

1 Historical States, Imperialism, and Development

Western Europe and North America have been commonly associated with economic development, a multifaceted process which manifests itself in high levels of income, productivity, consumption, investment, education, life expectancy, employment, etc. All these are factors which make for a better life. Many of these outcomes have been attributed to the existence of good institutions, in particular the existence of democracy, which encourages investment by safeguarding property rights, the efficient allocation of resources through the free flow of ideas, and incentivizing governments to make good policy decisions given the threat of not being re-elected (Przeworski, 2012).

Other studies in political science and economics attribute such economic outcomes to the institutions that were created by historical empires. For example, some scholars contend that historical states such as the Habsburg Empire, a political entity which governed parts of Western and Central Europe for over four centuries, facilitated trust in government institutions and enforced rules and property rights. These in turn provided the “cultural and legal underpinnings for groups to achieve mutually productive outcomes” (Becker *et al.*, 2016, p. 41). Other empires which governed in Europe for a similar amount of time, such as the Ottomans, are associated with negative economic outcomes (Dimitrova-Grajzl, 2007; Grosjean, 2011; Kuran, 2012). Scholarship investigating why the Middle East lagged behind Western Europe focused on a variety of Islamic legal institutions which blocked the emergence of some of the features of modern economic life. These have to do with inheritance of property, lack of trade organizations, lack of impersonal exchange, etc. (Kuran, 2012). Research examining specifically the legacies of the Ottoman Empire also discussed the role of the prohibition of interest lending (Grosjean, 2011) or the delay in the adoption of the printing press (Popescu and Popa, 2022) as key factors explaining developmental outcomes in Ottoman successor states. The focus on the legacies of these two empires rests on the assumption that they had institutions which were homogeneously enforced within their territory. The empirical reality, however, reveals a more nuanced picture: patterns of

2 Historical States, Imperialism, and Development

economic versus under-development do not start at the border of these two empires.

The legacies of the Habsburg and Ottoman empires in Central and Southeast Europe have long been studied and debated. Historians have argued that development in terms of urbanization and industrialization diffused from north-west to south-east in the Danube region (Good, 1984; Pollard, 1986) and economic historians of Austria-Hungary show persistent gaps and lack of convergence between the lands of Central Europe (Cvrček, 2013; Klein *et al.*, 2017; Schulze, 2007). One of the main factors explaining under-development in the eastern and southern regions of the Habsburg Empire is geography, particularly low population density and lack of urban concentration. Both were – in large part – legacies of Ottoman rule and extensive warfare between rival imperial powers during the early modern period. Less attention has been paid to the lasting developmental consequences of these historical patterns. One common way of visualizing such persistent effects has been through the use of nighttime satellite luminosity (Henderson *et al.*, 2012). This measure gained momentum in economic and political science in the absence of accurate official statistics or more conventional data including national or regional GDP, and has the added advantage of having very fine-grained data which is highly comparable across time and space (Donaldson and Storeygard, 2016). Satellite luminosity has been utilized as a way to examine the effects of pre-colonial ethnic institutions (Michalopoulos and Papaioannou, 2013), historical state-building efforts (Mattingly, 2017), or of pre-colonial conflict exposure (Dincecco *et al.*, 2022), etc. The superimposition of nighttime satellite luminosity over historical borders reveals some interesting regional asymmetries which go beyond the presumed dichotomies: the Habsburgs had good institutions which contributed to higher economic outcomes and the Ottomans had bad institutions which help explain lower developmental outcomes today.

Figure 1.1 displays patterns in regional luminosity pertaining to the Habsburg successor states: the north of the Habsburg Empire corresponding to Poland, Czechia, and Slovakia seems to be much more luminous compared to Habsburg successor states like Romania, Serbia, and Croatia. If we focus on the southern borderlands of the former Habsburg Empire, we see further evidence for divergent development at the regional level, too. Within modern-day Croatia, in particular, the south appears significantly less developed than the north. Even though this may reflect several confounding factors, I will demonstrate throughout this book that this pattern is the legacy of a peculiar historical institution – the Habsburg (or Austrian) military frontier. This is a buffer area which the Habsburgs created in 1553 in order to defend themselves

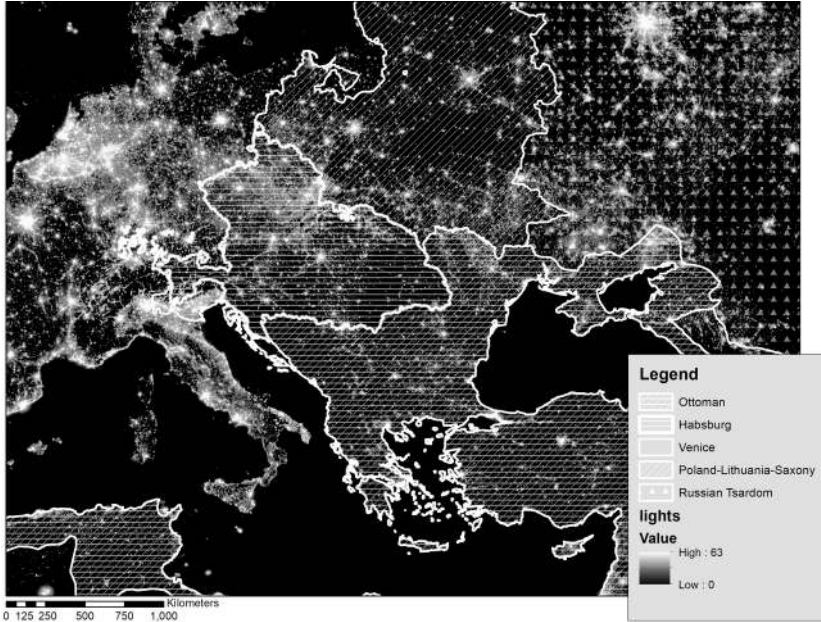


Figure 1.1 Political borders in 1739 and satellite luminosity in 2013

against an inimical neighboring state, the Ottoman Empire. As the Habsburg armies gradually forced the Ottomans out of Hungary, the military frontier expanded, stretching through the territory of modern-day Croatia, Serbia, and Romania. The frontier remained in place in different forms until the second half of the nineteenth century (Ferguson, 1954; Lesky, 1957; Rothenberg, 1960a, 1960b). The buffer zone in the Habsburg military frontier zone acquired the name of the Habsburg military colony.

Military colonialism was not unique to the Habsburg Empire. As a definition, military colonialism was a widespread cost-effective method for territorial protection that many states adopted, including the Russian, French, and Roman empires. This method entailed the forceful recruitment of people located on the border of the state and their engagement in military activities for the defense of the state (Isaac, 1988; Pipes, 1950; Sumner, 1949). Within the Habsburg military colony, landed elites were removed and the local population forced to live under a strict communal property rights regime. To keep them subservient and keep expenditures low, the Habsburg state made very few investments in infrastructure (Blanc, 1957; Rothenberg, 1966). Similarly, people in the

4 Historical States, Imperialism, and Development

military colony were exposed to some violence including beatings and torture for disobeying the imperial authorities. At the same time, they were free from the feudal yoke that constrained the lives of the enserfed peasantry in the rest of the empire until the early 1800s (O'Reilly, 2006), while village communities in the military colony were self-sufficient.

Despite the formal abolition of the military colony in Croatia and Slavonia in 1881, and in Transylvania and the Banat almost three decades earlier, some of the institutions that were formally enshrined in law became informal and continued to exist. They outlived both the military colony and the Austro-Hungarian Empire itself. For example, while land inequality and an increasingly large landless rural proletariat characterized the economy of imperial Hungary after the abolition of serfdom in 1848, an equitable distribution of land and large communal properties remained predominant in the former borderlands. This went hand in hand with limited access to public goods, which can be observed to the present day. Public goods are goods that users cannot be excluded from accessing. At the same time, use by one person does not prevent access of other people or does not reduce availability to others (Oakland, 1987). Generally, examples of public goods include law enforcement, national defense, rule of law, access to clean air, (government-provided) roads, and schools. In the case of the legacy of the military colony, limited public goods can be observed when it comes to density of roads and railroads, historical access to hospitals, access to schools, and access to water and sanitation in the present day.

Similarly, the legacy of these institutions can also be traced at the level of political attitudes and social norms. These are transmitted over generations vertically from parents to children and can still be observed in differences right across the historical border. Such attitudes take the form of higher trust in family members and lower trust in outsiders. These are caused by exposure to communal properties which entailed segmentation across family clans and low inter-clan interaction. Equally, the violence and abuses exercised by the imperial government limited the ability of locals to participate politically, which is why locals are less likely to sign petitions and to participate in demonstrations. I demonstrate the persistence of such norms using historical data from qualitative primary and secondary sources as well as historical and modern statistical material. The quantitative results obtained from modern surveys are compatible with historical accounts by travelers and Habsburg bureaucrats that described the low level of social capital as a product of exposure to military colonialism. As such, the alienation from the state in modern times has historical roots. The results and the mechanisms of transmission shed new light on the relationship between centralized states and civil society. Unlike previous accounts according to which strong

centralized states and village intermediation can have positive effects on long-term development (Dell *et al.*, 2018), the Habsburg example demonstrates a more sinister side to this relationship. Despite working with local villages, which would in principle empower local communities, the patron–client relationships between the center and the periphery negatively affected development. This has to do with the creation of a civil society which is much more trusting of family members and distrusting of outsiders.

The historical literature on the Habsburg Empire concentrated on some political and economic factors contributing to lower economic outcomes. Such factors include the dissolution of the empire or the effects of imperial external borders. For example, a vast literature focused on the negative impact of its dissolution and made propositions to reintegrate the successor states (Hodža, 1942; Jászi, 1929; Schacher, 1932). Economists writing after World War I (Hertz, 1947; Macartney, 1937; Pasvolsky, 1928) and historians since (Bachinger and Lacina, 1996; Berend, 1998; Berend and Ránki, 1960; Feinstein *et al.*, 2008; Karner, 1990; Mosser and Teichova, 1991) have recurrently emphasized the economic penalties of political fragmentation in Central Europe. Recent studies challenged the traditional view of economic integration and convergence within the empire and the damage that successor states suffered after its dissolution (Berger, 1990; Cvrček, 2013; Schulze, 2007; Schulze and Wolf, 2011; Wolf *et al.*, 2011). Older and newer monographs are at odds over the political viability of the Habsburg monarchy in the nineteenth century (Judson, 2016; Taylor, 1948). More generally, however, the literature on the legacies of the Habsburg Empire focuses extensively on the external borders of the empire and the new borders codified in the peace treaties that followed World War I. As such the historical literature pays less attention to the more complex legacies of internal borders within the Habsburg monarchy such as those around the former military colonies. Thus, the book highlights important legacies of well-documented historical institutions that largely eluded researchers and can inspire a more complex understanding of how historical borders affected local institutions and constrained nation building.

This book speaks to a large literature on legacies of colonialism. The comparison between Western colonialism and Habsburg military colonialism is justifiable for a variety of reasons. On the most basic level, generations of historians who studied the Habsburg military frontier utilized the term “colonialism” to refer to the Habsburg military frontier in English (Rothenberg, 1960a, 1960b, 1966; Wessely, 1973), in French (Blanc, 1957; Boppe, 1900; Perrot, 1869), or in German (Kaser, 1997; Vaníček, 1875a). On a more abstract level, there are a few additional reasons justifying such a comparison.

6 Historical States, Imperialism, and Development

First, on a conceptual level, the basic institutional framework of the Habsburg military frontier matches closely the definition of colonialism proposed by philosophers. For example, Kohn and Reddy (2017) define colonialism as the “practice of domination, which involves the subjugation of one people to another.”¹ Sociologists provide more specific definitions indicating that colonialism “entails settlement and institutional transplantation” (Mahoney, 2010, p. 23). Others use the term colonialism to describe dependencies that are directly governed by a foreign nation and contrast this with imperialism, which involves indirect forms of domination. Irrespective of the finer conceptual nuances, colonialism has existed since ancient times. The Greeks, the Romans, or the Ottomans are famous examples of states which set up colonies (Kohn and Reddy, 2017). With the advancement of sailing technology, colonialism and imperialism, have become terms used to refer closely to the process of European settlement and political control over the rest of the world, including the Americas, Australia, and parts of Africa and Asia. Closely related to colonialism, imperialism is also a “process that involves growing control of one state over another state or *people*” (emphasis added) (Kohli, 2020, p. 7). However, as Kohn and Reddy (2017) contend, “colonialism is not restricted to a specific time and place.”

The second reason why the comparison with Western forms of colonialism is justifiable has to do with the stark distinctions that the Habsburg Empire made between the capital and people in the periphery. The subjects who were exposed to military colonial institutions were a distinct socio-legal category, in a similar way to many other cases of Western colonialism. Military colonists were formally called *grenzer* or *graničari* and were controlled by generals sent from Vienna, who were often perceived as “foreign,” contributing to the stark de jure and de facto distinction between the center and the periphery. Hence, the relationship between Vienna and locals in the Habsburg frontier is compatible with John Stuart Mill’s understanding of colonialism (Mill, 1861): a despotic government by outsiders which can lead to injustice and economic exploitation. The injustice and exploitation can take place through two mechanisms. First, external imperial delegates are unlikely to have the knowledge of local conditions and therefore would be unable to adopt effective public policies. Second, given the potential cultural, linguistic, and religious differences, the non-local imperial representatives are less likely to empathize with locals.

¹ Kohn and Reddy (2017) argue that there is extensive conceptual overlap between colonialism and imperialism, that latter involving “political and economic control over a dependent territory.” However, they do contend that the distinction between colonialism and imperialism is not clear or consistently made in the literature.

Finally, the most important reason why the term “colonialism” can be used for the Habsburg military frontier has to do with the fact that military colonies constituted a model for the institutional framework developed by Western empires overseas. The French intellectual and military elites were discussing the suitability of adopting the Habsburg military colonial model to ensure the protection of the French settlers from belligerent local tribes. In Chapter 7, I provide an extensive qualitative analysis of the different French discourses focusing on the adoption of Habsburg military colonies to ensure the protection of their territories overseas. The French imperial elites in the early 1800s used the term “colonialism” both in reference to their project in Algeria and to the Habsburg military frontier giving further credence to comparisons between European empires and Western imperial territories overseas. More importantly, such elite discussions provide valuable insights indicating that some of the institutions that Western empires adopted in their territories overseas in fact had their roots in Europe. Therefore, sea-based and land-based empires have more common ground than might have been suggested by some scholars (Barkey, 2008).

I contend that settlements on the Habsburg frontier are expressions of both imperial and colonial enterprises. Having people exposed to institutions dictated by the center which entail removal of property rights, living within a communal property rights regime, and having to show up for battle and do military patrol are indeed the expression of exerting control over a population. At the same time, living in settlements dictated by military generals sent by the center or having to move to a new military settlement are also examples of colonialism.

Given the institutional similarities between cases of Western colonialism and the Habsburg military frontier, it is worth investigating whether some of the empirical regularities that some scholars identified for the former also hold for the latter. This is relevant when it comes to long-term effects of historical limited provision of public goods, specific property rights arrangements, and historical exposure to violence. These are the three broad categories that much of the social science empirical research would fall under.

A variety of studies in the social sciences, including political science and economics, suggest that historical colonial experiences undermine access to public goods and economic development more generally (Dell, 2010; Guardado, 2018; Kohli, 2020; Lowes and Montero, 2021). For example, Dell (2010); Guardado (2018) contends that forced labor conscription together with the sale of offices by the Spanish crown in Latin America to incompetent governors are two important factors contributing to under-development in the region. Lowes and Montero (2021) also focus on one aspect related to labor conscription which has to do with the

8 Historical States, Imperialism, and Development

exertion of violence in Africa and how that was the basis for lower trust in the authorities, which in turn caused collective action problems, further undermining economic development. More recent works, however, have found that under certain circumstances, historical colonialism can in fact be associated with positive economic outcomes, despite colonialism being an immoral practice of subjugation, and despite many locals having lost their lives in the fight against the colonial oppressors. For example, Donaldson (2018) discusses and finds strong empirical evidence that British investments in transportation infrastructure projects aimed at facilitating further extraction contributed to decreased trade costs and increased real price gaps. Mattingly (2017, p. 435) also finds positive effects in China associated with Japanese colonization, which include persistent increases in schooling, health, and bureaucratic density as a result of “considerable investments in local state institutions.” Dell and Olken (2020) identify positive consequences associated with the construction of sugar cane factories in Dutch Indonesia which were aimed at processing sugar cane and transporting it to the capital. Such positive effects include provision of public education for locals, better transportation infrastructure, and a lower likelihood of work in agriculture. Recent studies on the economic history of colonialism, both in Africa and Asia, have presented more balanced accounts of legacies of colonization (Frankema and Booth, 2019; Gardner and Roy, 2020; Kohli, 2020).

This book engages directly with this literature by focusing on extractive institutions, typical for Western colonialism in the global south, which allowed the imperial elites to oppress and exploit their subjects. Extractive institutions are arrangements which cement the authority of one group to impose law and order at the expense of another. They contrast with inclusive institutions, which involve a wide stratum of society in economic and political life (Acemoglu and Robinson, 2012). The book also contributes to debates on state formation (Boix, 2015; Dincecco, 2011; Fabbe, 2019; Herbst, 2000; Migdal, 1988; North *et al.*, 2009; Tilly, 1990), social capital (Putnam, 2000; Putnam *et al.*, 1993), and the function and legacies of borders (Scott, 2010).

On a theoretical level, this research provides a conceptual framework for how we should think about legacies of colonialism using an interdisciplinary approach. Colonialism is indeed a deplorable practice whereby a stronger agent takes over a weaker agent usually for economic gain. The theoretical framework does not ever make colonialism normatively good even if the consequences associated with it can be economically good. In other words, the goal of the theoretical framework is never to exonerate the abuses, violence, and killings that many

Western empires utilized as part of their colonial enterprises but rather to provide a lens through which to analyze the conditions under which imperialism affects development, drawing insights from both economics and political science. I posit that developmental consequences are largely contingent on imperial investment, the transformation of local society under changing property regimes, and the presence of physical coercion. By deconstructing extractive institutions in this manner and investigating their impact on development, the proposed theoretical framework fills a void in the empirical literature and helps explain the mixed results it has offered. Benefiting from a historical case study richly documented in primary and secondary sources, the book illustrates how these colonial interventions and their developmental impact evolved in the process of historical change. This motivates the chronological structure of the narrative, which begins in the era of military colonialism itself, followed by its immediate aftermath, and finishes with persistent legacies.

Some scholars classified colonialism based on whether the dominant unit governed directly or indirectly (Gerring *et al.*, 2011; Iyer, 2010; Mamdani, 1996). Direct rule depended on an integrated state apparatus, the dismantling of preexisting political institutions, and the construction of centralized, territory-wide, and bureaucratic legal-administrative institutions that were controlled by colonial officials. Indirect rule on the other hand was a form of colonial domination via collaboration with indigenous intermediaries who controlled regional political institutions. At the same time, scholars such as Doyle (1986) and Lange (2009) make the distinction between direct and indirect rule based on the origin of the political agents: direct rule entails the appointment of executive agents appointed by the center and who are not born in the area where they are appointed. While there can be some level of delegation at the very bottom of the political hierarchy, if above the local power holders there are still imperial authorities in place, then that would still be an example of direct rule. The Habsburg military colony entailed some amount of delegation of power to local power holders. For example, until 1754, locals could choose their own magistrates and captains, which meant that the Habsburgs used indirect rule to some extent. However, if we follow the definition proposed by Doyle (1986) and Lange (2009), the presence of imperial authorities who control and manage local leaders, together with the highly centralized decision-making of the Habsburg Empire, would indicate that the military colony should be regarded as a direct form of rule.

Irrespective of the direct–indirect rule distinction, much of the literature takes colonialism as a monolithic concept, assuming that it was homogeneously enforced throughout the subordinate state’s territory. In

10 Historical States, Imperialism, and Development

other words, such literature pays less attention to the possibility that colonialism could be asymmetrically enforced throughout a country's territory. In addition, due to the exclusive focus on the effect of Western colonialism on non-Western states, the literature ignores that colonialism could be applied within the territory of the dominant state. One such example is military colonialism, which consisted of extracting labor from a designated territory and subjecting local populations to forced conscription. While originally, people might have had a choice about whether to be part of the designated territory of the military or not, this changed with time; thus, being part of the military colony was no longer a choice.

In problematizing extractive institutions and unpacking them in the Habsburg historical context, the book goes beyond mainstream interpretations of colonialism that draw primarily on the experience of Western imperialism in the non-European world. My narrative reveals that some of the colonial institutional practices commonly attributed to overseas imperialism had their roots in historical institutions within Europe. Extractive institutions can be associated with positive developmental outcomes when they entail substantial investment in local infrastructure and the protection of individual property rights. Positive examples include the case of forced labor in sugar factories in nineteenth-century Dutch Indonesia (Bosma, 2007; Dell and Olken, 2020) and forced labor in the construction of public works in Japanese Korea before World War II (Kohli, 2004). Sometimes, however, extractive institutions can thwart development when they generate violence (Mukherjee, 2018, 2021), remove or weaken property rights, and neglect public investment, as in the use of forced labor for rubber extraction in the Congo Free State in the late nineteenth century (Frankema and Buelens, 2013; Lowes and Montero, 2021), or under the forced labor regimes in silver mines of Spanish colonial Peru and Mexico (Brading and Cross, 1972; Dell, 2010).

Given that development is the outcome of interest in most of the analyses in this book, it is important to define it. Following Amartya Sen, development can be defined as “the expansion of ‘capabilities’ of people to lead the kind of lives they value – and have reasons to value” (Sen, 1999, p. 18). Under such conceptualization, development is more of a process which empowers individuals to accomplish the goals that they value. Components of development include wealth in the form of real income, growth of the economy, and the provision of public goods and services, which have the role of providing a basic infrastructure for individuals to create even more wealth. For example, access to education and health facilities further enables individuals to have long and informed lives. These are examples of public goods that are jointly used and where