

THE ZOLLVEREIN

From political fragmentation to customs union

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History of Regional Integrations

SUMMARY

INTRODUCTION

1. WHAT IS ZOLLVEREIN: ANALYSIS ON ITS ORIGINS
2. PURPOSES AND STRUCTURE OF THE ZOLLVEREIN
3. COMPARISON WITH EUROPEAN COMMUNITY

CONCLUSION

BIBLIOGRAPHY

INTRODUCTION

The Zollverein, the outcome of sequential negotiations between Prussia and other sovereign German states in 1834, was the first international customs union, the template for modern ones such as the European Union.

The purpose of this essay consists in analyzing the logic behind the creation of this new form of regional integration, in which context it was established and who were the actors involved in this process.

This paper is composed by two distinct parts: the first one concerning the historical background, the goals and the institutions of the Zollverein; the latter consisting in drawing a comparison between the custom union model proposed by Zollverein and the European Community.

1. WHAT IS ZOLLVEREIN: ANALYSIS ON ITS ORIGINS

*"The German Zollverein was the pioneer and by far the most important customs union, and generalizations about the origin, nature, and consequences of unification of tariffs tend to be based mainly or wholly on the German experience."*¹

The rise of nation states can be closely associated with the rise of unified customs territories within them. The Zollverein was the first international trade agreement that created a unified customs area between independent sovereign nations, unifying customs areas across political borders rather than just within them.

1.1 HISTORICAL BACKGROUND

The formation of the German Zollverein was a gradual process that took several decades, starting from the 1818 Prussian customs reform to the latest accession of Bremen and Hamburg in 1888. The Zollverein was officially established by the Zollverein treaties of 1833 that merged three German customs unions including twenty-one German states into a common customs system.

In 1790, Germany consisted of more than three hundred states all of which enjoyed the political autonomy they had inherited from the disintegration of the Holy Roman Empire². Each state thus freely formulated its own economic policies. The main feature of each state's economic policy was its fiscal policy. Each state had its own customs and excise duties, and in general its own revenue laws, which often differed widely from those of its neighbors.

The French Revolution and the years of the Napoleonic Wars led Germany to a simplification of its political map, which made German unity a possibility. As a matter of fact, Germany emerged from the Congress of Vienna in 1815 with a composition of just thirty-nine sovereign states.

The first stage in German unification was the alignment of most of Germany's thirty-nine heterogeneous states into three regional groupings: in the south the

¹ Jacob Viner, 1950, *The Customs Union Issue*, Carnegie Endowment for International Peace.

² Ended with the Treaty of Pressburg on the 6th August 1806.

customs union of Bavaria and Württemberg, two medium-sized states, which was based on terms of full equality in tariff legislation and administration; in the north, the customs union of Prussia and Hesse-Darmstadt and in central Germany, the members of the Middle German Commercial Union, which agreed not to join any other custom union or to raise tariffs against each other.

With the diminishing influence of the French Empire over German states, the Kingdom of Prussia started to play the largest role over the region during the 19th century.

As stated, after 1815 the thirty-nine German states managed their own economies: the regional market was characterized by countless customs barriers and international tariffs that heavily affected trades. Being the hegemon of the area, Prussia succeeded in enacting the Prussian Customs Law of 1818, which united all the Prussian territories into a customs union free of internal economic barriers which later on will form the nucleus of a national customs union. This new system got rid of the complex web of internal customs duties and replaced them with a tariff that had to be charged at the Prussian state frontiers.

Neighboring countries were impressed by Prussian new system and by its success, leading to their interest into a possible agreement to join the customs union. Furthermore, Prussia had to deal with a problem that felt of fundamental importance: it was essential for the state to connect the western and eastern provinces. The unification of the Prussian territory would also have helped to achieve trade routes connecting Southern Germany, including major trade fairs in Frankfurt and Leipzig, with the North Sea ports. The territories connecting the two Prussian provinces were Hannover and Hesse-Cassel. However, both these territories were not receptive for a connection with Prussia.

The success of the Prussian Tariff System led Hesse-Darmstadt, a large enclave, to sign the customs agreement with Prussia in 1828, leading to the formation of the Mitteldeutscher Handelsverein (or Preußisch-Hessischen Zollvereins).

By 1830s customs unions in the German territory were rapidly growing: in those years southern German states began to negotiate in order to form an economic

union, resulting in the Bavaria and Württemberg customs union in 1828; in the same year central German states established a similar union, which included Saxony, the Thuringian states, Hesse-Cassel, and Nassau, called the Middle German Commercial Union.

1828, after formation of the two customs unions and the Mitteldeutsche Handelsverein

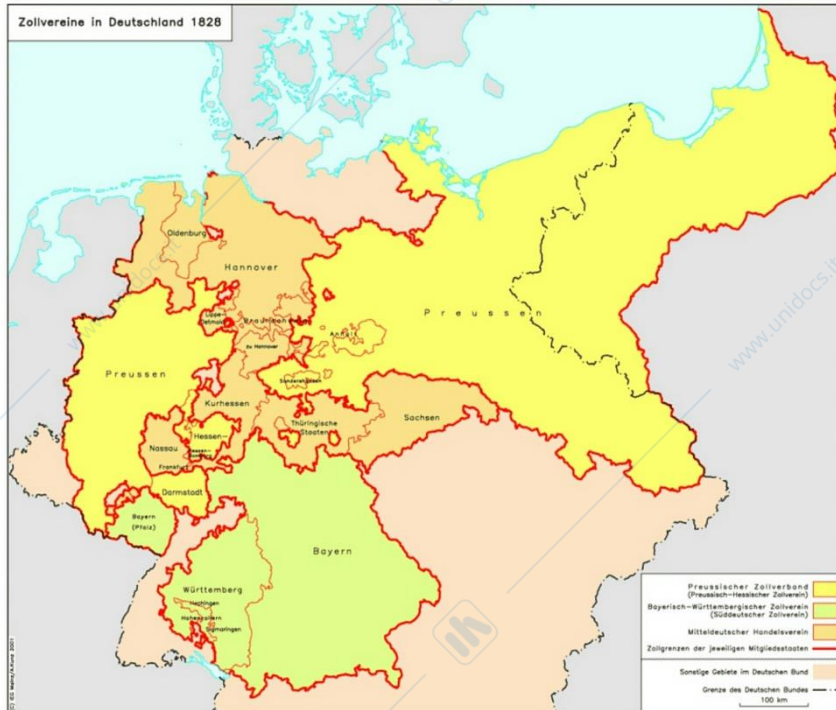


Fig. 1

provinces of Prussia. The defection of Hesse-Cassel led to the collapse of the Middle German Economic Union. At this point, stating the strength of the Prussian system, negotiations with Bavaria and Württemberg restarted, leading to the merge of the Prussian and Southern Customs Unions in 1833. The negotiations had an effect on Saxony and the Thuringian states, leading to a rapid inclusion of these two states into the Prussian system.

The resulting customs union officially came into force on 1st January 1834 and was commonly referred to as Zollverein³.

³ The founding members were Prussia, Hesse-Darmstadt (Prussia-Hesse-Darmstadt Custom Union, 1828), Kurhessen, Bavaria, Württemberg (Bavaria-Württemberg Customs Union, 1828), Saxony, and the states of Thuringia (Thuringian Customs Union). The following states joined the Zollverein: Baden and Nassau (1836), Frankfurt (1836), Brunswick (1842), Luxemburg (1842), Hanover, Oldenburg, Schaumburg-Lippe (1854), Schleswig-Holstein (1867), Lauenburg, Mecklenburg Schwerin, Mecklenburg Strelitz, Lubeck (1868), Alsace-Lorraine (1872), Hamburg and Bremen (1888).

FIGURE 1: F. Ploeckl, *The Zollverein, or how to sequence a Customs Union*, 30th October 2006

FIGURE 2: The growth of the German Zollverein, Encyclopædia Britannica, Inc.



Fig. 2

While most German states in the south that had remained outside the Zollverein in 1834 joined during the following year. However, the refusal of Hannover, Hamburg, and Bremen to join the union deprived the Zollverein of direct access to the North Sea for several decades to come.

The Zollverein, which began operations at the opening of 1834, included eighteen sovereign states with a total population of nearly 23.5 million. The multilateral treaties that established it aimed at founding a single customs union based upon the principle of equality. The initial set of treaties ran for only eight years, but they were subsequently renewed for two twelve-year periods.

The establishment of the Zollverein was a turning point in the long road to German unity. By abolishing internal barriers to trade and introducing a common external tariff, the Zollverein opened a large home market to the products of German skill and gave considerable impetus toward industrialization. The general upturn in economic activity, stimulated by the expanded market, strikingly increased the demands for coal and for the products of the basic industries in general. Large-scale improvements in communications and transportation, encouraged by the establishment of the Zollverein, also had a decisive influence in promoting industrialization. German economic development was aided also by the capacity of the Zollverein to negotiate as a single unit on commercial matters with foreign

states. As a result, by 1870, Germany had been transformed from one of the best markets for foreign manufactures to a largely self-sufficient industrial country.

The success of the Zollverein having been manifested, there grew intense interest in regional economic integration, which interest expressed itself in numerous proposals for the establishment of customs unions.

At the end the Zollverein created a German common market and even if it did not obtain the participation of all German states, it was able to raise German national consciousness and to guarantee Prussia the economic hegemony, paving the way of the Bismarck Reich.

With the Austro-Prussian War in 1866 the Zollverein came to an end, officially dissolving with the establishment of the Zollparliament and later on of the German State and its Reichstag in 1871.

2. PURPOSES AND STRUCTURE OF THE ZOLLVEREIN

The Zollverein was a customs union which was highly functional to Prussia's hegemonic aims. It was based on the idea of free trade between members state and adopting protectionism towards those state who were not included in the agreements.

It can be discussed that Prussia, in pursuing and developing the Zollverein aimed at two main goals: first the Zollverein was a tool to improve economies of the German states after the period of the Napoleonic Wars; secondly the Zollverein became a political tool to reduce Austrian and foreign influence in the German region and to strengthen Prussian position on the international economic field (i.e. by reducing the economic independence of smaller states⁴).

2.1 ECONOMIC GOALS

In 1834 the Zollverein, which included most of the states of the German Confederation, came into existence. The foundation of the *Zollverein* was the first

⁴ David T. Murphy, *Prussian aims for the Zollverein, 1828-1833*, *Historian*, Winter 1991, Vol. 53#2 pages 285-302.

instance in history in which independent states consummated a full economic union without the simultaneous creation of a political federation or union⁵. Prussia was the primary driver behind the creation of the customs union.

The main purposes of the Zollverein were the standardization of the monetary system⁶, the creation of a free trade market and to overcome the difficulties represented by the varied weights and measures. Prussia wanted to create a unified economic territory allowing unhindered movement of goods, people and capitals.

The economic openness laid a road towards cultural interaction, political unity and essentially the dissolution of borders.

2.2 AUSTRO-PRUSSIAN RELATIONS: THE ROLE OF THE ZOLLVEREIN

The struggle of a possible “Zollverein” between Prussia and Austria has characterized the years starting from the late 1830s until the creation of the German Kaiserreich in 1871.

With the establishment of the Zollverein in 1834, a window of possible negotiations opened between Prussia and Austria. However, Austria initially refused to join the Prussian customs union since it disagreed with the policy of free trade supported by the Austrian Empire. As a matter of fact, Austria’s policy was highly protectionist: the Austrian Empire had large markets for home produced goods and demanded high import duties to protect those industries from cheap foreign imports; by joining the Zollverein, Austria would have had to reduce their import duties and put them at the same level as the member of the Prussian customs union. Prussia was in a position of dominance, taking advantage of the situation and achieving by 1848 the economic leadership of German states.

As Prussia increased its predominant role, Austria started to lose its position: it was economically weaker, it was mostly an agrarian state with lack of capital and much slower rate of expansion. Austria’s initial refusal to join the Zollverein

⁵ Arnold H. Price, *The Evolution of the Zollverein: A Study of the Ideals and Institutions Leading to German Economic Unification between 1815 and 1833*, Ann Arbor: University of Michigan Press, 1949, pages 9–10.

⁶ The *Vereinstaler* was introduced as the Zollverein coin in 1857.

proved very expensive for the Empire and even if the Zollverein was not designed to be a mean of isolation against Austria within the German Confederation, it increasingly became one.

Although Austria maintained a large home market, it was not as geographically advantaged as Prussia, and thus it could not become completely self-sufficient. Insufficient industry and development combined with financial difficulties and national diversity of the Austrian Empire definitely took away any possible Austrian claim to the leadership of the German people. The balance of power in Central Europe shifted from Vienna to Berlin.

2.3 INSTITUTIONS

The aim of Prussia and its cosignatories was to establish a free trade area with a common tariff and a common commercial policy, but this goal has not resulted in the creation of truly federal institutions. As a matter of fact, the main federal organ of the Zollverein was the *Generalkonferenz*, an assembly of plenipotentiaries of the Zollverein governments which met once a year to discuss problems relating to the customs union. Decisions were taken unanimously.

The other federal-like administration was the Central Bureau, which function was to calculate the distribution of custom revenues between the Zollverein members. In the Zollverein, while Prussia played a leading role throughout the period, each member state retained jurisdiction over the administration of its customs, used its own customs officers at the external and internal borders of the union, and kept its own customs revenues fund.

We need to specify that in the latest years of the Zollverein, starting from the 1867 until 1871, the executive power was held by a sort of federal council, the Zollbundesrat, composed by governmental delegates in which decisions were taken by an absolute majority. Prussia was entitled to 17 of the 58 votes and held the chair of the council. Legislative power layed with a "customs parliament", the Zollparlament, composed of deputies directly elected by popular vote, and, like the council, taking decisions by a majority vote.

The *Zollverein* remained a highly efficient fiscal tool, but its structure became increasingly less suitable for developing a trade policy commensurate with the growing industrialization of Germany⁷.

2.4 WHY WAS ZOLLVEREIN SO SUCCESSFUL

The reasons for Prussian customs union success are multiple. Starting from the fact that Prussian Tariff Law of 1818 had a positive impact: it served as a model of compromise between divergent economic interests. Neighboring countries depended on Prussia for their export and were driven to join the system. This was more than a merely fiscal reason: for example, Saxony, one of the most developed industrial regions on the German territory in the 1830s, could hardly trade without the Prussian market. In its predominance position Prussia did not only create an integrated and common economic system, but it created more trading opportunities for the member states: the example case is the creation of an advanced railway system which strengthened trades and relations between Baden, Württemberg, and Bavaria and the northern parts of Germany.

Furthermore, the Zollverein fostered the economic integration of its territory being helped also by the undergoing Industrial Revolution.

3. COMPARISON WITH EUROPEAN COMMUNITY

*"We live in the age of integration. Every conceivable—or inconceivable—combination of countries has been proposed, more or less seriously, as a candidate for integration—other planets and outer space being almost the only areas that do not yet figure in any of the many plans and proposals."*⁸

The only organization in the nineteenth century which can be compared with the European Economic Community is Zollverein, the customs union which linked nearly all the German states between 1834 and 1871.

⁷ Arnold Price, Zollverein at <https://www.ohio.edu/chastain/rz/zollvrn.htm>

⁸ G. Haberler, *Integration and Growth of the World Economy in Historical Perspective*, The American Economic Review, Vol. LIV, no. 2, March, 1964, p. 1.

In both these cases it is reasonable to state that the countries achieved a greater economic growth by being united than the one they could have hoped to achieve in isolation.

France, Germany, Italy, Holland, Belgium, and Luxemburg began by establishing a common market in coal, iron, and steel in 1950, leading to the formation of the European Economic Community later on in 1957, which was first a free trade area in manufactured goods and later became a common market in agricultural products as well. Similarly, although the Zollverein was established as a customs union - and remained as such - its members gradually made agreements to secure greater uniformity in rail and river traffic, postal arrangements, commercial law, and much else.

The most successful fruition of the Zollverein idea came with the establishment of the Common Market. And the parallels between the nineteenth and twentieth-century economic unions are striking. Both the Zollverein and the Common Market have had in their favor a factor of sufficient economic significance: propinquity. Indeed, the states which joined to form the Zollverein were situated in a geographically compact area in which a single economic unit was possible. The same situation happened with the first European Common Market, where nations were geographically compact, even if the factor of geographical proximity has become less important in the last century. The two customs unions have also shared a strong appeal over neighboring states and also at an international level, attracting new countries and making them consider some form of regional integration themselves.

One of the main differences between the Zollverein and the European Economic Community consists in the structure of the institutions: the first being a national institution and the latter an international one. The first step in the establishment of the Zollverein was the inclusion in the Prussian customs system of a number of enclaves, which was fundamental in order to regain territorial integrity. After having achieved collaboration with these enclaves, Prussia proceeded to negotiate with neighboring German states with the aim of including them into the Prussian Tariff System. With the establishment of the Zollverein in 1834 and its further

development, Prussia gained a position of relevance over the territory, even though it refused to consider any expansion of the Zollverein beyond the frontiers of the German Federation.

The European Economic Community was founded in quite different circumstances from those of the Zollverein. When the Zollverein was established 19 years had passed since the Napoleonic Wars and the process of reconstruction had made considerable progress. But the founding members of the Coal and Steel Community had far from recovered from the ravages of the Second World War, despite the financial help from the United States in the shape of grants and loans under the Marshall Plan.

Another difference between the Zollverein and the European Economic Community consisted in the composition and role of state members: the Zollverein was a customs union which was mainly dominated by a single state. As a matter of fact, the Zollverein was a union between a large state and one of the European great powers of the time and a number of much smaller states. Prussia was by far the largest member of the Zollverein in area, in population, and in economic resources. The expansion of her major industrial regions enabled Prussia to make a much larger contribution to the economic growth of the Zollverein than any other state. In 1864 Prussia accounted for 54 per cent of the population of the Zollverein. Bavaria had the second largest population (nearly 13.5 per cent), followed by Saxony (6.5 per cent), and Hanover (5.4 per cent). Two years later, after the Seven Weeks War⁹, Prussia annexed territories which had a population of 3.221.216. Prussia's leading role in the Zollverein was recognized in the treaties by which the Zollverein was established. The Prussian tariff was adopted by the customs union; the Prussian thaler was one of the two currencies used by the union; and Prussia negotiated commercial and navigation treaties with foreign countries on behalf of the Zollverein. But the states which joined Prussia to form the Zollverein were determined to safeguard their rights as independent sovereign states: as a matter of fact, a motion submitted to the General Congress could be passed only with a unanimous vote, implying that single states had veto rights. The

⁹ Referring to the Austro-Prussian War in 1866.

European Economic Community on the other hand, was at first a permanent institution, not dominated by an individual state: there was a community tariff, import duties generally fixed at the national tariffs average and negotiations with foreign countries had to be done in conjunction. Furthermore, with the expansion of the European Economic Community, states such as Western Germany and France started to lose their role of relevance – as instead Prussia maintained over Zollverein.

Another focal point that needs to be highlighted is the fact that generally in customs unions political and administrative centralization precede and promote economic integration. This was not the case of Zollverein in which economic integration preceded political union: the Zollverein, by breaking down political and social barriers made unification possible.

Jacob Viner called the Zollverein "*the pioneer and by far the most important customs union*", arguing that "*generalizations about the origin, nature, and consequences of unification of tariffs tend to be based mainly or wholly on the German experience*¹⁰".

CONCLUSION

The Zollverein is a clear example of what a process of regional integration can achieve. Starting from economic reforms, a customs union was able to pave the way to the creation of the German Empire. Furthermore, this model of regional integration showed the importance and relevance the agenda setter can achieve and it does help to understand the appeal a successful regional system can have: if a model of a customs union is well functioning, it will easily attract other countries and will implement the regional cooperation.

The history of the Zollverein is today both a lesson and a hope for today's Europe. It may be a matter of argument whether the Zollverein model can be followed, expanding the Common Market into a political union. It is, however, clear that the

¹⁰ Jacob Viner, *The Customs Union Issue*, New York, Carnegie Endowment for International Peace, 1950, p. 97

Zollverein idea of political federation through economic integration has been a persistent concept among European history.

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