successful because they corresponded to the revisionist political agenda of German foreign policy after World War I.

The closing remarks try to rephrase the conditions, the Government's problems, and Flick's activities in more economic terms in order to generalize as far as possible the findings from this unique case.

The model used is rooted in the new institutional economics, in the transactions cost approach and principal-agent theory. The fundamental problem is the following: The principal (the German government) needed an agent in order to achieve its political aims and he settled a contract with an agent (Friedrich Flick), who should manage these aims via industrial holdings. The contract consisted of payments to the agent's companies (credits and subsidies) and secret investments in a joint Swiss holding. The agent agreed on running the Silesian companies according to the political aims of the principal (securing 'German' influence in the Polish companies).

Like the transaction cost theory predicts, the contract was incomplete. In Williamson's terms, the Government was forced to make extremely high specific investments (no other agent could act on behalf of the Government). Moreover, by this financial and legal involvement the principal became dependent on the agent.<sup>91</sup> Flick, however, was not exactly dependent on the Government, rather he wanted financial support to increase return on investment, but personally he invested only limited amounts. Transaction cost literature argues that situations, in which one of the contractors makes highly specific investments, offer opportunities for ex-post contracting to the second contractor. Due to the specific investments of his partner, he is able to request additional demands (in this case additional funding). This 'opportunistic' exploitation of dependency during re-contracting is called 'hold-up'.<sup>92</sup>

The principal-agent literature argues similar. It starts with the basic assumption of asymmetric information between the principal and the commissioned agent; this asymmetric information offers possibilities of 'opportunistic behavior' resulting in hidden actions and 'moral hazard'.

Both arguments are not strictly on the same level, as one is concerned with contracts between separate economic units (hold-up), whereas the other is concerned with contracts between the principal and the agent of one company (moral hazard). In a broader perspective, however, hold-up may be regarded as a problem of a principal-agent relation as well. Opposite to 'moral hazard' it can be observed directly; or as Alchian and Woodward argue: *'the events that can give trouble ex post of the contract are not just those associated with moral hazard but also those of holdup, which we*

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<sup>91</sup> There is a huge well known literature on the issues of incomplete contracting, bounded rationality and so on; introducing see: Williamson, *Markets* (1975), Williamson, *Economics* (1995), Simon, *Models* (1957); on specific investments and asset specificity, Williamson, *Economics* (1995).

<sup>92</sup> Williamson, *Institutions* (1985), p. xx-xx.

*believe are neglected compared to moral hazard in most of the principal-agent literature.*<sup>93</sup>

In this specific case, we find three overlapping problems. The first is hidden action: Flick used the public subsidies for the creation of an own industrial empire, which was not among the Governments' political aims). The second is hold-up: Flick was able to enforce further Government funding far beyond the contracts agreed on, as the Government could not risk losing the investments already made, and as it could not risk the agreement becoming public. The third problem was that the incomplete contract between the Governments and Flick not only did not account for contingencies, due to the secrecy of the contracts, they were also not enforceable by law.<sup>94</sup>

The Government's attempt to cope with these problems was a political agreement with Flick (and Vögler) and a personal guarantee of the two people. This instrument was more than week because the contractor/agent was able to execute hidden action and hold-up without having to fear enforcement of those two contracts because that would have made the agreements public. Therefore the Government was locked-in and had no –or only limited– opportunities of fair re-contracting.

It seems as if not the subsidies and the funding as such, rather the secrecy of the agreements led to the lock-in of the Government. Without the agreements being secret there had been an exit option that did not exist under the given conditions. Secret politics and secret diplomacy probably cannot avoid such constellations as long as it uses agents or trustees. Therefore the general problem was very systemic: Wanting to realize the revisionist political aims with economic methods, the German government was restricted to use agents that they could not control. It is, however, strange to see that problems like such were not even considered, or they were only considered much too late. Than the Government officials were surprised that 'their' agent pursued only his own economic interest.

It may be farfetched to argue that business should not be used in order to achieve foreign policy aims, the problem of secrecy, however, is very crucial. What is most important in this case, and probably in general, is that Governments violating the law (here the Government tried to circumvent the international law, the Geneva Convention) should not be surprised if others do not follow the rules of the game.

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<sup>93</sup> Alchian/Woodward, *Firm* (1988, Alchian/Woodward, *The Firm* (1988)68.

<sup>94</sup> On this specific situation see. Schmidt/Schnitzer, *Interaction* (1995).

## Archives

- ACDP Archives for Christian-Democratic Policy (Archiv für Christlich-Demokratische Politik, St. Augustin)
- BAB Federal Archives (Bundesarchiv Berlin)
- BAK Federal Archives (Bundesarchiv Koblenz)
- GStA PK Secret Prussian State Archive (Geheimes Staats-Archiv Preußischer Kulturbesitz, Berlin)
- PAAA Political Archives of the German Foreign Office (Politisches Archiv des Auswärtigen Amtes, Bonn)
- SAA Siemens-Archives (Siemens Archiv, München)
- TKA Thyssen-Krupp Archives (Thyssen-Krupp Konzern-Archiv, Duisburg)
- WWA Westphalian Business Archives (Westfälisches Wirtschaftsarchiv, Dortmund)

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## Appendix A: Maps of Upper Silesia

Fig. A1: The Polish territory, 1922



Fig. A2: The German territory, 1921

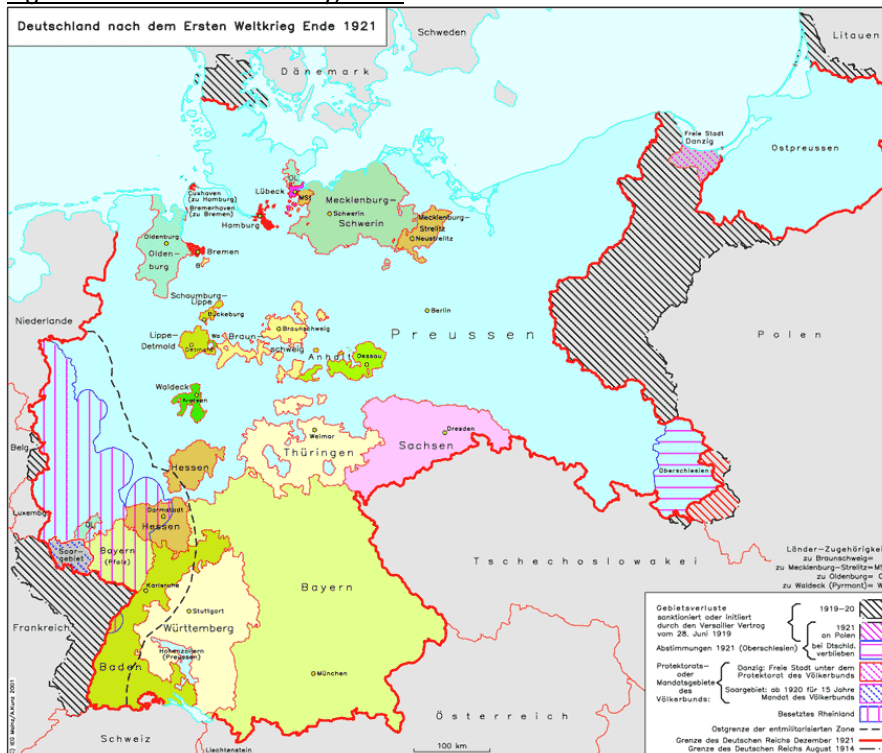


Fig. A3: Major streets and railways cut by the new border

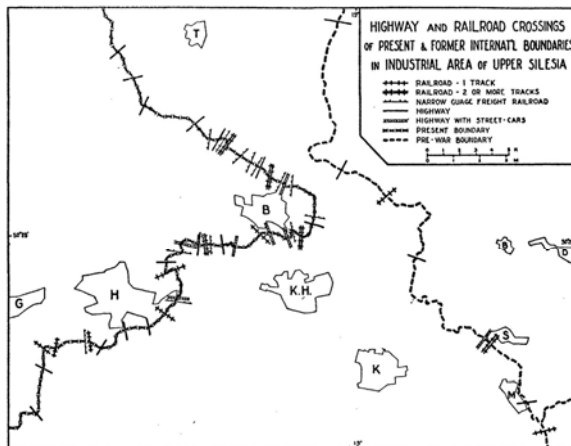
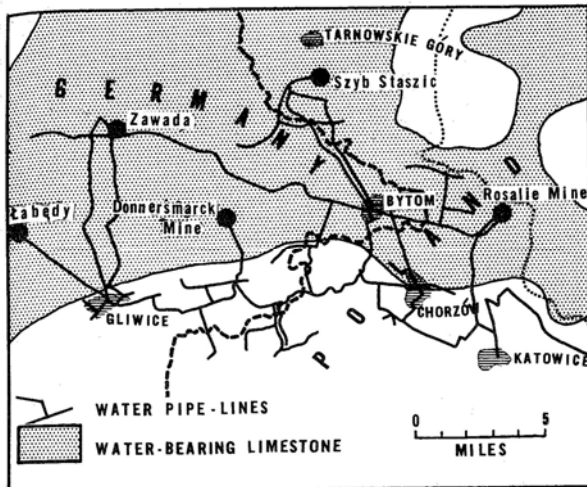


FIG. 11.—Highway and Railroad Crossings of Present and Former International Boundaries in the Industrial District of Upper Silesia.

Source: Hartshorne, *Boundaries* (1933), p. 25.

Fig. A4: The water supply system



Source: Pounds, *Boundaries* (1958), p. 153.

Fig. A5: The electric power system

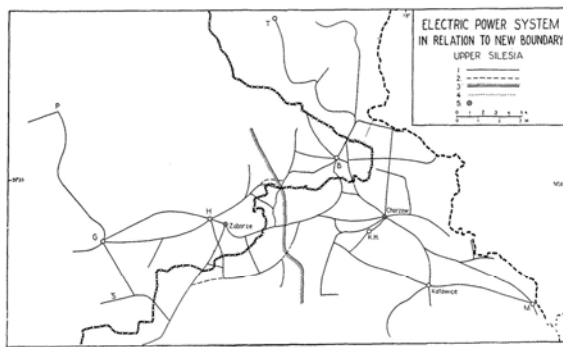


FIG. 12.—The Electric Power System of Upper Silesia in Relation to the New International Boundary.

Symbols:

1. Former power lines
2. New lines made necessary by the boundary changes
3. Former division between areas served from Zaborze and Chorzow power stations
4. Eastern limit of the Polish area receiving its power from Chorzow but across the Beuthen (B on the map) salient
5. Power station

Source: Hartshorne, *Boundaries* (1933), p. 26

Fig. A6: Zinc and lead mines cut by the new border

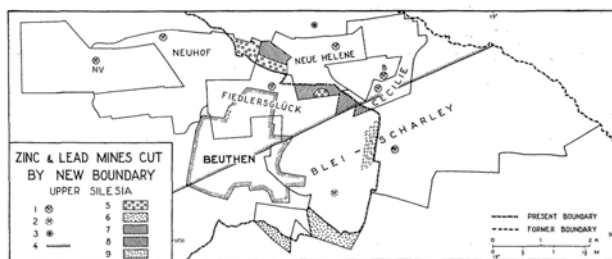


FIG. 15.—Zinc and Lead Mines Cut by the New Boundary

Symbols:

1. Zinc-lead mine, main shaft
2. New zinc-lead mine resulting from boundary change
3. Main water shaft pumping water that formerly drained underground from mines on both sides of the boundary
4. Southern limit of area in which all lead produced is the property of the Prussian (or now Polish) state
5. Unworkable because of important surface features, or already worked out when boundary was drawn
6. Not yet reached by underground workings
7. Mining operations on the German side from a mine in Poland
8. Mining operations on the Polish side from a mine in Germany
9. Mining operations formerly carried on across the boundary, but discontinued after construction of a new mine

Source: Hartshorne, *Boundaries* (1933)

Fig. A7: Coal mines cut by the new border

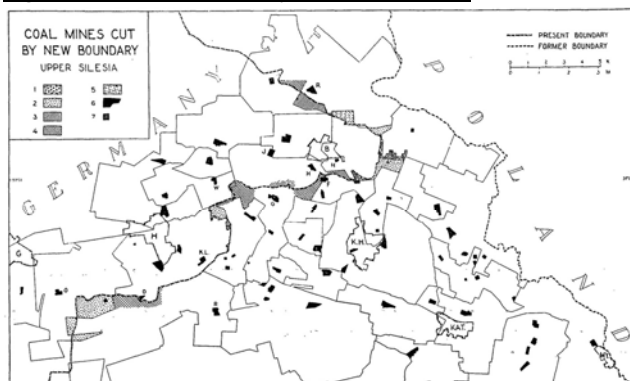


FIG. 14.—Coal Mines Cut by the New Boundary

Source: Hartshorne, *Boundaries* (1933), p. 27

## Appendix B:

### Maps concerning the situation of the iron and steel industry

The following maps are taken from Gieseler, *Oberschlesien-Atlas* (1938), they have to be reprinted in colour because the works belonging to the specific company are highlighted in red, which cannot be seen very well on these black and white reproduction.

Fig. B1: Bismarckhütte, 1921

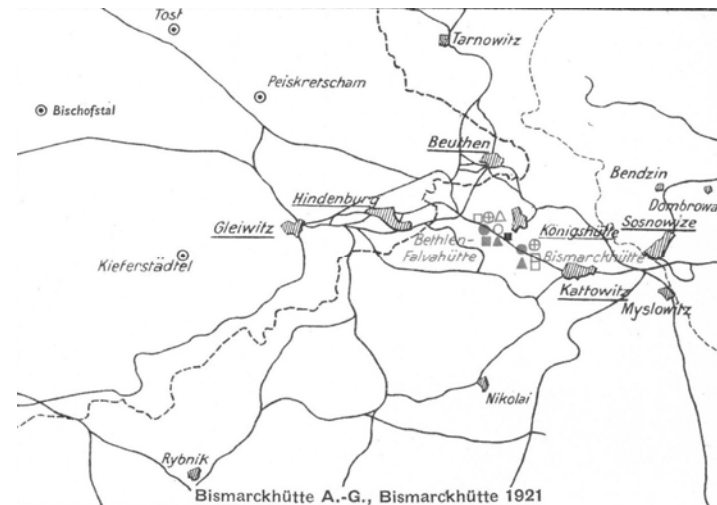


Fig. B2: Donnersmarckhütte, 1921



#### Quellen:

Statistik der Oberschlesischen Berg- und Hüttenwerke für das Jahr 1921. Hrsg. vom Oberschlesischen Berg- und Hüttenmännischen Vereins E. V. Kattowitz 1922.  
Statistik des Oberschlesischen Berg- und Hüttenmännischen

#### Eisen:

- ⚙ Eisenbergwerk
- ⚙ Hochofen
- ▲ Stahlwerk
- Walzwerk
- Hammerwerk
- △ Maschinenfabrik
- Eisengießerei
- ⊙ Veredlungsbetrieb

Vereins E. V. in Gleiwitz für das Jahr 1929. Gleiwitz 1930  
Statistik der Berg- und Hüttenwerke in Polnisch-Oberschlesien für das Jahr 1929. Hrsg. vom Oberschlesischen Berg- und Hüttenmännischen Verein Z. Z. Katowice. Kattowitz 1930

#### Zink:

- ⚙ Zinkbergwerk
- Rösthütte
- ▲ Zinkhütte
- Zinkwalzwerk
- ▲ Bleihütte

#### Kohle:

- ⚙ Steinkohlenbergwerk
- Kokerei

Gieseler, *Oberschlesien-Atlas* (1938), give the following sources

Fig. B3: Obereisen, 1921

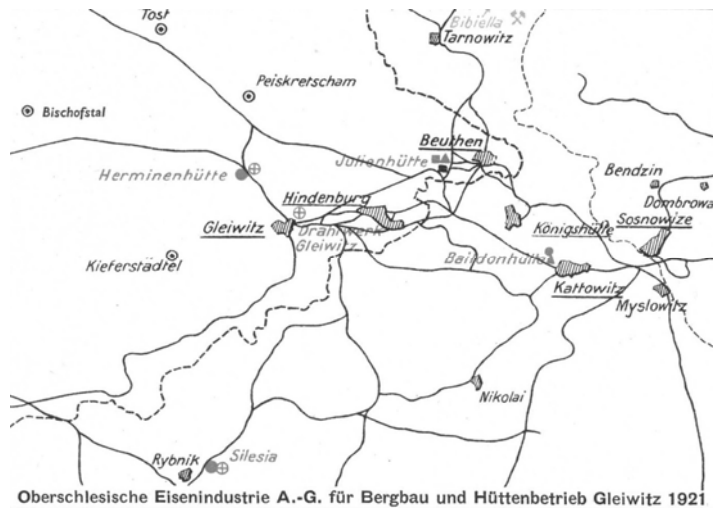


Fig. B4: Oberbedarf, 1921

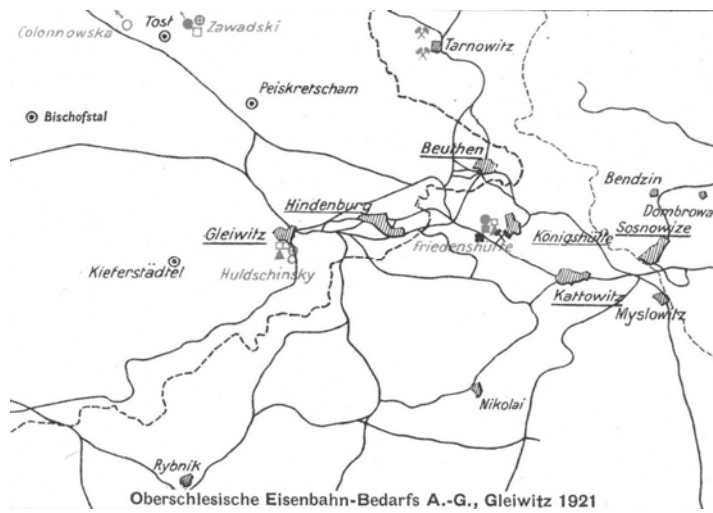


Fig. B5: Königs-Laura, 1921

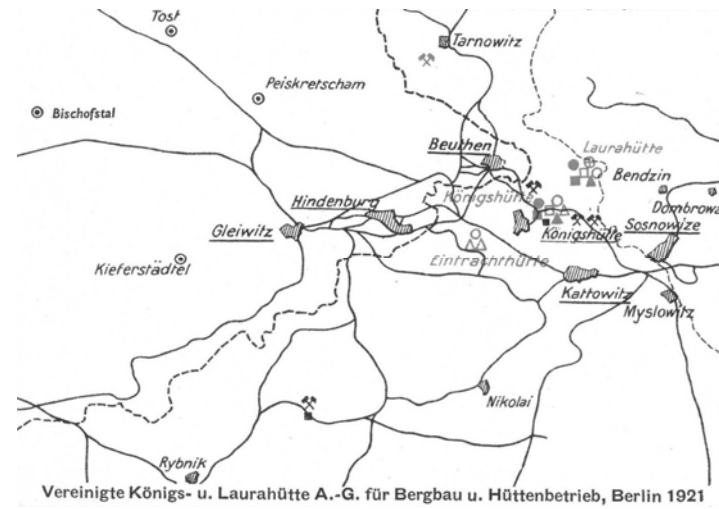


Fig. B6: Kattowitzer Bergwerks AG, 1921

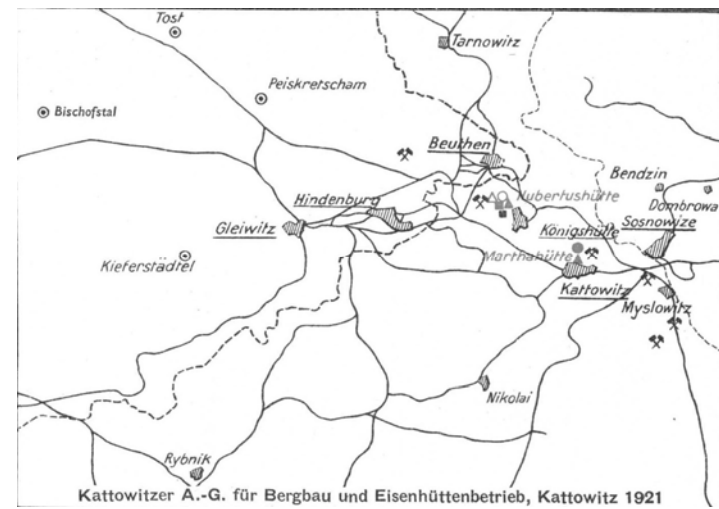


Fig. B7: Vereinigte Oberschlesische Hüttenwerke, 1929



Fig. B8: Kattowitzer AG für Bergbau und Hüttenbetrieb (neu) 1930

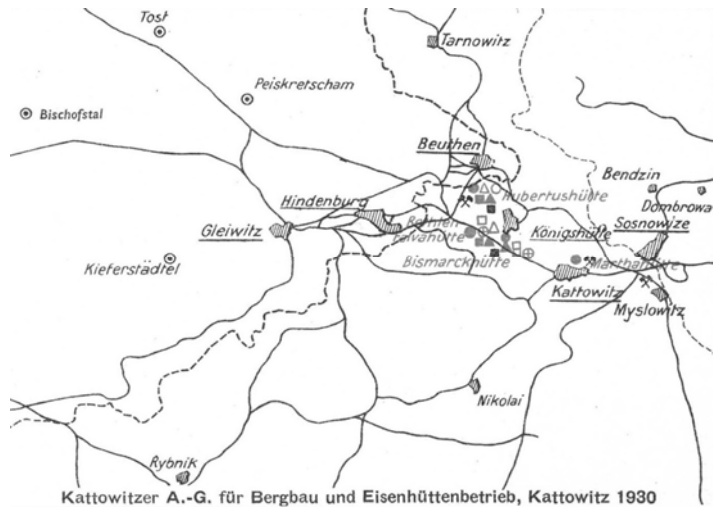


Fig. B9: Friedenshütte, 1930

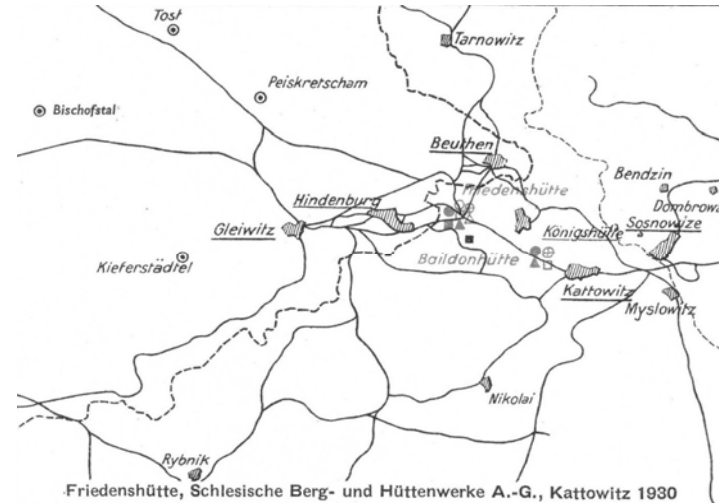


Fig. B10: Górnosłaskie Zjednoczone Huty Królewska i Laura SA Górnico-Hutnicza, 1930



Fig. B11: The industrial area of Upper Silesia, 1921



Source: Gieseler, Oberschlesien-Atlas (1938)