

The Habsburg Empire and the long half-life of economic institutions

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How the long-gone Habsburg Empire is still visible in Eastern European bureaucracies today.

For centuries, Europe was ruled by empires wielding global influence. This column shows that these empires can leave behind a long-lasting legacy through cultural norms. Comparing individuals on opposite sides of the long-gone Habsburg Empire border within five countries, it shows that firms and people living in what used to be the empire have higher trust in courts and police.

Nobel laureate Elinor Ostrom emphasised that trust in the key institutions of the state, and their proper functioning, is crucial in facilitating collective action (Ostrom 1998). The courts and the police as the enforcers of rules in collective action have a crucial role to play in supporting trust in interactions between citizens and the state. Trust in state institutions and the rule of law has to be built up over time and needs to be sustained by repeated positive experiences. "Failed states" around the world witness how difficult it is to create well-functioning and well-respected institutions.

Long-run persistence of trust and corruption in the bureaucracy

Empires that ruled over long periods of time, sometimes for centuries, might have had enough time to build up formal and informal institutions that have lasted to the present day. In the context of Eastern Europe, the Habsburg Empire is considered to have had better administrative institutions than the Ottoman Empire or the Russian Empire (see Ingraio 2000). In contrast to these other empires in Eastern Europe, historians characterise the Habsburg bureaucracy as "fairly honest, quite hard-working, and generally high-minded" (Taylor 1948) as well as relatively well-functioning and respected by the population.

In a recent paper with Katrin Boeckh and Christa Hainz—specialists in the history and economics of Eastern Europe, respectively—we argue that this attitude created trust of inhabitants in the respectability of government institutions, with ensuing effects on the functioning of citizen-state interactions particularly at the local level (Becker et al. 2011). The formal institutions of the empire ceased to exist with the collapse of the Habsburg Empire after World War I, breaking up into separate nation states that have seen several waves of drastic institutional changes since. We might therefore wonder whether differences in trust and corruption across areas that belonged to different empires in the past really still survive to this day.

In investigating this question, we relate to the growing literature on different mechanisms by which history often has long-term repercussions for economic

development (see Nunn 2009 for a review). Our hypothesis is that political and judicial institutions that were in effect a long time ago may have formed cultural norms that prevail today, which therefore constitute a link through which distant history affects the present. Our cultural norms relate to the vital issue of the functioning of person-state interactions. A prime example of long-run persistence of cultural norms in person to person interactions are the differences in social capital between northern and southern Italy that have been ascribed to the experience of free city-states at the turn of the first millennium (Putnam 1993, Guiso et al. Sapienza, and Zingales 2008). More generally, variation in cultural values across European regions can be related back to historical differences in literacy and political institutions (Tabellini 2010).

An empirical test of the long-run effects of the Habsburg Empire

To test whether the cultural norms originating in the Habsburg Empire still endure today, we use the micro dataset of the 2006 Life in Transition Survey that provides measures of trust and corruption in Eastern European countries. In the most general setting, we focus on the 17 countries that comprise the successor states of the Habsburg Empire and their neighbouring countries. Drawing on a variety of historical sources, we coded the location of each observation in the dataset in terms of its historical affiliation with the Habsburg Empire. While our models control for a large set of individual-level factors such as education, religion, language, wealth indicators, and urbanity, a simple comparison of cultural measures across countries with diverse populations, geographies, and intervening experiences may yet be biased by other unobserved differences.

In a second step, we therefore exploit the fact that the former Habsburg border cuts straight through five countries today—Poland, Ukraine, Romania, Serbia, and Montenegro (see Figure 1). In these countries, communities on the two sides of the former Habsburg border have been sharing a common statehood for generations now. We can thus restrict the analysis strictly to variation within individual modern-day countries, in order not to capture unobserved country differences. To identify the genuine enduring effect of the Habsburg Empire, we further restrict our analysis to a comparison of individuals living in communities located within 200km of each other on either side of the long-gone Habsburg border. In effect, we devise a border specification that exploits the geographical discontinuity created by the Habsburg Empire in Eastern Europe.

Figure 1. The Habsburg Empire in Eastern Europe and our “Border Sample”



Notes: Habsburg border in maximum expansion, Habsburg border in 1900, borders of countries today, and location of the observations in the LiTS 2006 dataset contained in the border sample and in the 17-country sample. Source: Becker, Boeckh, Hainz, and Woessmann (2011).

Results on the persistence of trust and corruption

Our results suggest that the Habsburg Empire is indeed still visible in the cultural norms and interactions of humans with their state institutions today. Comparing individuals left and right of the long-gone Habsburg border, people living in locations that used to be territory of the Habsburg Empire have higher trust in courts and police. These trust differentials also transform into “real” differences in the extent to which bribes have to be paid for these local public services.

We complement these main findings by looking into a series of additional aspects.

- First, our results are robust when restricting the comparison groups to formerly Ottoman regions (instead of any non-Habsburg Empire).
- Second and interestingly, the Habsburg effect does not vary systematically with the duration of Habsburg affiliation, consistent with models that predict persistent effects of limited exposure.
- Third, we analyse whether Habsburg exposure fostered trust levels in state institutions in general, i.e. also in central public institutions like the president or the parliament. We find no significant evidence of such effects, suggesting that it was the local interaction with bureaucrats that was key.
- Finally, evidence from a firm dataset, the Business Environment and Enterprise Performance Survey, corroborates the general pattern of results derived from the household dataset. That is, firms on the Habsburg side of the long-gone border within the same country have higher trust in the courts.

Falsification tests

The results reported above suggest a long-run persistence of trust and corruption. Two potential criticisms of our results are that we might only be picking up differences in trust and corruption that existed even before the Habsburg Empire came into being or that we are only capturing a general West-East pattern. We address these issues in several ways.

- First, when using “placebo” borders 100km inwards or outwards of the actual Habsburg border, we do not find any effects. This indicates that our results capture a specific Habsburg effect, rather than a general West-East pattern.
- Second, we also do not find a Habsburg effect on individuals’ trust in other people and on their membership in civic organisations. This suggests that the Habsburg effect is not just picking up a general pattern of trust and social capital between people in general, but specifically an issue of citizens interacting with their local state institutions. The result also suggests that the Habsburg expansion is unlikely to have been selective, as it affects only a specific aspect of trust and not trust in general.
- Third, we verify that altitude does not vary significantly between the two sides of the former Habsburg border, thereby excluding obvious geographical differences between the Habsburg and non-Habsburg sample.
- Fourth, we do not find significant differences between the two sides in terms of medieval city size, access to medieval trade routes, and presence of a medieval diocesan town, suggesting that the Habsburg effect is not simply perpetuating obvious differences that existed before Habsburg influence.

Conclusion

Our results show that past formal institutions can leave a long-lasting legacy through cultural norms—even after some generations of being governed by other authorities. Nearly a century after its demise, the Habsburg Empire lives on in the people living within its former borders—in their attitudes towards and interactions with local state institutions. Comparing individuals living on either side of the long-gone Habsburg border within the same modern-day country, we find that respondents in a current household survey who live on former Habsburg territory have higher levels of trust in courts and police. They are also less likely to pay bribes for these local public services, demonstrating that the institutional heritage influences not only preferences and unilateral decisions but also bilateral bargaining situations in citizen-state interactions.

The specific mechanisms through which the Habsburg effect prevailed remain an open question for future research. The substantial waves of migration and displacement that accompanied the institutional disruptions in the successor states of the Habsburg Empire suggest that the cultural norms of behaviour are unlikely to have survived solely by intergenerational transmission within families. It rather seems that such channels as the persistent nature of continuous reciprocal interactions in local communities, the content of knowledge and behavioural patterns conveyed in schools, and the quality of human capital of bureaucrats and citizens may have also played a role.

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