

Premature Integration? Competing Unions and Uneven Market

Integration in Germany, 1828–1833

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Why did the Zollverein succeed when earlier German customs unions failed? This paper studies the economic consequences of the competing regional customs arrangements formed in 1828 (the Prussian-Hessian Customs Union, PHC; the South German Customs Union, SGCU; and the Central German Commercial Union, MDHV) in the period between post- Napoleonic state consolidation and the creation of the Zollverein in 1834. I use annual grain prices for 79 cities from 1815 to 1833 to construct a dyadic panel of absolute log price gaps and absolute return gaps and follow a fixed-effects panel design.

The results point to a simple pattern. Market integration in this period is closely tied to state consolidation. In the specifications with dyad fixed effects, the “Same State” coefficient is identified mainly from the small set of city pairs whose state relationship changes over time. For these switchers, becoming part of the same sovereign state is associated with substantially smaller price and return gaps in the most demanding specifications, in line with the state formation and reform channel emphasized in recent work. By contrast, pooled customs union membership has no robust effect on price convergence and is associated with slightly larger return gaps. Breaking the estimates down by union shows strong heterogeneity. The SGCU is consistently associated with larger price dispersion, including in specifications with city-year fixed effects. The PHC shows little within-union integration, but it displays meaningful border effects in the specifications where these can be identified, especially in the international subsample.

Overall, the evidence supports an institutional interpretation. Treaty-based coordination without centralized implementation did not reliably reduce effective trade costs, while Prussia’s administratively backed customs territory is consistent with being able to impose credible external frictions. These findings complement Ploeckl (2015, 2021)’s account of the Zollverein as a novel institutional solution by showing that its precursors did not behave like integrative institutions in reduced-form market outcomes.