

POLITICAL PARTY NETWORKS AND HUMAN DEVELOPMENT IN YOUNG
DEMOCRACIES: EVIDENCE FROM BOSNIA AND HERZEGOVINA

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ABSTRACT

Kiran Auerbach: Political Party Networks and Human Development in Young Democracies:
Evidence from Bosnia and Herzegovina
(Under the direction of Graeme B. Robertson)

According to mainstream theories, democracy improves human development because electoral competition strengthens accountability of politicians to citizens: If politicians do not improve citizen welfare, they risk losing power. These approaches, however, neglect pathologies of political competition in many young democracies where citizen participation is low and corruption of parties high, thus reducing political responsiveness to broad societal interests. I argue that in such environments, development is driven by *partisan accountability* whereby politicians remain loyal to party leaders since they control candidate lists and funnel resources to lower level politicians. Pro-development practices are adopted only to the extent that they improve a party's re-election chances and maximize its expropriation of budgetary resources. I provide preliminary evidence from the local level in Bosnia and Herzegovina, which suggests that vertical, intra-party relations between mayors and regional governments improve local business environments, while inter-party diversity in decision-making bodies increases political fragmentation and unemployment.

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INTRODUCTION

There is broad theoretical consensus that democracy makes leaders more accountable to the interests of ordinary citizens by expanding political competition. When citizens elect their leaders, politicians should respond by improving societal well-being rather than merely serving elite interests if they want to stay in power. Yet from the post-communist to the post-colonial world, this premise does not seem to reflect the reality of many young democracies. While democracy may provide some intrinsically important benefits on paper such as human rights and freedoms, this has not meant that general well-being has necessarily improved. In countries as diverse as Thailand, Ukraine, and Venezuela citizens are revolting against democratically elected leaders in the name of poor socio-economic conditions and rampant corruption. But why have these young democratic governments failed to substantially alleviate poverty, reduce inequality, and curtail corruption? Why hasn't democracy resulted in better socio-economic development?

In this paper, I attempt to unravel the disjoint between contemporary political economy theories linking democracy to human development, and the empirical realities faced in many young democracies. I argue that in order to understand variations in human development, we need to broaden our scope beyond a preoccupation with electoral competition and also incorporate other incentives and strategies that politicians use to retain power and control resources in their polities. I first argue that political participation is essential for deepening democratic accountability relations between citizens and elected politicians. However, many influential works have overlooked participation when discussing the importance of political competition, even though it is implicit in the causal chain that connects democratic governance

with human development. If citizens are not politically engaged, then politicians have more leeway to avoid addressing issues of mass concern such as redistribution, public goods provisioning, and poverty reduction because they need to please fewer people in order to win elections.

That manipulation of democratic mechanisms of accountability would be easier in young democracies is due to their general inexperience with representative institutions, weak rule of law, and nascent civil societies. Furthermore, if political parties are unable to make credible promises on broad policy agendas—as is often the case in transitioning countries—this creates an enabling environment for political leaders to subvert democratic accountability to citizens in favor of *partisan accountability*. In other words, politicians have greater incentives to comply with the interests of party leaders, since these leaders control party lists and funnel financial resources as rewards for loyalty to party interests. Weak citizen participation also enables politicians to maintain accountability to their elite party networks and cater to economically and politically powerful constituencies rather than ordinary citizens.

The ways in which politicians suppress participation and mechanisms of accountability is certainly an important question to be answered. However, my paper instead focuses on understanding the consequences of low participation and imperfect electoral competition. *I argue that in low participatory environments, socio-economic development is not driven by the interests of the broader citizenry as democratic theory tells us, but rather by the interests of political party networks.* Therefore we should expect variations in development to correspond to political configurations that alter the ability of politicians and their parties to maximize rents and gain enough votes to be reelected.

The political dynamics that I hypothesize to facilitate or hinder socio-economic development may at first appear counter-intuitive, as they contradict existing theories from the comparative politics literature. I argue that by changing scope conditions from a context of programmatic party competition and adequate citizen participation to one of low citizen engagement and weak programmatic platforms, prescriptions that emphasize the intensification of electoral competition as a means to constrain rent-seeking and improve linkage between citizens and elected officials do not hold. For example, contrary to Hellman (1998) and Vachudova (2005), I argue that the inclusion of more political actors in decision-making and the alternation of power between parties do not necessarily improve accountability relations.

By contrast, following the logic of partisan accountability, I argue that certain political configurations may have a positive effect on local development in young democracies with substantially imperfect democratic competition. I hypothesize that vertical, intra-party alliances between local and regional governments give mayors better access to additional resources via co-party members who control higher levels of government. While some of this money may be diverted into the coffers of rent-seeking politicians, some of it may also ostensibly be invested into the community in order for mayors to garner votes come election time. This is especially true when greater economic development actually increases the amount of budgetary resources that party members can redistribute among themselves and the public, thus perpetuating the investment cycle in corruption and public goods provision. Horizontal, inter-party diversity in decision-making bodies, by contrast, may increase collective action problems between politicians, leading to sub-optimal decision-making, and thus inhibit the provisioning of public goods and pro-development policies. My second hypothesis is therefore is that greater political party inclusion in municipal councils leads to worse development outcomes.

I investigate this process at the local level in Bosnia and Herzegovina (hereafter: BiH or Bosnia). Bosnia is an excellent testing ground for my analysis since it began its transition to democracy in 1995. Despite generally poor human development performance at the aggregate national level, we find a great deal of variation in development outcomes amongst the 144 municipalities. Yet, importantly, this variation in development occurs in an environment of dwindling political participation and a multiplicity of electorally competitive parties that are devoid of broad programmatic stances. In addition, BiH has a highly decentralized administrative structure that allows us to measure the effects of party networks at local and regional levels. I find preliminary evidence that suggests that vertical, intra-party relations between mayors and cantonal governments improve the local business environment, while inter-political party fragmentation in municipal councils has a negative effect on unemployment.

1. POLITICAL PARTICIPATION: THE MISSING LINK

Mainstream social science theories have traditionally held that democracy improves development by expanding political competition. In the comparative political economy literature, the most commonly cited theoretical explanation is attributed to Bueno de Mesquita's model from 2003. According to this view, democracy disperses political power from a small ruling class to the general population as a result of universal suffrage. Politicians therefore need to cater to a larger constituency—particularly poorer socio-economic strata of the population—in order to get elected over other competitors. This allegedly makes politicians more responsive to “bread and butter” issues of mass concern such as poverty, human development, and public goods (Siegle et al. 2004; Gerring et al. 2012).

Yet there continues to be a lack of empirical consensus over the matter. While several prominent scholars such as Lake and Baum (2001) and Deacon (2009) have linked electoral competition to greater public goods provisioning and a reduction in rent-seeking behavior, others including Przeworski et al. (2001) find that although development sustains democracy, regime type does not have an impact on economic growth. Furthermore, Tavares and Wacziarg (2001) claim that despite the fact that democracy gives greater weight to the poor in decision-making and reduces inequality, this effect is not robust enough to counteract an overall negative effect that the lack of physical capital accumulation (because of higher wages) has on economic growth.

One could argue that the lack of consensus is due to methodological imprecision since these cross-national studies must inherently rely on crude measurements for regime type, deal with missing data, and employ control variables that may not be able to take country-specific

effects completely into account in their sophisticated statistical models. Yet, I maintain that the reason there is no definitive answer after more than half a century of investigation into the relationship between democracy and development stems from a more fundamental oversight common to most of these studies. That is, by operationalizing democracy in terms of the openness of political competition, scholars assume that there will be enough political participation to hold politicians accountable to the interests of citizens. Dahl's definition of *polyarchy*, for example, directly assumes that the set of rights that democratic systems grant to their citizens, gives the latter the opportunity to formulate preferences, assert their demands to other citizens and to their governments, and have their voice weighted equally without discrimination. This process implies that political elites will be accountable to the public. Participation is therefore at least implicitly viewed as a constant present in most democratic contexts, even though few empirical studies have tested whether democracy implies high rates of participation.

Nevertheless, some arguments relax this assumption and seek to further specify the relationship between participation and democracy. O'Donnell points out that civil and political rights are not sufficient on their own to guarantee fairness of the political system. Similarly, according to Sen's capabilities theory, agency, which results in the formulations of demands for pro-poor, redistributive policies, depends not only on the existence of legal rights, but also on the institutional arrangements that support them, the way they function in practice, and the public's involvement with these institutions (Sen and Drèze 2002). For example, Pateman (1970) maintains that participation improves accountability relations by providing citizens with requisite democratic skills, as well as a feeling of efficacy, which justifies participating in politics. Her view finds empirical support from Diaz-Cayeros, Magaloni and Ruiz-Euler (2013), whose

natural experiment in Mexico demonstrates how civic engagement in local decision-making via traditional forms of governance does in fact improve the provisioning of public goods.

Moon and Dixon (1985), however, are less optimistic. They argue that while democracy is likely to indirectly increase the physical well-being of their citizens, it cannot be a force for redistribution if this agenda goes against the will of politically dominant classes. More recent studies have confirmed this conclusion, acknowledging that instead of leading to more egalitarian policies, democracy may serve to entrench pre-existing socio-economic hierarchies because the lower classes are frequently unable to overcome collective action problems and mobilize politically (Keefer 2013, Huber and Stephens 2012) or often lack the political capital to hold elites accountable, which prevents public policies from adopting a clearly pro-poor focus (Ross 2006, Tsai 2006, O'Donnell 2010).

A comprehensive empirical examination of the reasons for low political participation in young democracies would certainly be of value in itself. However, due to the scope of this paper I view low citizen participation as an aggravating condition that undermines democratic political competition and enables political parties to undermine responsiveness to citizen interests and the adoption of pro-development policies. In the following sections, I focus on the features of political parties that contribute to variations in development outcomes under the backdrop of weak citizen engagement in politics.

2. PATHOLOGIES OF POLITICAL PARTIES IN YOUNG DEMOCRACIES

Several scholars have emphasized that the type of linkage between political parties and citizens may affect accountability relations. In order to clarify the issue in the context of young democracies, we need to evaluate party competition through the lens of credible commitment problems. According to Keefer (2007), differences between policy outcomes between older and younger democracies are due to the problem that in many young democracies, political parties are not able to commit to broad policy agendas. Furthermore, Keefer and Vlaicu (2008) demonstrate that authoritarian legacies in which parties were not organized to respond to the broad interests of citizens may contribute to the lack of credible commitment. This leads political actors to instead target narrow groups of constituents through direct vote-buying or patrons since it is too costly to reach the entire electorate. If the electoral costs of corruption and rent-seeking are low—particularly when citizen engagement in politics is low—this results in more targeted goods, rent-seeking, and fewer public goods (Keefer 2007). In this way, the lack of broad political credibility skews competition and responsiveness to citizens, which therefore diminishes the importance of electoral competition as the driving force behind socio-economic development in young democracies.

The case of Eastern Europe is illustrative in this regard. For example, Innes (2014) argues that patterns of party competition are more important than institutional pluralism of competition. She contrasts “representative competition” in which politicians commit to democracy from the outset, with “corporate brokerage party systems” in which parties broker the relationship of the state and private sector for personal gain, engaging only enough in representative politics to retain their positions (Innes 2014). Grzymala-Busse (2008) also discusses the varieties of ways in

which state capture, or systemic rent-seeking, “goes hand in hand with state formation” and argues that party competition can constrain systematic rent-seeking and reduce state capture “when voters are both responsive and available” (p. 668).

The lack of programmatic parties capable of credibly committing to broad public policy agendas and low citizen participation therefore suggest a deeply flawed competitive environment. Despite these pathologies, however, the strength of political competition has most often been analyzed in terms of political party inclusion and pluralism: the number of parties, alternation, ideological distance, and margin of victory (e.g. Vachudova 2005, Frye 2002, Ceka 2013). According to many scholars, opening up competition should reduce corruption and improve accountability to citizens because the need to win votes drives political elites to promote societal well-being. For example, Hellman (1998) argues that the incorporation of more political actors and broad-coalitions constrain rent-seeking elites who hold up economic reforms. Similarly, Vachudova (2005) argues that political turnover and a strong opposition create incentives for elites to respond to broad citizen interests if they want to remain in power. However, these theories do not take into account that if rent-seeking and other forms of corruption are endemic, the inclusion of more political actors may not constrain such opportunistic practices. In addition, opposition parties may become co-opted if they cannot resist joining the rent-seeking bandwagon.

Furthermore, low participation and rent-seeking might reinforce each other, even in the face of strong political party competition. For example, Ceka (2013) argues that intense party competition in post-communist countries in Eastern Europe during the 1990s actually fueled distrust and low participation as it exposed corruption and created an image of political parties as rent-seekers rather than promoters of societal welfare. Electoral systems and size of government

may also enhance accountability problems despite party pluralism and turnover. In particular, Kunicova and Rose-Ackerman (2005) find that proportional systems are more prone to corruption than plurality systems because party lists empower party leaders over candidates (also see: Persson and Tabellini 2000, Chapter 9). Alternation of power is also less clear in PR systems as the number of coalition partners in government increase, thereby reducing voter-party accountability. Finally, these scholars hold that opposition parties have fewer monitoring incentives if there is a likelihood that they will need to form coalitions.

In sum, it is misleading to equate political competition with the existence of political party pluralism and the alternation of power through elections, because it ignores other political aspects of competition that might lead to a deeply flawed democratic system. In particular, the lack of programmatic parties that are capable of committing to broad public policies and low participation undermine party competition and reduce democratic accountability between political parties and citizens.

3. CONSEQUENCES OF IMPERFECT POLITICAL COMPETITION

The crux of my paper is to understand the causes of variations in socio-economic development in imperfect competitive environments, namely, once the assumptions of credible commitment and adequate citizen participation are removed. I argue that we must fundamentally change our understanding of how the politics of development work in many young democracies with these imperfect conditions of electoral competition. I claim that this is because in such contexts, development is not driven by an increased responsiveness to citizens as we would expect in a functioning democracy, but instead by the relations between politicians and their party networks in their quest for re-election and control over resources.

I explain the counter-intuitive nature of my argument in terms of Lipsey and Lancaster's general theory of second best (1956), which states that when one of the conditions needed for Pareto optimality is not met, then the other conditions may no longer be desirable. Applying this theory to contexts in which there is weak linkage between citizens and parties, this would mean that other democratic attributes—such as open political competition between many parties, broad coalitions, and the threat of turnover—may not control rent-seeking nor improve development. I argue that in low linkage environments, political responsiveness becomes skewed towards partisan networks rather than to citizen interests, which I refer to this as *partisan accountability*. Partisan accountability reduces the political incentives to improve citizen welfare in favor of loyalty to party interests, since party leaders reward loyal candidates with career opportunities and monetary resources. As a result, lower level politicians become passive to the interests of party leaders, which then trump citizen welfare. At the same time, the absence of programmatic parties intensifies the personalization of politics so that constituents vote for candidates based on

individual reputations rather than policy platforms. Politicians may therefore provide targeted goods in order to win just enough votes for re-election, which serves as an effective electoral strategy in the absence of credible programmatic parties.

In the following section, I elaborate on the concept of partisan accountability and use the underlying logic to explain how three distinct types of partisan constellations affect human development at the local level in such imperfect democratic contexts. I argue that vertical, intra-party relationships in which members of the same party are situated at different levels of governance may be beneficial for economic development if improvements in the economic environment provide party networks with additional monetary resources to expropriate. By contrast, I argue that horizontal, inter-party relationships—in which there is a high degree of political party diversity in decision-making bodies—would lead to a situation of political fragmentation in which political consensus for pro-development policies is more difficult to reach for politicians who represent competing party interests.

4. A THEORY OF PARTISAN ACCOUNTABILITY

According to partisan exchange theory in American politics literature, parties allocate distributive benefits in order to encourage loyalty. For example in one recent study, Cann and Sidman (2011) find that both Republicans and Democrats reward loyal partisan behavior through direct payment outlays, federal funding, and pork barrel projects that benefit members' districts and chances for re-election. In this way, vertical relationships resolve collective action problems related to voting unity by rewarding lower level politicians with increased access to funds via co-party members at higher levels of government. If this is a widespread practice in established democracies with a highly developed rule of law, then one could only imagine the extensiveness of such a practice in young democracies with more limited institutional checks and less public scrutiny.

Under this backdrop, I argue that political institutions do matter for citizen well-being in young democracies with imperfect political competition, but the mechanism functions more akin to what has been observed in authoritarian regimes in which there is strong partisan accountability that overrides responsiveness to broad citizen interests. For example, Landry (2008) claims that the Chinese Communist Party's tightly disciplined appointment and promotion procedures for government officials has fostered stability of the political regime, even under conditions of decentralization. Similarly, Reuter and Robertson (2012) provide evidence that loyalty of subnational appointees in electoral authoritarian regimes such as Russia—exhibited by producing large margins of victory in elections for the ruling party—has been a much more salient indicator of performance for party leaders than competency (operationalized as economic development). Furthermore, Dolenc (2013) argues that authoritarian legacies and

party control over regime change may stunt the development of rule of law and delay democratization. In this vein, she provides evidence which starkly contrasts the more successful democratization trajectories of Central East European countries compared to their Balkan neighbors.

Partisan accountability centers around two key incentives: party leaders reward politicians with career prospects and financial resources. In exchange, politicians remain loyal to the interests of their parties, thus resolving collective action problems. Consequently, in multi-party settings, political parties compete over the expropriation of public resources and attempt to hurt other parties in this zero-sum game. Since politicians depend on party leaders to include them in party lists and to funnel them with monetary resources, politicians tacitly comply with party interests, even though this may contradict citizen welfare. More explicitly, the consequence of strong partisan accountability is that citizen welfare is desirable only to the extent that it improves the utility of parties to maximize their control of resources.

Therefore, in young democracies with low linkage between citizens and politicians, I argue that partisan accountability serves as the mechanism which explains why certain political configurations may improve economic development, while other configurations may hinder it. First, I argue that intra-party accountability between lower and higher levels of governments would be most influential for improving socio-economic development at the local level because it would increase budgetary revenues that come from business and income taxes, licenses, fines, etc. while simultaneously decreasing social welfare benefits needed to be spent on unemployed and poor residents. These additional budgetary resources could be used to expand the coffers of mayors and higher level party members who control electoral lists, while some of it could be transferred to politically important constituencies or invested in visible public services in order to

improve a mayor's chances for re-election. The second scenario that appears advantageous would be if one party were dominant in both local executive and legislative bodies. Greater party monopoly over decision-making bodies would decrease collective action problems since co-party members would have the same incentives to remain loyal to the executive (i.e. mayor) and party members at higher levels. Majority status would increase a mayor's control over budget allocation and policies would give mayor ability to influence development and reap greater monetary and electoral benefits.

Finally, I present a third scenario in which greater inclusion of competing parties in legislative bodies would lead to fragmented decision-making and hinder development outcomes. Using the logic of partisan accountability, this scenario contradicts Hellman's prescriptions of greater inclusion of diverse political actors. Instead, I argue party diversity would increase collective action problems in decision-making bodies, since representatives of different parties compete with each other over resources and do not have incentives to cooperate. We would expect to see more deadlock, pork, log-rolling, and generally more inefficient and suboptimal policy outcomes. My argument also finds support from Roubini and Sachs 1989, Alesina and Perotti 1994 who find that greater number of parties in government are associated with higher public spending and deficits because there is a lack of political consensus which leads to deadlock. Likewise, Balassone and Giordano (1999) find that deficit spending increases when there is greater preference polarization between parties and when bargaining power is more evenly dispersed among coalition partners. I go further and also argue that in local politics, inter-party fragmentation should hurt socio-economic development since improvements in community development and service delivery, which are attributable to the mayor, conflict with the interests

of other party members in municipal councils who might benefit politically from mayoral failures.

In young democracies with imperfect political competition, we therefore find a perverse situation in which we should expect economic development to improve if it directly benefits party interests as opposed to merely benefiting citizens. This discussion leads to three hypotheses:

H1: Greater representation of the mayor's party in the cantonal legislature should have a positive impact on human development.

H2: Majority status of mayor's party in municipal councils should have a positive impact on human development.

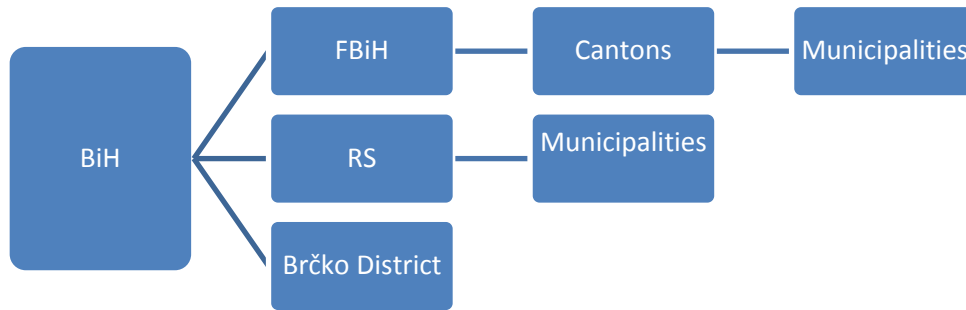
H3: Inter-party fragmentation in municipal councils should have a negative impact on human development.

5. CASE SELECTION AND BACKGROUND

I evaluate these hypotheses in the context of a young democracy, Bosnia and Herzegovina. Bosnia began its transition to democracy as a result of an internationally-brokered peace settlement in 1995, known as the Dayton Peace Agreement (DPA), which established the current Bosnian Constitution as one of its annexes. Prior to this, BiH had no experience with representative democracy.

The Constitution of BiH institutionalized a decentralized, ethno-federal administrative structure consisting of two roughly equal territorial units called entities: the Federation of BiH (FBiH) and Republika Srpska (RS), and a small, multi-ethnic territory of equal status called Brčko District. The Federation is overwhelmingly populated by two ethno-religious groups—Bosnian Muslims (also referred to as “Bosniaks”) and Croats, while the Republika Srpska is mainly populated by Serbs. The Federation is then divided into ten cantons that comprise an additional layer of governance; below the cantonal level there are 79 municipalities. The RS has a more centralized structure in which municipalities are the only administrative units below the entity level government (see Appendix 1 for a map of subnational divisions in BiH).

Figure 1: Decentralization in BiH



Due to the consociational, ethnic power-sharing structure that was institutionalized by the DPA, the political landscape in BiH consists of a multiplicity of political parties that mostly form around ethnic cleavages. However, political competition occurs mainly between parties with the same ethnic affiliation rather than between parties representing different ethnic groups. The reasons underlying the intra-ethnic arena of competition can be traced to rigid ethnic quotas in governmental bodies, the high degree of constitutional powers which Bosnia's two entities enjoy, plus major demographic shifts after 1995 which have led to increasing ethnic segregation.¹

Underneath the nationalist rhetoric of most political parties, which aims at mobilizing constituents from respective ethnic groups, no party in BiH can be said to espouse a concrete programmatic agenda, nor do they attempt to make credible commitments on broad policy areas apart from ethnic fear-mongering. This lack of credible commitment, the proliferation of political parties, and general instability of the party system has led to a personalization of politics,

¹ Executive and legislative bodies adhere to strict ethnic quotas at the state and entity levels. For example, the Presidency of BiH consists of three members in order to accommodate Bosniak, Croat, and Serb ethnic groups. In this way, political parties that represent different ethnic groups most often do not compete for the same elected positions, which is why party competition mainly falls within an ethnic block rather than between ethnic blocks. See: Annex 4 of the *General Framework Agreement for Peace in Bosnia and Herzegovina*, and Constitutions of the RS and Federation of BiH, available at <http://www.ohr.int/ohr-dept/legal/const/>.

particularly at the local level, in which citizens vote on “common sense” such as ethnicity or the reputation of an individual candidate.²

The lack of political party development in BiH can also be traced to authoritarian legacies that the country inherited as a formal republic of the former Yugoslavia from 1946 until BiH’s declaration of independence in 1992. This administrative status gave political elites in BiH substantial experience with decentralized authoritarianism. As Landry (2008) details in his work, Yugoslavia was a unique case, having by far the highest degree of fiscal decentralization of any authoritarian regime.³ This legacy may also help explain why partisan accountability remains so strong despite BiH’s almost 18 years of experimentation with democracy. It may also put into perspective the high degree to which municipal governments are dependent on cantonal and entity level governments for fiscal transfers, and why several competencies and tax generating activities are shared amongst different levels of government, with municipal governments receiving small portions.⁴

In 2006, municipal governments were formally strengthened through local self-government laws in both entities, as well as in Brčko District. This move delegated specific developmental competencies to municipal units, such as infrastructure, zoning, local economic policies, and public financing through taxes and other means (See: Law on the Principles of Local Self-Government in the Federation of Bosnia and Herzegovina 2006 and Law on Local Self-Governance (RS) 2006). However, this has led to a considerable amount of confusion of

² For a discussion, see Zloklapa (2009).

³ The mean share of subnational expenditures in Yugoslavia was 74.86% from 1977 to 1990 compared to the next largest rate of 54.90% in China from 1958 to 2002 (Landry 2008, p.7).

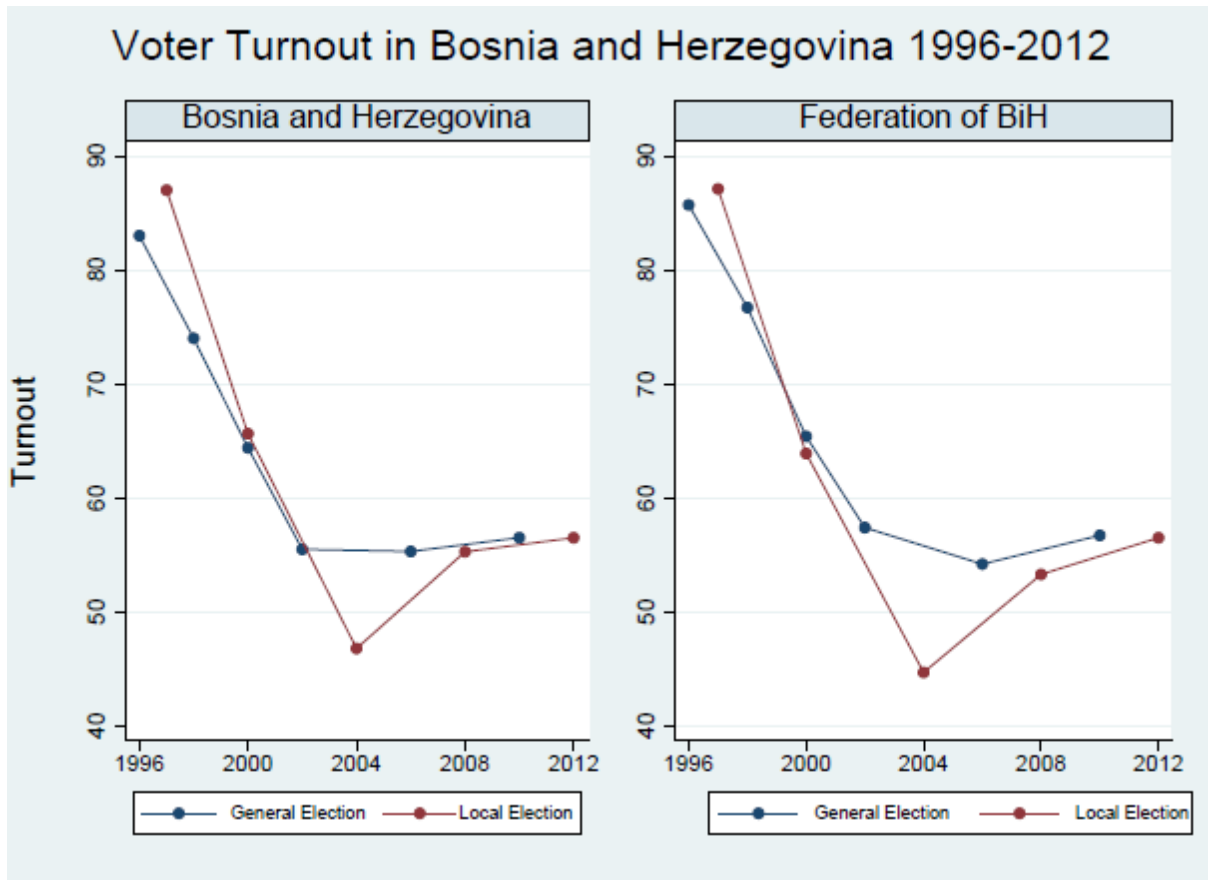
⁴ For example, in FBiH, municipal governments receive “not less than 28.5% of taxes from wages” and only 8.42% of the entity’s revenue, compared to 36.2% for the Federation and 51.48% for the cantons (Law on the Allocation of Public Revenues in the Federation of Bosnia and Herzegovina 2006).

competencies between different levels of government, as well as a general disdain among citizens to interact with local-level government institutions (Stojanović and Bajrović 2008, McNeil et al. 2009). Criticisms of municipal governments for their lack of transparency, corruption, poorly trained staff, and poor service delivery have led the public to view them as insufficiently equipped and disinterested in addressing the needs of their communities. For example, a World Bank study from 2009 found that the public is poorly informed even about basic functions and activities of municipal governments “with only 20 percent...actually willing to participate in local government;” while 70 percent “believe local government decisions never or almost never reflect their priorities,” and two-thirds felt that “local government’s decisions are driven by political party interests” (McNeil et al. 2009, p.74). In another survey, 85% of BiH citizens view local politicians as representing party, personal interests, or interests of important individuals rather than the interests of the community (Zaklopa 2009, p.64).

In Figure 2, I present voter turnout in local and general elections, which is the number of registered voters who actually voted. Although we can see a sharp decline over time, these numbers overestimate meaningful political participation and should be interpreted with caution, since the practice of vote-buying is widespread throughout the country.⁵

⁵ See for example: “Buying votes for prosperity: Lijanović shared three million marks earmarked for agriculture with his voters.” 12 March 2014. <http://depo.ba/front/tri-miliona-maraka-namijenjenih-za-poticaaj-poljoprivredilijanovic-podijelio-svojim-glasacima>.

Figure 2: Voter Turnout in BiH



The widely shared belief that policies reflect the interests of political parties and politicians rather than the needs of citizens, may explain why most citizens disdain from participating in the political sphere.⁶ Yet the lack of an informed and engaged citizenry has also given politicians more leeway to expropriate wealth, since monitoring and sanctioning practices by civil society are limited. As a result, most citizens believe that mayors, who personify

⁶ For more on this topic, see Pateman's (1970) discussion of efficacy and participation.

municipal governments, are more powerful than the pressures of partisan accountability allow them to be (Zaklopa 2009).

Indeed, this perception of mayors has been reinforced with introduction of first-past-the-post mayoral elections in 2009, while municipal council members continue to be elected on a proportional basis through open lists. Direct elections make the individual reputation of mayors particularly important⁷ and provide an electoral incentive for mayors to invest in community development since a small number of votes often make the difference between winning and losing reelection. Yet this also intensifies the dilemma between electoral and partisan accountability, since mayors remain subject to party lists and must therefore maintain the confidence of their parties in the same manner as politicians who are elected via PR lists.

To reiterate, my hypotheses follow the logic of partisan accountability in which lower level politicians (mayors, municipal council members) are loyal to party leaders. The incentives revolve around party leaders' control of political candidacy through party lists and rewards such as rents and fiscal transfers from higher levels of governments. My first hypothesis is that representation of a mayor's party in cantonal governments will improve local economic development for the following reasons: (1) It increases the wealth of municipal and cantonal budgets due to income taxes and revenues from local businesses as well as decreasing social welfare expenditures; (2) Partisan loyalty provide additional financial resources from the cantonal government which can also be used in capital expenditures and investments in service delivery to improve the electoral chances of the mayor; (3) These investments will often involve

⁷ For example, it has often been the case that a mayor may be elected by a big majority while his party gains few seats in the municipal council. In addition, since parties are frequently in flux, switching one's party affiliation does not necessarily hurt mayors electorally (for a discussion see Zloklopa 2009). One prominent example is the mayor of Stari Grad Sarajevo, Ibrahim Hadzibajrić, who won by a margin of 14% in 2008 while a member of the Party of Democratic Action (SDA). After switching to the Alliance for a Better Future (SBB) in 2012, he received 45% of the vote, which translated to a 26% margin of victory (BiH Central Election Commission).

public utility companies (which are managed by municipal governments in FBiH) or construction companies, which are excellent means to disguise corruption and rent-seeking through public contracts (Zlokapa 2009).

Second, when the mayor's party has a majority in the municipal council, council members would display loyalty to the mayor and canton according to the logic of partisan accountability. This would give the mayor's party increased control over budgetary allocations and allow him to increase his influence on economic development. Third, I hypothesize that the inclusion of many parties in municipal councils would lead to a lack of political cohesion and fragmented decision-making and blockage, since parties vie with each other for the control of resources. Because municipal council members and the parties they represent compete for the mayoral position, in fragmented contexts they would also attempt to block service delivery and pro-developmental policies in order to hurt the re-election chances of the mayor.

6. DATA AND OPERATIONALIZATION OF VARIABLES

Sample

My sample consists of 70 municipalities in the Federation of BiH, which corresponds to slightly less than half of the total 144 municipalities in the country. By limiting my sample to municipal units in the Federation, I compare subnational units which contain identical institutional structures to one another. I exclude nine municipalities in the Federation that belong to cities, or are municipalities that have an atypical business environment.⁸ There are two reasons for this: (1) formally recognized cities have an additional layer of governance (city councils and a mayor of the city); (2) I suspect that relationships between political parties and development undergo different processes in the largest cities of the Federation because international donors and the entity government tend to be much more active in these areas. This privileged status means that development and governance projects are implemented at a much higher rate in cities than in smaller, less urbanized municipalities.

More generally, a cross-municipal analysis within one country allows me to automatically control for country-specific factors. It also allows me to collect fine-grain data and move my analysis as close as possible to the process under investigation, namely, the effects of various political relationships amongst local and cantonal elites on socio-economic development at the municipal level. My reasoning behind a comparative municipal level analysis is that it will

⁸ These are the following municipalities: Sarajevo (Centar, Novi Grad, Novo Sarajevo, Stari Grad); Ilidža, Mostar, Neum, Tuzla, Zenica. I reason that Neum has an atypical business environment because of its geographical location on the Bosnian coast and its proximity to Croatia, which lends itself to high levels of tourism and financial flows. It also has one of the lowest unemployment rates in FBiH, from a low of 23% and high 29% from 2004-2012 (Federal Office of Statistics).

enable me to better understand the causal mechanisms at work and to apply the most salient variables that could eventually be applied to a wider universe of cases. By contrast, large-N, cross-national comparisons would not enable me to fully understand which intermediary mechanisms are directly or indirectly causing variations in the dependent variable, and whether they are the same across countries.

Although I have presented several advantages for my empirical analysis, there also exist limitations. For example, despite my attempts to control for structural factors, it is possible that the observed governance linkages may be specific to Bosnia and not generalizable. It is also possible that restricting my empirical agenda to the municipal level (and narrowly to the cantonal level when looking at vertical relationships) may exclude other relevant linkages at the cantonal, entity, or state level.

Dependent Variables

I incorporate two dependent variables as indicators of economic development: annual changes in unemployment rates and the number of locally registered businesses. These variables comport to an explicit competence of local governments; namely, “the realization of services for economic growth and job creation” (Law on the Principles of Local Self-Government in the Federation of Bosnia and Herzegovina 2006, 2).

Rates of unemployment are measured as the percentage of unemployed people (job seekers who are registered in the official employment services) in the total active labor force. I calculate the difference in percentage points between consecutive years using data from 2004 through 2012. While unemployment is one of the most accessible measures of development, it is also entails limitations. First, unemployment is not a direct measure of political party influence

on development, since there are several confounding factors that may also affect unemployment rates.

The second dependent variable, annual change in the number of registered businesses, contains two substantive features. First, it indicates the overall economic vibrancy of a community, including entrepreneurship and the degree of economic competition. In addition, the ability to register a business also implies that the party registering a business has achieved a basic floor of human development required that enable the individual(s) to invest into a new business. Second, this variable is also indicative of the complexity and transparency of business registration and licensing procedures. In this sense, it also indicates the ease of doing business in a community and the degree of corruption. That is, if licensing procedures are complex or opaque, then one would need to resort to bribes and clientelistic relationships with bureaucrats and politicians in order obtain business permits.

Politicians also have incentives to improve the business environment and to reduce unemployment. This is because official unemployment accounts for the number of employees who do not pay income taxes and whom are eligible for social benefits, so that a greater number of businesses and lower unemployment would translate into greater public revenue in the form of income tax, business taxes and fines, and fewer social benefits that would need to come out of municipal and cantonal budgets. For example, value added tax (VAT) is directed to the state level government where a board consisting of three ministers of finance and three experts meet every few months to decide how to allocate the funds to the two entities, with entity governments allocating the funds at their own discretion (Indirect Taxation Authority of Bosnia and Herzegovina, 2008). Second, business registration fees, licenses and taxes involve entity, cantonal, and municipal levels of government. These features of business registration imply that

politicians at all levels of government have incentives to encourage new businesses since this would increase the size of their financial resources.⁹

Business registration in BiH is divided into three sectors: legal entities, parts of legal entities, and crafts. Legal entities are considered to be legally owned and registered businesses, while “parts of legal entities” include “organizational units in the business entity’s structure (workshops, storages, offices, depots, etc.) situated on a geographically defined place (site)” (FBiH Statistical Yearbook 2011, 45). “Crafts” refer to individually owned businesses that deal with natural resources or artisanal products (FBiH Statistical Yearbook 2011, 45). For my project, I calculate the total number of registered legal entities and crafts for the years 2004-2012.

Raw data for both dependent variables comes from the Federal Institute of Statistics, an official government agency that annually compiles socio-economic and demographic data at the municipal level. I measure my dependent variables as annual change so that this variable corresponds to improvements over time rather than aggregate unemployment levels. This allows me to make comparisons across municipalities regardless of a municipality’s starting point.

Independent Variables and Controls

I test three independent variables of interest. The first is an indicator of political party fragmentation at the municipal level, which I measure as the number of political parties in the municipal council divided by the total number of seats in the council. In other words, small values close to zero indicate greater party homogeneity (i.e. one political party controls all seats

⁹An exception would be if a politician has ties to a profitable company and would rather grant it monopoly status rather than increase market competition by encouraging new businesses. Yet it is less likely that businesses registered at the municipal level would be extremely profitable compared to entity level companies (notably telecommunications) which would be more threatened by competition.

in the council), whereas a value of 1 would indicate complete fragmentation (each party controls only one seat in the council). I expect inter-party fragmentation to be associated with worse human development and unity to correspond to better human development outcomes.

The second independent variable that I incorporate corresponds to veto players in municipal councils, namely whether the mayor's party has a majority of seats in municipal council. I code this as a dummy variable where 1 refers to the mayor's party controlling 60% of the seats in the municipal council. I choose this threshold since decisions are passed by two-thirds majority, and I reason that it is likely for the mayor's party to pick up a few additional votes from municipal councilors to pass legislation.

I operationalize vertical, intra-party relationships (H1) as the proportion of seats that the mayor's party has in the cantonal legislature. Values of zero indicate that the mayor's party has no representation at the cantonal level, while values of one would indicate that the mayor's party is the only party in the cantonal legislature. I coded and compiled all independent variables from official election results confirmed by the Central Election Commission of BiH. Municipal elections took place in 2004 and 2008 while cantonal elections took place in 2002, 2006, and 2010. Since all elections take place in October, I lag these variables by one year to comport to the years of interest (e.g. for the year 2008 I use municipal election data from 2004 and cantonal election data from 2006). My reasoning is that it would take one year for politicians to exert influence on policies and development. However, one of the limitations of my independent variables is that I am not able to take post-election coalitions into account, since coalitions at the municipal level operate at a very informal level, with information not publically available, and they do not correspond to national-level coalitions.

Table 1: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Party Fragmentation	560	.259	.108	0	.545
Mayor's Representation in Canton	560	.275	.133	0	.571
Mayor Majority (dummy)	560	.136	.343	0	1
Population	560	22785.33	15910.46	645	62741
Population Density	560	100.414	84.665	2.6	485.9
Registered Businesses (annual change)	560	31.346	105.266	-387	626
Unemployment (annual change)	556	.288	2.907	-13.66	11.73

I employ two control variables that also come from the Federal Institute of Statistics in BiH: population and population density. I use population as a control because municipalities that are more populous tend to have more vibrant business environments with more opportunities for formal employment. I therefore expect population to be correlated better economic indicators. For the regression, I divide population by 1000 in order make the magnitude of the coefficient estimates more easily interpretable. Taking the natural log of population is a common practice, since the marginal effect of population on the dependent variables decreases as population increase. However, I have omitted the largest cities from my sample, and a scatterplot reveals there is no systematic pattern between population and the dependent variables that would justify a log transformation.¹⁰

Population density, measured as the number of inhabitants per square kilometer, is an indicator of urbanization in a municipality. Urban centers have an advantage over rural

¹⁰ I also ran the regression with log transformations for population and population density, and the results contained the same levels of significance.

communities, since compact residential settlement patterns favor a greater number of businesses, job opportunities, services, and infrastructure connecting residents to business centers and industrial parks. In contrast, rural areas favor the agricultural sector, which is more difficult for municipal governments to regulate and often goes undocumented. In private business opportunities since they are present in greater numbers.

Ethnic composition is a control variable that is currently missing from my project. Although I do not believe that this is a principal factor driving economic development because municipalities have become increasingly mono-ethnic, the omission in the case of an ethno-federal country such as BiH is noticeable. The main reason for this is due to the fact that BiH did not conduct an official census from 1991 until October 2013. The results of the census have not been yet been released, and this also means that the indicators for population size and population density are based on estimates by local governments, NGOs, and international organizations operating in BiH.

7. EMPIRICAL DESIGN

I first ran a random effects model for 70 municipalities covering the years between 2004 and 2012. Because the dependent variable is measured as annual change, this time period corresponds to eight observations per municipality. The reason for this timeframe is based on the Laws of Local Self-Government that were adopted in 2006, which established clear standards and competencies for local governments. The 2004-2005 interval therefore serves as a baseline. In one model I regressed differences in annual unemployment percentage points on the proportion of the number of political parties per total seats in municipal councils, mayoral party majority, and on the proportion of seats of the mayor's party in the cantonal legislature.¹¹ In the other model, I regressed the number of registered legal entities and crafts on the same independent variables. In both random effects models I used population size and population density as control variables.

I assumed that a random effects model (shown in the Appendix) would accommodate the clustered nature of municipal data over eight years and distinguish between inter and intra-municipal correlations. A Hausman test confirmed random effects model was favorable over fixed effects model, since the test statistic is greater than 0.05. However, after running the model, I discovered that variance of the group-level residual term turns out to be zero. This indicates that the only unexplained variance occurs at the municipal-year level, or in other words, across

¹¹ Since fragmentation and mayoral unity variables would seem to be inversely related, I ran a pairwise correlation between the two variables (Table 3 in the Appendix), which is only -0.26. In addition, I also ran models with only one of these variables at a time. In the business model, this did not affect the results in any significant or substantive way. However, in the unemployment model, when I excluded whether or not the mayor had a majority, party fragmentation lost statistical significance, and decreased by 1.5 percentage points. When I excluded party fragmentation, the impact of mayoral majority on unemployment decreased and became significant only at the .05 level. This would suggest that both fragmentation and mayoral majority variables are important and relevant variables.

municipalities. In other words, the explanatory power comes from variations across municipalities rather than variations within clusters of municipalities over the eight years.

While this result was unexpected, it does make intuitive sense because both dependent variables are being measured as differences in the number of registered businesses in consecutive years, or differences in unemployment rates in consecutive years, rather than levels (total number of businesses or percentage of unemployment for each year). Moving from aggregate levels to differences between these levels in consecutive years takes away group level clustering, so that quite literally, I have *completely* removed all unit differences. Therefore, a simple OLS model yields identical results. This is not problematic theoretically, since my goal is to understand variations in human development across municipalities, not merely within a municipality over time. In addition, measuring the dependent variable as a difference between levels in consecutive years makes the most sense, since I am interested understanding improvements economic development. If I chose to measure the dependent variables as levels, this would have been misleading since I would not be taking into account the fact that municipalities have different economic starting points. I present the equations for the two OLS models as follows:

$$\begin{aligned} \text{Registered Business}_{\Delta} = & \\ B_0 + B_1(\text{Fragmentation}_{it}) + B_2(\text{Mayoral Majority}_{it}) & \\ + B_3(\text{Cantonal Representation}_{it}) + B_4(\text{Population}_i) & \\ + B_5(\text{Pop. Density}_{it}) + \varepsilon_{it} & \end{aligned}$$

$$\begin{aligned} \text{Unemployment}_{\Delta} = & \\ B_0 + B_1(\text{Fragmentation}_{it}) + B_2(\text{Mayoral Majority}_{it}) + B_3(\text{Cantonal Representation}_{it}) & \\ + B_4(\text{Population}_i) + B_5(\text{Pop. Density}_{it}) + \varepsilon_{it} & \end{aligned}$$

8. RESULTS AND INTERPRETATION

In the first model with the annual change in locally registered businesses as the dependent variable, we see that representation of the mayor's party in the cantonal government is significant and in expected direction. Going from no representation (a mayor's party has no seats in the cantonal legislature) to full representation (mayor's party is the only party represented in the cantonal legislature), leads to an increase in approximately 107 registered businesses at the municipal level. This finding is significant at the 0.005 level. However, since the range of this variable falls between 0 and 0.571, we never actually observe a full one-unit change in my sample. Therefore, I also provide the effect of a 2 standard deviation change to make the coefficient estimates more interpretable.¹² A two-standard deviation change in cantonal representation of the mayor's party is therefore associated with an increase in approximately 29 businesses. This seems to suggest that better access to material resources leads to a more competitive business environment and entrepreneurship, while inter-party horizontal relationships appear to have no effect on the business environment. Population size is also significant and positively related to development, although the magnitude is very small. Specifically, an increase of 1000 inhabitants is associated with an increase in 1 registered business.

¹² I take one standard deviation above the mean and one standard deviation below the mean and multiply their difference by the coefficient estimate.

Table 2: OLS Regression Results

	Businesses		Unemployment	
	Coefficient	2 SD Change	Coefficient	2 SD Change
Party Fragmentation	13.595 (51.14)	3.0	3.969** (1.43)	0.857**
Mayor's Rep. in Canton	107.655*** (35.14)	28.63***	0.739 (0.98)	0.196
Mayor Majority	-0.733 (14.03)		1.142*** (0.39)	
Population	1.006*** (0.00)		0.025** (0.00)	
Population Density	-0.053 (0.06)		-0.004* (0.00)	
Constant	-19.294 (23.19)		-1.288* (0.65)	
R^2	0.04		0.03	
N	560		560	

Notes:

Standard errors are in parentheses below coefficients.

*** $p < 0.005$; ** $p < 0.01$; * $p < 0.05$

In the second model with changes in unemployment rates as the dependent variable, we see that party fragmentation corresponds to an increase in unemployment rates. Explicitly, when going from complete unity (one party controls all seats) to complete fragmentation (where each seat in a municipal council are occupied by a different party), this leads to an approximately 4 percentage point increase in unemployment, and is significant at the 0.01 level. Again, since we never observe a full unit change in our sample, I include the effect of a two standard deviation change, which is associated with an increase of 0.86 percentage points in the unemployment rate. The second finding in regard to the mayor's party having a 60% majority in the municipal council is unanticipated. Rather than improving development, when a mayor's party has a majority in council, this leads to an increase in unemployment by approximately 1 percentage point. There are a few possible explanations for this finding. First, a mayor may lack

competence, a factor that has not been incorporated into either model. As Zlokapa (2009) discusses, mayoral turnover is frequent, which attests to the political inexperience of mayors who often pilfer budgetary resources into their pockets without providing any tangible investments into the community (or at least giving the appearance of providing some public benefits). Second a mayor may not be able to improve economic development without patronage at cantonal level.

The indicators used to measure local development are undoubtedly limited. While business registration might be a satisfactory measure of economic vibrancy and corruption, unemployment is prone to confounding factors that are not included in the models. Therefore, for the future, I seek to incorporate more direct indicators of local development and corruption, such as infrastructure (paved roads, residential and business construction projects, budget allocations etc.). In addition, I would also like to incorporate additional control variables, particularly demographic, when data from the 2013 census is released. In particular, it would be interesting to see if ethnicity has a significant impact on local economic development.

CONCLUSION

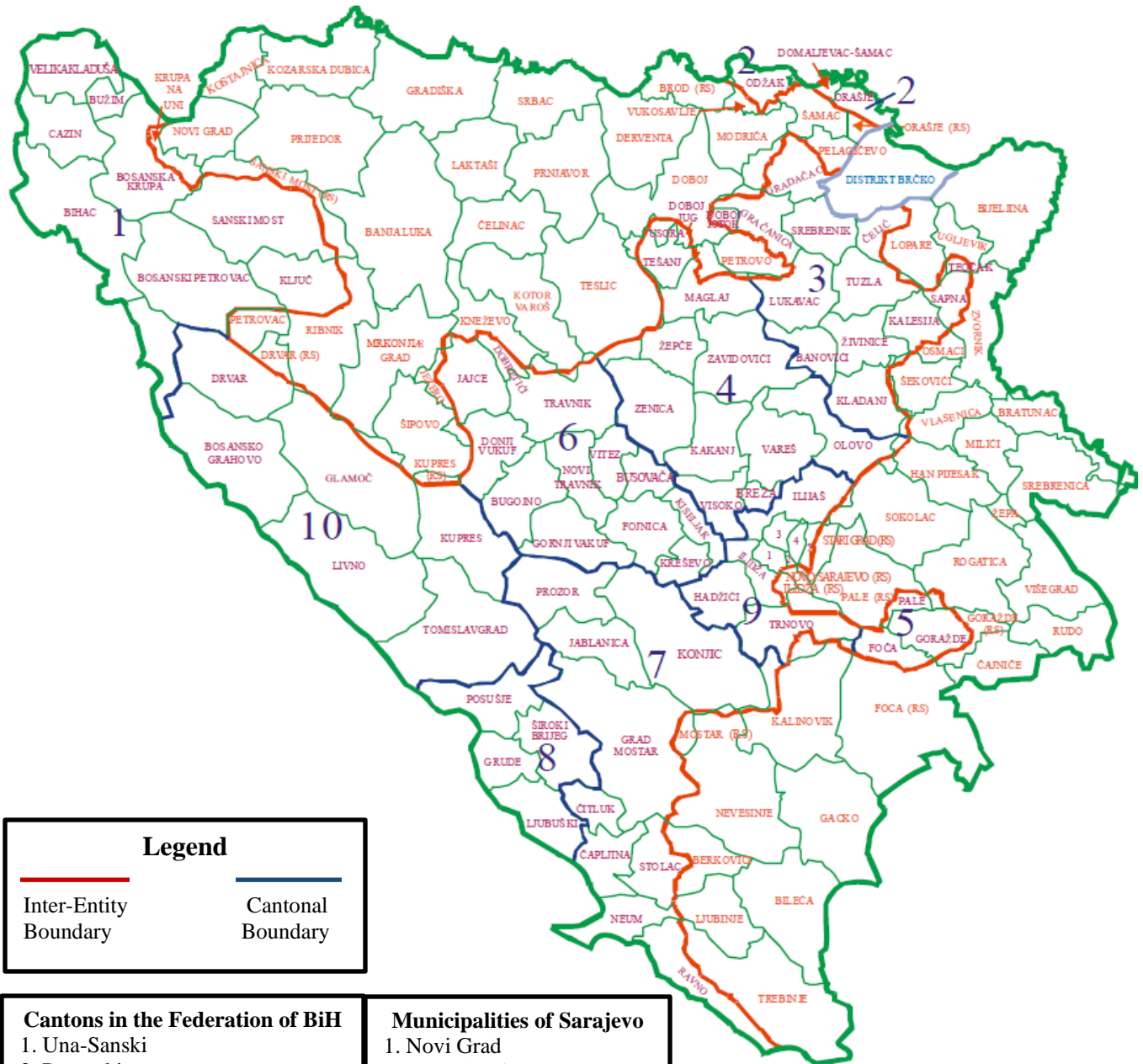
In this paper, I have undertaken preliminary data analysis in order to show whether partisan accountability matters for socio-economic development in young democracies. In the absence of adequate electoral accountability, due to low citizen participation and the inability of parties to credibly commit to broad policy areas, electoral accountability between politicians and citizens remains weak. As a result, politicians behave according to the logic of partisan accountability, in which elected officials are responsive to the interests of party leaders, who control the distribution of electoral and monetary rewards (party lists and budgetary assets). Politicians respond to citizen interests only to the extent that they garner enough votes to be reelected.

Following the logic of partisan accountability, I show that particular political configurations do matter for development; however they contradict existing theories that emphasize party pluralism and the alternation of power as constraints on rent-seeking elites. Instead I argue that since economic development improves budgetary resources for local politicians and party members at higher levels of government, mayors have incentives to reduce unemployment and encourage business growth. Additional budget revenues could be expropriated by the mayor and counterparts at higher levels for personal or party gain, while some of the money could be used for improved public service delivery in order for mayors to garner enough votes to be reelected. Indeed, the results reveal that vertical, intra-party relationships between mayors and cantonal governments in Bosnia and Herzegovina is positively associated with an increase in locally registered businesses.

Second, horizontal relationships within municipal councils also appear have an effect on economic development. Greater inclusion of parties leads to more fragmentation and less efficient decision-making. Since parties compete with each other and try to hurt the mayor if he is not from their party, it comes as no surprise that party fragmentation increases unemployment. On the other hand, when the mayor's party has a majority in the municipal council, this does not improve economic development in contrast to my expectations.

In the future, I seek to incorporate additional indicators of development that are less prone to confounding factors, such as physical infrastructure and budget allocations. I also plan to include additional control variables, such as ethnic composition and institutional aspects of good governance (e.g. transparency, bureaucratic capacity, etc.). In order to refine my understanding of the causal mechanism, partisan accountability, I plan to further investigate the micro-dynamics of decision-making and party networks (in particular post-election coalitions at the local level) through in depth fieldwork. Another important area of exploration would include relationships between politicians and business elites, which may contribute to the complex nature of political and socio-economic development. Finally, I plan to incorporate data from the entire geographic territory of BiH and to also incorporate cantonal and entity-level political factors into my analysis.

APPENDIX 1: MUNICIPALITIES OF BOSNIA AND HERZEGOVINA



Legend	
Inter-Entity Boundary	Cantonal Boundary

Cantons in the Federation of BiH	Municipalities of Sarajevo
1. Una-Sanski	1. Novi Grad
2. Posavski	2. Novo Sarajevo
3. Tuzlanski	3. Vogošća
4. Zeničko-Dobojski	4. Centar
5. Bosansko-Podrinjski	5. Stari Grad
6. Srednje Bosanski	
7. Hercegovačko-Neretvanski	
8. Zapadno Hercegovački	
9. Sarajevo Canton	
10. Herceg Bosanski	

Source: Federal Development Development Planning Institute, Federation of BiH

APPENDIX 2: PAIRWISE CORRELATION TABLE OF VARIABLES

Variables	Fragment.	Mayor Rep. Canton	Mayor Maj.	Pop.	Pop. Density	Business
Fragment.	1.000					
Mayor Rep. Canton	-0.295	1.000				
Mayor Maj.	-0.258	0.121	1.000			
Pop.	-0.475	0.130	-0.155	1.000		
Pop. Density	-0.194	0.204	-0.065	0.341	1.000	
Business	-0.089	0.142	-0.010	0.149	0.034	1.000
UE	0.059	-0.000	0.086	0.013	-0.099	0.065

APPENDIX 3: RANDOM EFFECTS MODEL

$$\text{Registered Business}_{\Delta} = B_0 + B_1(\text{Fragmentation}_{it}) + B_2(\text{Mayoral Majority}_{it}) + B_3(\text{Cantonal Representation}_{it}) + B_4(\text{Population}_i) + B_5(\text{Pop. Density}_{it}) + u_{jt} + \varepsilon_{it}$$

$$\text{Unemployment}_{\Delta} = B_0 + B_1(\text{Fragmentation}_{it}) + B_2(\text{Mayoral Majority}_{it}) + B_3(\text{Cantonal Representation}_{it}) + B_4(\text{Population}_i) + B_5(\text{Pop. Density}_{it}) + u_{jt} + \varepsilon_{it}$$

	Businesses		Unemployment	
	Coefficient	2 SD Change	Coefficient	2 SD Change
Party Fragmentation	13.595 (51.14)	3.0	3.969** (1.43)	0.857**
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Population	1.006*** (0.00)		0.025** (0.00)	
Population Density	-0.053 (0.06)		-0.004* (0.00)	
Constant	-19.294 (23.19)		-1.288* (0.65)	
R^2 (between)	0.31		0.15	
R^2 (within)	0.04		0.02	
σ_u^2	0		0	
σ_e^2	107.92		2.89	
N	560		560	
Number of groups	70		70	
Obs per group	8		8	

Notes:

Standard errors are in parentheses below coefficients.

*** $p < 0.005$; ** $p < 0.01$; * $p < 0.05$

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