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Local elections, spending, and war trauma in contemporary Croatia**

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**Post-war Voters as Fiscal Liberals:  
Local Elections, Spending, and War Trauma in Contemporary Croatia**

*This study exposes post-war voters' fiscal liberalism using individual-level and aggregate-level data covering a decade and a half of local electoral competition in post-war Croatia. Aggregate-level analysis shows Croatian voters' fiscal liberalism to be conditional on their communities' exposure to war violence: greater exposure to violence leads to greater support for fiscally expansionist incumbents. Individual-level analysis, on the other hand, shows post-war voters' fiscal liberalism as rooted in their different levels of war-related trauma: more feelings of war-related trauma lead to greater economic expectations from the government. Our analysis also shows that voters' war-conditioned preferences for fiscally expansionist incumbents show little sign of abating over time – a testament to the challenge presented by post-war recovery, and to the impact war exerts on political life long after the bloodshed has ended.*

Public choice literature is divided when it comes to one important question: are voters fiscally liberal or fiscally conservative? In this study, we do not provide a comprehensive answer to this still unresolved puzzle which forms the foundation of a vast body of work in the political economy of voter choice. We do, however, offer a theoretically and empirically informed answer which we hold is valid in the context of post-war societies. We argue that individuals and communities exposed to war violence are fiscally liberal, as they seek economic security and fiscal activism from the government. Incumbents who provide that security, most notably in the form of fiscal expansion, get rewarded at the polls. In post-conflict contexts, this dynamic likely gets further compounded by the fact that war-affected communities also have greater needs for governmental intervention, with the challenges of reconstruction often out of reach of private initiatives. The consequences of this relationship between incumbents and voters in post-war polities could be toxic. In the environment of weak institutions and safeguards against corruption, a system which electorally rewards fiscal expansion could be particularly prone to clientelism. Post-war polities could be set down the path of political populism for years to come after the violence ends – a dynamic which has potentially dangerous repercussions not only for post-war economic recovery, but also for the health of post-war democracy.

This article offers a step toward improving our understanding of the political economy of elections and voter choice in post-war societies through the study of four cycles of local electoral competition in Croatia, the EU member state with the most recent experience of war on its soil. The 1991-1995 Croatian war for independence may have had less media coverage compared with the war in neighbouring Bosnia-Herzegovina, but it had a tremendously destructive impact on Croatian society. Direct war damages were estimated at \$50-80 billion, with an additional \$22 billion of indirect damages in lost economic activity. More than one tenth of the housing stock was destroyed, and

nearly one fifth of the population – some 800,000 people – were displaced from their homes during the war. Official estimates of the number of dead stand at 13,583 and wounded at 37,180 on the Croatian side (Vlada, 1998), with comparable figures on the side of the Krajina Serbs at about half of those numbers. The legacy of war continues to be deeply felt by Croatian society to this day, with substantial areas of the country economically depressed, under land mines, or with highly deficient infrastructure.

Our analysis is conducted on both the individual and aggregate levels and is based on two sets of sources. The individual-level analysis uses the data generated by the extensive 2003-2004 survey conducted under the auspices of the South-East European Social Survey Project (SEESSP) funded by the Research Council of Norway (Simkus, 2007). This project was particularly valuable because of its wealth of data on individuals' war and post-war experiences. Our aggregate-level analysis is based on an original dataset we built on the level of more than five hundred Croatian municipalities for the period between 2002 and 2017. The dataset covers four cycles of local elections and includes a string of economic, demographic, and political data, as well as itemised components of municipal budgets. We also complement this extensive collection of post-war aggregate-level data with a set of variables capturing pre-war government spending and investment at the municipal level. We do this in an attempt to control for possible long-term factors affecting the relationship between incumbents' electoral fortunes and their fiscal profligacy that are not necessarily related to the war. We focus our attention on electoral competition on the municipal level because local authorities have substantial powers when it comes to the provision of governmental services, particularly those associated with post-war reconstruction. What distinguishes the aggregate-level analysis in our study is not only the depth and breadth of our dataset, but also the fact that it covers electoral competition temporally removed from the immediate post-war period. All of this enables us to make more far-reaching conclusions about the impact of war violence and destruction on post-war political competition.

The conclusions of the analysis clearly support our assertion that there is something qualitatively different about the electoral calculus of post-war voters. Our individual-level analysis convincingly demonstrates that the personal feelings of war-related trauma significantly affect voters' political preferences. We show that voters experiencing war-related trauma exhibit a strong preference for an interventionist role of the government in the economy. Our argument is that voters experiencing war-related trauma turn to government to provide economic security. Furthermore, our aggregate-level analysis shows how these individual-level dynamics translate into actual votes in the electoral

arena. First, we show that Croatian voters on the whole are fiscally liberal. They substantially reward incumbents for higher spending. More importantly, we also show that the level of fiscal liberalism is strongly conditioned by the level of population's exposure to war violence. The electoral premium incumbents receive from voters for higher spending rises together with the increase in their municipality's exposure to war violence, regardless of any pre-war patterns in economic development, government spending, or investments. Finally, our analysis shows that these voting trends exhibit little sign of abating over time, even two decades after the end of the war. This is a testament not only to the depth of challenge presented by post-war reconstruction and recovery, but also to the comprehensive – and thus far neglected – impact war continues to exert on social and political life long after the bloodshed has ended.

### **Subnational elections and voters' preferences: Fiscally liberal or conservative?**

Public choice literature has largely settled on a cynical interpretation of the relationship between office holders and voters. Classical studies in this body of work have established that politicians are office-seekers (Buchanan and Tullock, 1962) whose utility function is primarily concerned with maximising the probability of their re-election (Downs, 1957), followed by their inherent desire to extract rents from public budgets (Brennan and Buchanan, 1980; Ferejohn, 1986). It has furthermore been suggested that, in order to advance these goals, politicians use various categories of public spending with a specific desire to 'buy votes,' thus engaging in clientelism (Stokes et al., 2013). In local politics, lower transparency, and consequently lower accountability of public officials, has been shown to make clientelistic behaviour even more successful (Bueno de Mesquita et al., 2005). The extensive literature on voter choice on the subnational level has been focused on several avenues through which local politicians misuse the budgets at their disposal to improve their re-election chances, but the most researched aspect of the whole story has been the effect of higher spending (and thus greater budget deficits) on local incumbents' electoral chances. This is the area of the public choice literature which is largely still divided between two competing interpretations of the relationship between voters and policy makers.

One could trace the origins of this division to Peltzman's (1992) seminal study of presidential, senatorial, and gubernatorial elections in the United States, which initiated research on linking deficit spending to the probability of re-election. Peltzman's famous finding that voters in the US behave as 'fiscal conservatives' implied that incumbents on both national and local levels get punished for pre-electoral increases in spending. This led Peltzman to conclude that deficit financing is electorally costly, but has left him unable to explain the vast growth of government spending (and

public debt) over the preceding four decades (Tanzi and Schuknecht, 2000). Peltzman's conclusions have been re-examined in a number of different contexts with the literature divided regarding the portability of his findings. Brender (2003) confirmed Peltzman's results for voters in Israel, where higher deficits and larger debts reduced the probability of re-election, while Lowry, Alt and Ferree (1998) found the same negative effect of budget deficits in US legislative elections. Using a panel of developed and established democracies, Brender and Drazen (2008) also confirmed that voters punished governments which ran high pre-electoral budget deficits. However, they failed to find a similar effect for less developed countries and younger democracies.

On the other hand, a number of studies have suggested the opposite, namely that higher spending prior to elections increases incumbent electoral chances. Rosenberg (1992) for Israel; Akhmedov and Zhuravskaya (2004) for Russia; Sakurai and Menezes-Filho (2008) for Brazil; Jones, Meloni and Tommasi (2012) for Argentina; and Balaguer-Coll et al. (2015) for Spain all confirmed the existence of a local political business cycle where high-spending local officials have greater re-election probabilities. The crucial issue has also, however, been the type of spending. Drazen and Eslava (2010) looked at the composition of government spending in Colombian municipalities and found that voters positively respond to the pre-electoral increase in targeted spending on infrastructure. Veiga and Veiga (2007) and Baleiras and da Silva Costa (2004) also found evidence of an opportunistic political business cycle in Portugal, where specific types of government spending which the voters recognise as highly visible – usually infrastructural projects – increase electoral chances. Balaguer-Coll et al. (2015) reported very similar findings for Spanish local governments. Even in Peltzman's (1992) seminal article, once investment in roads is included in his main explanatory variable, the total effect was weaker. Similarly, Brender (2003) found that voters do reward expenditures for development projects, despite punishing deficit spending.

One possible solution to this debate has been provided by Jones, Meloni and Tommasi (2012) who compared the two conflicting findings – voters being fiscal conservatives versus fiscal liberals – and suggested that voter reactions to deficits and targeted spending depended primarily on the structure of their country's fiscal federalism. The difference therefore could be institutional. In countries like Argentina, Brazil, or Russia local governments depend on financial flows from central governments. This is also the case in Croatia. Such an institutional setup could result in a detachment of local expenditures from local taxes, making voters unable to directly calculate the costs of services they receive. When voters believe the costs are passed on to someone else, they reward more public spending. On the other hand, in countries like the United States, fiscal

federalism implies much harder budget constraints for local governments, which are fully aware that voters will perceive any increase in local spending to be taken directly out of their pockets. This induces voters to demand more accountability and responsibility from their politicians, thus punishing any unnecessary pre-electoral increase in spending. Though the institutional explanation suggested by Jones, Meloni and Tommasi (2012) certainly has its appeal, it seems that even voters in institutional environments of fiscal federalism with hard budget constraints are not electorally immune to the allure of pork-barrel spending on lucrative infrastructure projects (Shepsle and Weingast, 1981; Bickers and Stein, 2000).

The debate on whether voters are fiscally liberal or conservative, therefore, seems to still be inconclusive. Both camps in the literature on the political economy of local-level voter choice present compellingly elegant theoretical arguments and empirical evidence. Both, however, also suffer from substantial shortcomings and appear to be unable to account for conflicting observations. More importantly for our understanding of post-war political competition, they offer little guidance regarding possibly different dynamics at play in environments of post-conflict recovery. Unfortunately, the steadily expanding literature on elections and violent conflict also offers little help. Most efforts in this line of research have focused on the temporally proximate interrelationship of the two phenomena. What are the conditions under which elections lead to violent conflict or its relapse? Can violent conflict dynamics be transformed into democratic electoral competition? These are the types of questions which have garnered the most attention from researchers. Thus the literature on, for example, the potentially detrimental effects of poorly timed democratisation on societies mired by (latent) violent conflict is indeed substantial. Whereas our systematic understanding of the impact of war violence and destruction on the nature of post-war electoral competition – save for some valuable case studies of individual post-conflict elections (e.g. Harris, 1999; Manning, 2001) or the impact of ethnic violence on post-war ethnic politics (e.g. Hadzic et al., 2017; Lupu and Peisakhin, 2017) – is very limited.

### **Theoretical propositions: Exposure to war violence and voter choice**

Implicit in the classic political economy arguments regarding local-level voter choice is the understanding of voters' preferences as uniform and fixed. The institutional arrangements may differ from polity to polity, but voters everywhere are assumed to be rational and self-interested. A growing body of work is showing, however, that preferences are not stable, uniform, fixed, or even rational. Voters make mistakes (Lupia and McCubbins 1998; Leigh 2009; Healy et al. 2010). They are cognitively and emotionally biased (Achen and Bartels 2013; Hill et al. 2012). They are often driven

by ultimately irrational heuristics like ideology or partisanship (Lau and Redlawsk 2001; Marsh and Tilley 2010; Tilley and Hobolt 2011). The conception of voters as retrospective evaluators of governmental performance with uniform processes of preference formation may be elegant, but it does not correspond to reality. Our understanding of how exposure to various forms of war violence fits into the reality of voter choice, however, is limited and fragmentary at best. These growing fragments of evidence, however, are beginning to demonstrate something of critical importance for our conceptions of post-war voter choice. They are suggesting that traumatic experiences and the way individuals deal with them can have a long-lasting impact on preferences and opinions when it comes to a host of political and economic issues.

Research has shown, for example, that the psychologically traumatic experiences of the 9/11 terrorist attacks shifted the affected individuals' political preferences away from liberalism and toward conservatism (Bonanno and Jost, 2006). Scholars have also shown that exposure to terrorism in general can make individuals turn toward non-democratic attitudes (Canetti-Nisim et al., 2009) and lower their support for peace efforts (Hirsch-Hoefler et al., 2014). Exposure to violence – personal or familial – was furthermore shown to not only reduce trust (Cassar et al., 2011) and intensify ethnic identity (Rohner et al., 2013; Lupu and Peisakhin, 2017), but also to have some positive effects on individuals' political behaviour such as participating in community meetings, being politically active, and voting (Bellows and Miguel, 2009; Blattman, 2009). There are strong indications that these effects seem to last long after the actual violence has ended (Rozenas et al., 2017). Similarly, individuals' experiences of traumatic economic hardship during their formative years have been shown to lead to lasting changes in a string of beliefs about the workings of the economy. People who grew up during recessions have been shown to be more likely to believe in the importance of luck for financial success and more inclined to distrust political institutions (Giuliano and Spilimbergo, 2009). In other words, virtually all aspects of individuals' political lives – from participation to attitudes toward democracy – have been shown to be subject to the decisive influence of exposure to traumatic life experiences.

Here it is particularly important to highlight the advances in our understanding of the impact of traumatic experiences on one fundamental aspect of individuals' political and economic calculus, namely their risk aversion. Save for a couple of exceptions (Eckel et al., 2009; Voors et al., 2012), the near consensus in the literature is that exposure to traumatic events makes individuals more risk averse. Whether it is tsunamis in Thailand (Cassar et al., 2011), floods and earthquakes in Indonesia (Cameron and Shah, 2015), war in Korea (Kim and Lee, 2014), the Great Depression (Malmendier

and Nagel, 2011), financial crises (Guiso et al., 2013), terrorist attacks (Sacco et al., 2003), or losing a child (Buccioli and Zarri, 2015) – experiences of personal trauma seem to be affecting the individuals' preference functions and making them more risk averse. Three aspects of this body of research are particularly significant to note. First, these effects can be very long-lasting, possibly even permanent (Voors et al., 2012; Callen et al., 2014). Second, it seems it is the feeling of psychological distress that matters, not the actual experiences per se (Canetti-Nisim et al., 2009). And third, much more work is needed to parse out the importance of priming triggers in the whole story. There is a strong possibility that traumatic experiences can have decisive influence not on risk preferences, but on susceptibility to being primed to recall fear which in turn can lead to risk aversion (Callen et al., 2014).

The findings made in this area of research form the backbone of our principal proposition. We suggest that war-related trauma, likely through increased risk aversion, could lead to voters favouring proactive political forces which offer economic security through fiscally expansionist policies. Moreover, in post-war polities these individual-level effects are likely to be compounded by the fact that the repercussions of violence and destruction last long after the wars 'officially' end. In some cases, civilian suffering through sickness, disability, and war-related deaths even intensifies after the period of active warfare (Ghobarah, Huth and Russett, 2003). And in the environment of plummeting investment (Collier, 1999; Gupta et al., 2004), forgotten workforce skills (Collier and Duponchel, 2012), and lost and misplaced entrepreneurial talent (Sanders and Weitzel, 2013), post-war reconstruction of the countries' physical and economic capacities stutters for decades. Simply put, wars change societies. They are also likely to change voters' expectations of what the government should do and their outlook on the social world around them (Strabac and Ringdal, 2008; Hutchison, 2014). Wars also change the real needs of the population – needs that can most often be satisfied only by governmental action. In an environment of dwindling state capacity and high risk of conflict relapse, this places tremendous pressure on post-war policy makers, because progress toward sustainable peace depends on economic recovery (Collier et al., 2003; Flores and Nooruddin, 2009), and economic recovery to a great extent depends on governmental performance (Kang and Meernik, 2005).

This argument leads us to two propositions. First, we hypothesise that on the individual level personal feelings of war trauma have an impact on voters' opinions regarding the role of the government in the economy. More specifically, we hypothesise that individuals feeling war trauma are more likely to support fiscally proactive and redistributive government policies. A growing body



of work in economic psychology suggests that preferences are neither uniform nor immutable, and that significant traumatic experiences can change preferences in a substantive and long-lasting way. We want to establish if that is indeed the case when it comes to war trauma and individuals' opinions regarding the appropriate economic role of the government. And second, we wish to extend this individual-level analysis and contribute to the ongoing debate about the fiscal conservatism/liberalism of voters by establishing whether spending has an impact on the re-election chances of incumbent municipal mayors and whether this impact is conditioned by the communities' level of exposure to war violence. Our hypothesis is that the aforementioned individual-level dynamics do indeed translate into votes on the aggregate level, and that fiscally expansionist incumbents fare better electorally in areas harder hit by war violence. In other words, we hypothesise that post-war voters are fiscally liberal.

#### **Individual-level data and method: War trauma and governmental interventionism**

As stated earlier, the individual-level analysis presented in this study is based on data generated by the South-East European Social Survey Project (SEESSP) between November 2003 and March 2004. This project covered seven states of South-East Europe in a series of nationally representative samples with a combined total of nearly 22,000 respondents. The Croatian sample relevant for this study included 1,250 respondents from all 21 Croatian counties with several hundred variables covering a variety of demographic characteristics, attitudes, and opinions. The SEESSP project is particularly valuable for its data on respondents' war trauma and experiences. For the purposes of our study, we created a seven-point scale capturing the incidence of various war-trauma sentiments among survey respondents. This is our principal explanatory variable of interest. We decided to focus on the sentiments of war-related trauma, rather than war experiences, guided by past research which has shown that it is indeed war-related psychological distress that matters in altering political preferences (Canetti-Nisim et al. 2009). Individuals were thus assigned values between 0 (no trauma) and 6 (high trauma) based on whether they were having: 1) thoughts or memories about a traumatic war-related event; 2) recurrent distressing dreams about a traumatic war-related event; 3) a recurrent sense of reliving past war trauma in the present; 4) persistent intense emotional or physical distress at exposure to war-trauma cues; 5) persistent avoidance of certain conversations, ideas, or activities that arouse painful war-related memories; or 6) persistent loss of memory for important parts of war trauma. The average value for all survey respondents on this war trauma scale was slightly higher than 1, with more than 38% of respondents reporting at least some war-related trauma sentiments.

As the dependent variable in the individual-level section of analysis, we crafted a composite measure capturing to which extent respondents believe that the government should intervene in the running of the economy. We opted for a composite scale here because we believe it can help us improve reliability and validity compared to individual indicators. We therefore created the Government interventionism variable using four statements from the SEESSP survey which we believe perfectly capture what we are after: 1) “It is the responsibility of government to reduce the differences in income”; 2) “The government should provide a job for everyone who wants one”; 3) “The government should guarantee everyone a minimum standard of living”; and 4) “The state should intervene in the economy to reduce inequalities and protect the poor and weak”. Response categories ranged from strong disagreement (1) to strong agreement (5). As Table 1 demonstrates, principal component analysis suggests that the four items scale very well, with Cronbach’s Alpha at more than 0.8 and factor loadings ranging between 0.6 and 0.78. Following Dyrstad (2012), we created both a simple additive scale and a scale based on factor scores. Due to their exceptionally high correlation (0.999), we opted for the simpler scale because of its easier interpretation.

[Table 1 about here]

Our principal explanatory variable of interest *War trauma* is accompanied by a string of control variables listed in Table 2. Though they are all self-explanatory, three deserve additional attention: *Veteran*, *Happiness*, and *Local optimism*. We include veteran status as a control variable to test for possible differences between respondents with military and civilian backgrounds because of their markedly different experiences of war violence and post-war socialization. And we include *Happiness* and *Local optimism* as control variables to test for possible intervening impacts of the personal feeling of well-being, as well as of the positive or negative conditions in the local environment. Our variables are then used to estimate a number of OLS regression models. We test for possible problems of multicollinearity by computing variance inflation factors (VIF) for all independent variables and find none of them exceeding 2 (with the mean values of about 1.3).

[Table 2 about here]

### **Aggregate-level data and method: Modelling incumbents’ electoral fortunes**

Finding reliable data for post-conflict polities, particularly on the sub-national level, is difficult. This was also true of Croatia, despite its solid public statistics when compared to other similar cases. Our primary units of analysis are Croatia’s 556 municipalities. The data we use were collected over a two-

and-a-half-year period from four institutions of the Croatian government – National Electoral Commission (DIP), Croatian Employment Service (HZZ), Tax Administration (Porezna uprava), and the National Bureau of Statistics (DZS) – as well as from the 556 municipal authorities. The data cover a fifteen-year period (2002-2017) and include four cycles of local elections (2005, 2009, 2013, and 2017). We complement this data with a set of variables covering the four pre-war years (1987-1990) and capturing the level of state-sector investments as well as municipal spending on education, health, and social services (Savezni zavod za statistiku, 1989, 1990, 1991, 1992). We do that in an attempt to control for possible effects of pre-war patterns of local government fiscal activism. The definitions of the variables used in our analysis are presented in Table 3.

[Table 3 about here]

Several issues need to be noted here. First, our analysis is concerned only with municipalities where mayors remained in office throughout the whole term, which accounted for more than 90% of the cases. We opted for this choice because the inclusion of municipalities where there were mid-term changes in local governments due to coalition reshuffles or early elections could have biased the results. Second, Croatia's local elections in 2005 were conducted under proportional representation (PR) rules, with mayors elected by local council majorities. Since 2009 mayors have been popularly elected under majoritarian rules. This means that our dependent variables *Incumbent Vote* for 2009, 2013, and 2017 were the proportions of votes given to the incumbent mayor (or the candidate nominated by the incumbent mayor's party if the mayor chose not to run) in the first round of elections; whereas in 2005 it was the proportion of votes given to the incumbent mayor's party/coalition list. Third, our variable *Spending* was extracted from municipal budgets and represents the average annual values during the mayors' whole terms in office. Since local elections in Croatia are always conducted in May, this in practice means that the spending figures in our analyses of the 2005, 2009, 2013, and 2017 elections include data for the periods 2002-2004, 2006-2008, 2010-2012, and 2014-2016 respectively. Fourth, due to different reporting and accounting standards in the pre-war period, our pre-war variables are not perfectly comparable to the ones from the post-war period. Nevertheless, we believe they capture the fiscal activities of pre-war local governments rather well and enable us to factor in possible effects of pre-war patterns of spending and government investment. Finally, we should also note that as controls we include the variables *Mayor alignment*, *Candidates*, and the dummies for Croatia's regions to capture possible spillover effect of national politics, supply of local electoral alternatives, and regional dynamics respectively.

A few words are also needed to explain our modelling of the legacy of war violence in Croatia's municipalities. Obviously, war leaves a complex imprint on society with consequences ranging from direct physical damage and human loss to indirect costs in lower economic activity and misallocation of resources. Capturing the multitude of war effects is, therefore, nearly impossible – particularly when, as in Croatia's case, there are still no reliable casualty or physical destruction figures on the municipal level. This is why we chose to create the variable *War disabled* using the 2001 census data which captured the number of disabled people whose cause of disability was the 1991-1995 war. Although far from ideal, the 2001 disability figures undeniably offer the best and most reliable method of capturing the effects of war violence on the population in the Croatian communities. Our Figure 1 presents the map of Croatia with the disability figures on the municipal level. As is obvious, the darker areas closely follow the war's frontline which became frozen with the January 1992 Sarajevo peace agreement which ushered in the arrival of UN forces. In our opinion, this is further evidence of the usefulness of this variable.

[Figure 1 about here]

As stated earlier, the aggregate-level empirical tasks are: 1) to contribute to the ongoing debate about the fiscal conservatism/liberalism of voters by establishing whether spending has an impact on the re-election chances of incumbent municipal mayors; and 2) to uncover whether the communities' different experiences of war violence have an impact on voters' calculus. In order to fulfil these empirical tasks, we estimate a series of models with *Incumbent Vote* as our dependent variable. The explanatory variables of our primary interest are *Spending* and its interaction with *War disabled*. Since *Incumbent Vote* is a proportional variable distributed on a unit interval (0,1), we apply the fractional logit model with a Bernoulli quasi-likelihood specification (Papke and Wooldridge, 1996) separately for each electoral cycle in our sample (2005, 2009, 2013, and 2017). We use a robust estimation of standard errors to control for heteroscedasticity, and – as in the individual-level portion of our analysis – test for possible multicollinearity by computing variance inflation factors (VIF) for all explanatory variables in our non-interactive models. Once again, we find their values well below the maximum recommended values, with the mean value of about 2.3. Considering the questions we are interested in, one would ideally employ some form of difference-in-differences regression analysis in order to more adequately capture the effects of exposure to war violence on communities' fiscal liberalism. Unfortunately, such a design is not possible due to the absence of democratic elections in Croatia's pre-war political life. In other words, there is no real pre-war record of Croatian voters' fiscal liberalism or conservatism. Croatian voters were able to

vote in relatively free multiparty local elections only once before the war: in 1990. Full results of those elections, however, have not been published. Even if they have, we believe analysing only one pre-war electoral cycle would not have been enough to pursue the diff-in-diff methodological strategy. Therefore, we suggest that the empirical approach we ultimately chose is the most appropriate, considering the limitations of the data and the historical context.

## Results and interpretations

The results of our individual-level analysis are presented in Table 4. We estimate four models to parse out the effects of *War trauma* on *Government interventionism* independent of the respondents' *Veteran* status. Our results clearly demonstrate that the sentiments of war trauma have an independent (i.e., not conditional), statistically significant, and substantively important effect on individuals' opinion of the government's role in the economy. Individuals experiencing feelings of war-related trauma – whether of military or civilian background – have a clear preference for a more interventionist role of the government in the economy. As we have argued, they turn to the government for economic security, possibly due to their greater general risk aversion. (Alesina and Giuliano, 2011) Here we should also note that, as a form of robustness check, we performed the same analysis on the four disaggregated components of *Government interventionism* and achieved substantively nearly identical results. *War trauma* has a positive and statistically significant effect on respondents' views regarding the role of government in: 1) reducing income differences; 2) ensuring employment; 3) guaranteeing a minimum standard of living; and 4) protecting the poor and the weak. What is particularly notable, *War trauma* qualifies as one of top-three variables influencing respondents' attitudes toward the government's role in the economy, together with *Religiosity* and *Settlement size*. Its importance for our understanding of the post-war population's attitudes toward possibly the most fundamental political economy question is therefore undeniable.

[Table 4 about here]

When it comes to our aggregate-level analysis, Table 5 presents the results of our models for all four electoral cycles with *Incumbent vote* as the dependent variable. Coefficients reported in the table are average marginal effects, instead of the usual log odds obtained via maximum likelihood estimation, to facilitate more useful and easier interpretation. Here we should also note that, as a robustness check, we performed the same analysis using OLS and had virtually identical results. The non-interactive models 1, 3, 5, and 7 have Spending as the principal explanatory variable of interest, and models 2, 4, 6, and 8 present the analysis with the variable Spending interacted with War

disabled. Two things are immediately apparent. First, models 1, 3, 5, and 7 convincingly demonstrate that spending has a consistently strong and positive effect on incumbent vote share. And second, models 2, 4, 6, and 8 show that this effect is clearly conditioned by the municipalities' exposure to war violence.

[Table 5 about here]

If we look at the results of our analysis in the non-interactive models, in 2005 an increase in *Spending* by one standard deviation (0.69) resulted in an increase of incumbent vote share of 3.4 percentage points. In 2009, a one standard deviation increase (0.68) in *Spending* resulted in an increase of incumbent vote share of 4.8 percentage points. In 2013 the effect was a 3.7 percentage point increase, while in 2017 the effect was 2.0 percentage point increase of incumbent vote share following a one standard deviation increase in spending (0.62 in 2013, 0.58 in 2017). The conclusion is therefore clear. Croatian voters overall are fiscally liberal, just like the voters in Argentina, Brazil, Colombia, Portugal, and Russia (Brender, 2003; Veiga and Veiga, 2007; Sakurai and Menezes-Filho, 2008; Drazen and Eslava, 2010; Jones, Meloni and Tommasi, 2012). This may be because of the structure of Croatia's fiscal system in which municipal governments are largely dependent on the national government's goodwill for their budgets, but answering that question definitively is beyond the scope of this paper. We present graphically the results concerning the impact of *Spending* on *Incumbent vote* in Figure 2 with the two top graphs showing the results for the 2005 and 2009 elections, and the bottom two graphs showing the results for the 2013 and 2017 elections.

[Figure 2 about here]

What is equally important, however, is that our interactive models 2, 4, 6, and 8 show that there are differences among Croatian municipalities based on the level of exposure to war violence. Voters in areas which experienced greater levels of war violence seem to exhibit different policy preferences when compared to their compatriots living in areas which were lucky enough to avoid the heaviest fighting. In each one of the four elections, the interactive term *Spending x War disabled* has a positive and statistically significant effect on *Incumbent vote*. Simply put, voters in areas that were more exposed to war violence are more fiscally liberal. They tend to reward incumbents for increased spending at greater rates than their compatriots who live in areas which were not as heavily affected by war violence.

In interpreting our results here, we will use the provisions of Croatia's Reconstruction Act of 1996 (Zastupnički dom, 1996), which accorded the status of reconstruction areas to 163 municipalities which had been directly exposed to combat operations and had significant war damages. In those 163 municipalities, the average value of *War disabled* was 16.2, whereas in the remaining municipalities it was 5.3. Based on those figures, and based on standard deviation figures of *Spending* for the 2005, 2009, 2013, and 2017 elections (0.69, 0.68, 0.62, and 0.58 respectively), we can say that in 2005 a one standard deviation increase in *Spending* brought 3.0 percentage points to the incumbent in an average municipality which *was not* directly exposed to combat versus 5.2 percentage points in an average municipality which *was* directly exposed to combat. In 2009, those figures were 4.5 versus 6.7 percentage points, in 2013 they were 3.4 versus 6.8 percentage points, and in 2017 they were 1.5 versus 3.4 percentage points. Voters in war affected areas reward incumbents for increased spending at disproportionately higher rates than do voters in areas which were not directly affected by war. This discrepancy shows little sign of abating over time. On the contrary, it was as strong and substantively nearly as large in 2017 (i.e. 22 years after the end of war operations) as in 2005. We present our findings regarding the marginal effects of *Spending* on *Incumbent vote* conditional on *War disabled* in graphic form in Figure 3. The x-axis in all four graphs is *War disabled*. The top two graphs present the results of analysis for the 2005 and 2009 elections, and the bottom two graphs for the 2013 and 2017 elections. The trend is clear. The more exposed to war violence a community was – the more fiscally liberal were its voters.

[Figure 3 about here]

This finding that conditions fiscal imprudence to exposure to war violence could obviously be biased. It is possible that war-affected areas were fiscally liberal even before the war, which could imply that their voters' desire for greater government spending in the post-war period would not be conditioned on war but simply a reflection of their pre-existing pattern of economic interaction with the (then socialist) government. As stated above, however, the problem with testing this directly is that before the war Croatia was governed by one-party rule and held relatively free and fair local elections only once. Detailed electoral results for those local elections have not been published, making comparisons in pre-war and post-war voting outcomes, unfortunately, impossible.

What is possible, however, is to include variables of pre-war municipal spending and pre-war levels of state/social sector investments in order to examine whether pre-war patterns of local government fiscal activity had any long-lasting impact on the communities' electoral preferences. If

communities have been “trained” to depend on local government spending because of their relative underdevelopment or because of any other reason rooted in the local pre-war socioeconomic context, then we should notice some effect between our two pre-war variables and post-war electoral outcomes that reward incumbents which redistribute more. However, as the values in Table 5 show, there is no such effect present in any of the electoral years. Here we should note that we also performed our analyses using a number of variations of the two variables (not logged, extended to the whole 1980s, etc.), as well as including their interactions with our principal post-war variables of interest – and we still found no effect on incumbent vote share in any election. We also performed the same analyses using a battery of variables capturing the pre-war level of economic development – from municipal unemployment to the proportion of the local population that is economically active – and the results were virtually unchanged. Although these robustness tests do not solve our endogeneity problem, they do offer a good indication that pre-war patterns of local government economic activity did not impact voter choices after the war. We believe we can, therefore, safely conclude that exposure to war violence was clearly an important factor in rendering a community more fiscally liberal.

Finally, it should be mentioned that some of our findings when it comes to control variables are also noteworthy, particularly our two measures capturing the context of political competition. As could have been expected, and in line with previous research (e.g. Krebs, 1998), the clearest effect on incumbent vote share is exhibited by the variable *Candidates* which measures the number of electoral competitors vying for the mayoral post. Thus each additional candidate on average reduces support for the incumbent between 4.0 and 7.9 percentage points. Moreover, and in line with previous findings (Gélineau and Bélanger, 2004; Sakurai and Menezes-Filho, 2008) the effect of incumbent mayors’ political alignment with the national government seems to depend on the performance of the national economy. In 2005, when Croatia’s economy was experiencing a healthy GDP growth of 4.2 percent, political alignment of mayors with the national government brought them 5.3 percentage points at the polls. In 2013, on the other hand, when Croatia’s GDP experienced negative growth of -0.9 percent, political alignment of mayors with the national government decreased their vote share by four percentage points. Generally speaking, incumbents seem to do worse in less populous municipalities with better educated voters, higher rates of unemployment, and when confronted by a higher number of challengers.



## Conclusions

In this study we primarily wanted to answer one question: is there something fundamentally different in the way post-war voters evaluate political incumbents? We focused our attention on what we consider the most fundamental political issue, namely the role of the government in the running of the economy. Simply put, we wanted to determine if war makes people more fiscally conservative or liberal. Guided by the growing body of work which suggests that traumatic experiences can make individuals more risk averse, we theorised that voters' war-related sentiments of trauma made them more inclined to support a proactive role of government in the economy. We then took that individual-level supposition further and suggested that fiscally expansionist incumbents would do better in areas more affected by war violence, exactly because of the preference of war-affected voters for government-provided economic security. The results of our analysis are clear. Voters experiencing war-related trauma do indeed have a stronger preference for the government's interventionism in the economy. And incumbents who spend more do indeed fare better in areas more affected by war violence.

The most obvious implication of our study with regards to the relationship of the legacy of war and voters' calculus is that there seems to be yet another way in which war affects societies after the actual violence has ended: it makes the affected populations (more) fiscally liberal. At face value, even without our individual-level findings regarding the effect of war trauma on attitudes toward governments' economic interventionism, this would seem natural. Voters living in communities which have experienced violence and destruction have greater needs and expectations from their governments. They want their roads and buildings to be fixed and their firms and economic enterprises to get back in business, so that their lives can return to normalcy as soon as possible. Policy makers who use the public purse to help make that happen get rewarded at the polls. Our findings regarding the impact of war-related trauma, however, suggest the reasons for this dynamic are even deeper and lay in voters' altered political preferences. Voters experiencing war-related trauma turn to the government for economic security and thus turn to political leaders to provide that security. These are important findings for our understanding of post-war political competition and consequently of the political economy of post-war reconstruction.

What is equally important to note is that these trends persist even nearly two decades after the war has ended. This dynamic can be explained in one of two possible ways: either 1) the challenges of post-war reconstruction and recovery – both personal and social – last longer than expected; or 2) the pattern of electoral reward and punishment between voters and political office-holders is

altered in a long-lasting manner. Determining which combination of these two explanations comes closest to the truth is beyond the scope of this paper, but it is a question that deserves our utmost attention. Post-war societies usually have weak institutions and even weaker safeguards against corruption and clientelism. A system which electorally rewards incumbents for fiscal largesse is particularly prone to both phenomena. In other words, the very real needs of post-war populations and their understandable hopes and demands from policy makers for government activism in the process of reconstruction and economic recovery could also set them down the path of public sector dependency and political populism for years to come after the violence ends. Developing institutional mechanisms which would help prevent such developments could be one of the most challenging aspects of post-war reconstruction.

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Table 1. Factor analysis of attitudes toward the role of government in the economy

	<i>Items</i>	<i>Factor loadings</i>
(1)	It is the responsibility of government to reduce the differences in income.	0.602
(2)	The government should provide a job for everyone who wants one.	0.778
(3)	The government should guarantee everyone a minimum standard of living.	0.759
(4)	The state should intervene in the economy to reduce inequalities and protect the poor and weak.	0.706
	Eigenvalue	2.043
	Cronbach's Alpha	0.809
	Kaiser-Meyer-Olkin measure of sampling adequacy (KMO)	0.752



Table 2. Definition of individual-level variables

<i>Variable</i>	<i>Definition</i>
Government interventionism	Composite measure capturing support for government's economic interventionism
War trauma	Self-reported feelings of war trauma, 0-6 scale (0=no war trauma).
Veteran	Dummy variable capturing war veteran status (1=veteran).
Gender	= 1 male; = 0 female.
Age	Years of age.
Married	= 1 married; =0 otherwise.
Education	Years of education.
Unemployment	=1 if unemployed; =0 otherwise.
Income	Scale 1-16, =1 if no income, and each new group goes up by 1,000 Croatian kunas.
Religiosity	Scale 0-10 where 10=very religious.
Croat	=1 if ethnically Croat; =0 otherwise.
Settlement size	=1 if up to 2,000; =2 if 2,000-10,000; =3 if 10,000-100,000; =4 if more than 100,000 inhabitants.
Happiness	Scale 0-10 where 10=extremely happy.
Local optimism	Agreement with statement "This city/community has a very difficult situation, and I am not optimistic." Scale 1-5, where 1=strongly agree and 5=strongly disagree.

Table 3. Definition of municipality-level variables

<u>Variable</u>	<u>Definition</u>
Incumbent vote	Proportion of votes for the incumbent mayor (2009, 2013, 2017) or his/her list (2005)
Spending	Average annual total expenditures per capita during the mayor's term in office (deflated to 2010 levels), natural logged
War disabled	Number of disabled per '000 whose cause of disability was the 1991-1995 war for independence, based on 2001 census
Mayor alignment	= 1 when mayor from the same party as the national government; = 0 otherwise
Candidates	Number of candidates for mayor (2009, 2013, 2017) or electoral lists (2005)
Unemployment	Average monthly unemployment rate in electoral year
Income	Income per capita in electoral year (deflated to 2010 levels), natural logged
Education	Average years of education for population older than 15 years of age
Agriculture	Proportion of population with primary source of income from agriculture
Croats	Proportion of population ethnically Croat
Population	Population, natural logged
Pre-war investment	Average annual social/state sector investment per capita in the period 1987-1990 (deflated to 1980 levels), natural logged
Pre-war spending	Average annual municipal spending on health, education, and social services per capita in the period 1987-1990 (deflated to 1980 levels), natural logged
Dalmatia	= 1 if municipality in Dalmatia (n=131); = 0 otherwise
Slavonia	= 1 if municipality in Slavonia (n=127); = 0 otherwise
Istria	= 1 if municipality in Istria (n=47); = 0 otherwise

Table 4. Determinants of attitudes toward the role of government in the economy

	1	2	3	4
War trauma	0.039*** (0.011)		0.032*** (0.012)	0.027* (0.014)
Veteran		0.167** (0.068)	0.130* (0.072)	0.092 (0.096)
War trauma X Veteran				0.022 (0.028)
Gender	-0.049 (0.042)	-0.086* (0.045)	-0.085* (0.045)	-0.086* (0.045)
Age	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
Married	-0.009 (0.041)	-0.011 (0.041)	-0.015 (0.041)	-0.017 (0.041)
Education	-0.005 (0.006)	-0.007 (0.006)	-0.006 (0.006)	-0.006 (0.006)
Unemployment	-0.053 (0.064)	-0.048 (0.065)	-0.050 (0.066)	-0.045 (0.065)
Income	-0.005 (0.010)	-0.006 (0.010)	-0.008 (0.010)	-0.008 (0.010)
Religiosity	0.031*** (0.008)	0.033*** (0.008)	0.030*** (0.008)	0.030*** (0.008)
Croat	0.019 (0.077)	-0.012 (0.078)	0.015 (0.078)	0.016 (0.078)
Settlement size	-0.072*** (0.018)	-0.059*** (0.018)	-0.066*** (0.018)	-0.066*** (0.018)
Happiness	0.001 (0.010)	-0.001 (0.010)	0.001 (0.010)	0.001 (0.010)
Local optimism	-0.011 (0.019)	-0.013 (0.019)	-0.008 (0.019)	-0.007 (0.019)
Constant	4.229*** (0.163)	4.269*** (0.165)	4.230*** (0.164)	4.220*** (0.163)
Observations	918	912	909	909
R-squared	0.076	0.071	0.079	0.080

\*\*\*p<0.01. \*\*p<0.05. \*p<0.01. Standard errors in parentheses; OLS used throughout.

Table 5. Effects on Incumbent vote in 2005, 2009, 2013, and 2017

	2005		2009		2013		2017	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Spending	0.049*** (0.012)	0.027* (0.016)	0.071*** (0.014)	0.050*** (0.018)	0.060*** (0.013)	0.029* (0.016)	0.034*** (0.013)	0.010 (0.017)
War disabled	0.0008 (0.0007)	-0.023** (0.009)	-0.0003 (0.0009)	-0.025* (0.014)	-0.0001 (0.0009)	-0.039*** (0.011)	-0.001 (0.001)	-0.028** (0.014)
War disabled * Spending		0.003** (0.001)		0.003* (0.002)		0.005*** (0.001)		0.003** (0.002)
Mayor alignment	0.054*** (0.013)	0.053*** (0.013)	0.023* (0.014)	0.024* (0.014)	-0.041*** (0.015)	-0.040*** (0.015)	0.032*** (0.012)	0.030*** (0.012)
Candidates	-0.040*** (0.003)	-0.040*** (0.003)	-0.065*** (0.005)	-0.064*** (0.004)	-0.072*** (0.005)	-0.071*** (0.005)	-0.079*** (0.005)	-0.079*** (0.005)
Unemployment	-0.204** (0.098)	-0.170* (0.099)	-0.329*** (0.119)	-0.291** (0.120)	-0.025 (0.102)	0.018 (0.102)	0.004 (0.105)	0.035 (0.104)
Income	-0.042 (0.045)	-0.038 (0.045)	-0.140*** (0.048)	-0.136*** (0.047)	-0.075* (0.043)	-0.080* (0.042)	0.054 (0.046)	0.045 (0.046)
Education	-0.032*** (0.009)	-0.029*** (0.009)	-0.021* (0.011)	-0.018 (0.011)	-0.001 (0.011)	0.006 (0.011)	-0.033*** (0.012)	-0.029** (0.012)
Agriculture	-0.022 (0.080)	-0.032 (0.080)	-0.116* (0.072)	-0.126* (0.071)	-0.006 (0.067)	-0.021 (0.067)	-0.002 (0.064)	-0.022 (0.065)
Croats	-0.026 (0.051)	-0.014 (0.051)	-0.017 (0.047)	-0.009 (0.046)	0.031 (0.045)	0.042 (0.044)	-0.074 (0.054)	-0.064 (0.053)
Population	0.057*** (0.008)	0.055*** (0.008)	0.021** (0.009)	0.018* (0.009)	0.028*** (0.008)	0.022*** (0.008)	0.034*** (0.008)	0.032*** (0.008)
Pre-war investment	0.0007 (0.012)	0.002 (0.012)	-0.005 (0.014)	-0.005 (0.014)	-0.002 (0.011)	-0.003 (0.011)	0.005 (0.012)	0.006 (0.012)
Pre-war spending	0.010 (0.015)	0.013 (0.015)	0.019 (0.015)	0.022 (0.015)	-0.006 (0.014)	-0.005 (0.014)	-0.002 (0.015)	-0.0007 (0.014)
Dalmatia	0.001 (0.014)	-0.0004 (0.014)	0.002 (0.017)	0.0008 (0.018)	0.002 (0.016)	-0.004 (0.016)	-0.014 (0.018)	-0.015 (0.017)
Istria	0.016 (0.025)	0.029 (0.026)	-0.045 (0.041)	-0.034 (0.041)	0.043 (0.031)	0.062** (0.031)	-0.001 (0.028)	0.011 (0.029)
Slavonia	0.019 (0.016)	0.029* (0.016)	0.043*** (0.016)	0.051*** (0.016)	0.020 (0.017)	0.030* (0.017)	0.010 (0.018)	0.016 (0.018)
<i>N</i>	512	512	491	491	533	533	530	530
<i>Log pseudolikelihood</i>	-227.0	-226.9	-223.1	-223.0	-241.7	-241.5	-237.3	-237.1
<i>R</i> <sup>2</sup>	0.366	0.372	0.398	0.402	0.425	0.434	0.446	0.451

Standard errors in parentheses; \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ ; fractional logit used throughout.

Figure 1. War disabled by municipality

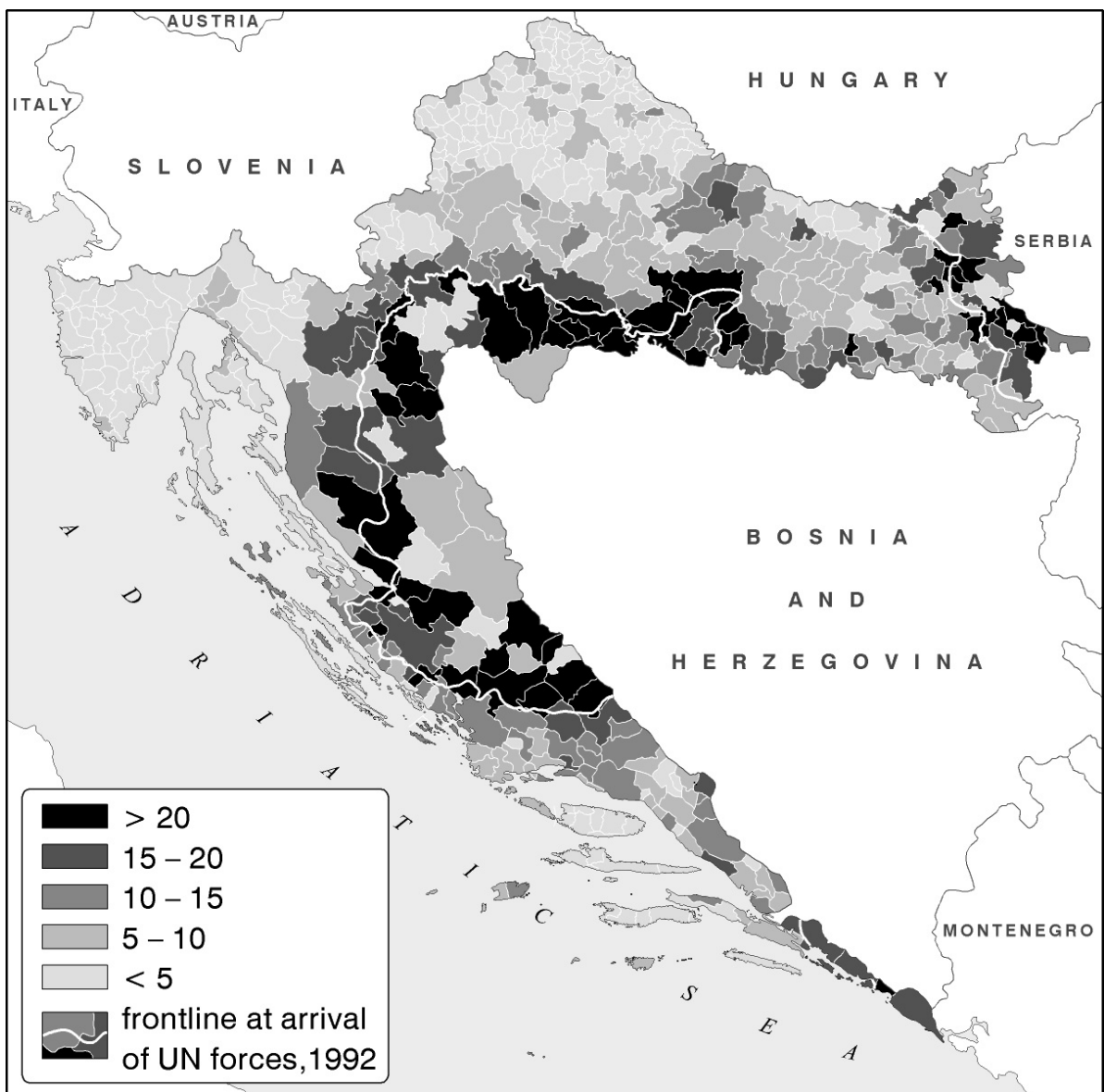


Figure 2. Predicted values of Incumbent vote based on Spending.

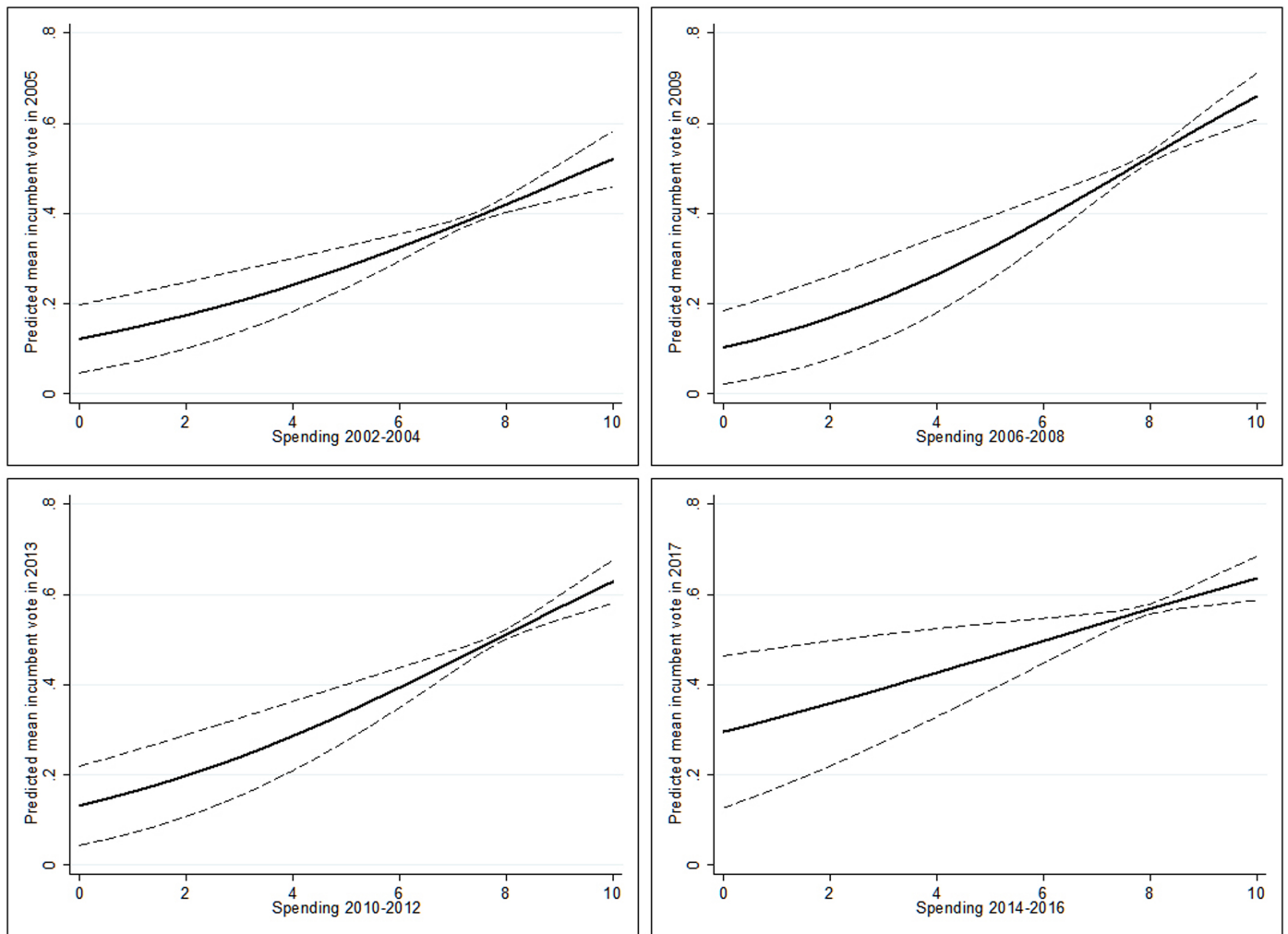


Figure 3. Marginal effects of Spending on Incumbent vote.

