

Freedom through the weak states?

State Fragmentation in the Holy Roman Empire

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How does state fragmentation effect development? Can small territories with weak states actually enhance economic freedom – especially in repressive political systems? By going back into history and investigating the effect of state fragmentation in the Holy Roman Empire in the 18th century, history will help to shed light on this current issue in development.

I propose that there are two independent channels: First, smaller states suffer from smaller markets. But second, smaller states have less repressive power and allow more economic freedom. I then predict that the first channel was effective for the pre-industrial pre-1815 period. However, I claim that with the onset of the Industrial Revolution, the second channel came to dominate.

Using territorial maps of the Holy Roman Empire, city sizes from 1700 to 1900 and patent data for the 19th century, I can empirically test this hypothesis. I will also use data from the book trades to estimate a more direct measure of political and economic freedom. To rule out concerns that state territories adapted according to the modern economic success of a state, I will use the borders of the treaty of Westphalia as an instrument. Thus, by looking at early state fragmentation in a generally pre-democratic and politically repressive environment, we can learn more about how economic actors can profit from weak state control.