

# POLITICKÉ VEDY / POLITICAL SCIENCES

Časopis pre politológiu, najnovšie dejiny, medzinárodné vzťahy, bezpečnostné štúdiá / Journal for Political Sciences, Modern History, International Relations, security studies

URL časopisu / URL of the journal: <http://www.politickevedy.fpvmv.umb.sk>

Autor(i) / Author(s): Stanislav Percic – Constantin-Marius Apostoaie  
Článok / Article: Interferences between the Political Cycle and the Business Cycle in the Cases of Slovakia, Romania and the Republic of Moldova: Lessons to be learned  
Vydavateľ / Publisher: Fakulta politických vied a medzinárodných vzťahov – UMB Banská Bystrica / Faculty of Political Sciences and International Relations – UMB Banská Bystrica

Odporúčaná forma citácie článku / Recommended form for quotation of the article:

PERCIC, S. – APOSTOAIE, C. 2014. Interferences between the Political Cycle and the Business Cycle in the Cases of Slovakia, Romania and the Republic of Moldova: Lessons to be learned. In *Politické vedy*. [online]. Roč. 17, č. 4, 2014. ISSN 1335 – 2741, s. 31-53. Dostupné na internete: [http://www.politickevedy.fpvmv.umb.sk/userfiles/file/4\\_2014/PERCIC\\_APOSTOAIE.pdf](http://www.politickevedy.fpvmv.umb.sk/userfiles/file/4_2014/PERCIC_APOSTOAIE.pdf).

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# **INTERFERENCES BETWEEN THE POLITICAL CYCLE AND THE BUSINESS CYCLE IN THE CASES OF SLOVAKIA, ROMANIA AND THE REPUBLIC OF MOLDOVA: LESSONS TO BE LEARNED<sup>1</sup>**

**Stanislav Percic - Constantin-Marius Apostoaie\***

## **ABSTRACT**

Since the first studies concerning the interferences between the political cycle and the business cycle, authors have provided suggestions with regard to what should be done in order to fight induced electoral instability. This issue is particularly interesting given the fact that the above-mentioned fluctuations exist only in the case of voters: we may thus infer either that the voters are ignorant and allow such fluctuations to occur or that the only criterion applied for voting decisions is the economic one and that voters prefer to have economic wealth in the present, punishing the governments which implement economic policies with average and long term results. This research aims to test the interferences between political cycles and business cycles on the case of three countries: Slovakia, Romania and the Republic of Moldova. The scope is to verify the hypothesis according to which the government prefers an expansionist policy before the elections, resulting in a lower level of taxes and unemployment and contributing, at the same time, to the increase of the consumption per inhabitant, of the GDP and of the subventions granted by the government; this, in turn, is followed by a restrictive policy after the elections. Just like governmental policies depend on the "habits" of the voters, this paper analyses the circumstances in which a non-representative behaviour of the voters may determine the behaviour of the government, with effects on the economy.

**Key words:** cycle, business cycle, political cycle, inflation, unemployment, economic growth

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<sup>1</sup> This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain.”

## Introduction

The notion of cycle can be defined as any phenomenon which repeats itself at relatively regular time intervals. Generally, cycles are associated with any situation measured in time. If a system is taken out of its state of equilibrium, its “inertia” will attempt to restore it to the initial state, forming a cycle. Although cycles are present everywhere, they never appear at perfect periodic intervals and the length of implementation varies from one cycle to the other.

During the past decades, researchers observed and studied a phenomenon considered the least interesting for many countries: the correlation between the political cycle and the evolution of the business cycles. This phenomenon shows that, before elections, the economic policy adopted by the government is expansionist, accompanied by the reduction of taxes and of the unemployment rate and by the increase of the GDP, of subventions and of consumption per inhabitant and that, immediately after the elections, the policy becomes restrictive. This observation is the starting point of our research concerning the interference between the political cycle and the business one.

We assume that the voters are accustomed to deciding the future governing structure of the country, depending on their vision concerning the economic situation for a relatively short time interval and that, consequently, their decision is directly influenced by the level of social wellbeing.

## 1 Dogmatic Study of Business and Political Cycles

When speaking about a cyclic phenomenon, we usually refer to a sequence of events that repeat in time. As far as business cycles are concerned, they refer to sequences of economic booms and recessions that are specific to the market economy (Apostoaie and Percic, 2012). The first written mention of a business cycle appears in the Bible, the Old Testament, Genesis 41, 2-7, where Joseph refers to those 7 years business cycles.

In time the topic concerning the business cycle theory has been often discussed in the literature. From **Clement Juglar** (1862) and **Ludwig von Mises** (2007) to **Jesús Huerta de Soto** (2011), all of them contributed to the study of this phenomenon. Some to a lesser extent, others have dedicated themselves to this line of research, but they all acknowledged the importance of this subject.

The thorough study of the economic mechanisms stimulated competition between the schools of economic thought concerning the explanations and

causes of the business cycle.

The advocates of the monetary theories argue that economic crises are caused especially by the excessive increase of the monetary mass and of credits during the expansion phase, which breaks the economic balance and thus determines the appearance of the recession phase. According to this theory, the business cycle is mainly a monetary phenomenon determined exclusively by errors of the monetary policy authorities. Acknowledging the existence of some cyclical oscillations in the market economy, the representatives of **Friedman's** monetary school argue that cyclical oscillations and especially crises are caused by factors external to the functioning mechanism of the market economy, namely to the intervention of the state. Thus, **Milton Friedman** considers that any intervention of the state in the economy is reflected through imbalances which affect the circulation of the monetary mass and that economic crises are actually the expression of such imbalances.

The Supply-side economics identifies exogenous causes which generate business cycles: the state; trade unions; economic monopolies; and technological or natural shocks. The advocates of supply-side economics consider that the business cycle has a political implication where the fiscal aspects prevail. This doctrine is in favour of the restriction of the state's role and of public expenses and, implicitly, supports the limitation of the use of financial instruments for interventionist purposes, putting great emphasis on currency and on monetary policies.

The advocates of the Austrian School of Economics consider that economy cannot produce on its own a continuous cycle of expansions and contractions. They perceive business cycles as an unavoidable consequence of the excessive increase of bank credits, amplified by the damaging and inefficient policies of the Central Bank. For the representatives of the Austrian School of Economics, there is no such thing as the cyclical nature of economy, this being induced by public institutions and policies (interventionism); thus, the business cycle is perceived as a reflection of the political cycle.

The adepts of the state's intervention in economy are at the opposite pole; they consider that cyclical evolutions and economic crises are caused by the lack of intervention and especially by the inefficiency of the mechanisms, instruments and policies elaborated and used by the state. Hence, the improvement and the better correlation of such policies and instruments – and their consistent application may prevent or at least attenuate the cyclical nature

of economic growth and economic crises.

Economic recession and expansion, as distinct phases of the business cycle, are seen by the Keynesians as natural forms of manifestation of the economy. They argue that there is no natural tendency of the market economy to correct the natural shocks which result from the “*insufficiency*” on the demand-side and that this makes the state’s intervention imperatively necessary. In principle, we cannot speak of political cyclicality, because decision makers adopt policies in order to control the business cycle. In practice, however, this type of intervention is used by governments in order to attenuate the effects of cyclical fluctuations on the political world rather than on the economic one and is applied especially during the period of the elections.

## 2 Literature Review

The research works concerning the interference between the political cycle and the business one can be divided into two distinct time periods. The works of **Nordhaus** (1975) and **Lindbeck** (1976), who studied the “*opportunistic*” cycles; the research of **Hibbs** concerning the “*partisan*” cycles (Hibbs, 1977) belong to the first period.

These research works involve **Philips’** curve and the models of economic pre-rational expectations. **Nordhaus** (1975) proved that governments tend to adopt a series of expansionist macroeconomic policies during the period prior to the elections with a view to reducing unemployment and to increasing their chances of being re-elected, but the cost of such a policy consists in the increase of inflation, which is visible only after the elections. **Hibbs’** model concerning the “*partisan*” cycles (1977) focuses on the permanent and systematic differences with regard to inflation – unemployment in the combinations chosen by various political parties.

The second period approaches the theory of political cycles from the perspective of the theory of games. It is worth mentioning the reference works of **Cukierman** and **Meltzer** (1986), **Rogoff** (1990), **Sibert** (1990), **Persson** and **Tabellini** (1990) who suggest rational opportunistic models, whereas **Alesina** (1987) proposes a partisan rational model of political cycles. The models developed during the second period differentiate themselves from those of their predecessors at least through two different hypotheses:

- the rationality of economic operators, which leads to the idea that real economic activity is not influenced by the monetary policy;

- the voters' rationality, which involves the assumption that they cannot be systematically deceived.

The model developed by **Rogoff** (1990) is the first one which speaks of the presence of political cycles as a consequence of asymmetrical information which travels between the voters and the politicians. **Rogoff** shows that, if governments want to have a high level of competence, they tend to adopt an expansionist policy in the period before the elections.

Amongst the theoretical models, the empirical ones try to determine whether there is an instrument capable of capturing and determining changes of the economic parameters during elections. The findings are not equivocal and vary from one country to another, as well as from one period to another. For example, **Alesina, Roubini and Gerald** (1999) studied the effect of elections on economic variables in the Member States of the OCDE during the period of 1960-1987. The obtained results reject **Nordhaus'** hypothesis according to which the unemployment rate decreases and the GDP increases before the elections.

In 1987, **Beck** (1987) argued that there is a political cycle of the money supply in USA, but that this has nothing to do with the monetary policy. This can be explained by the fact that FED adopts tax policies prior to the elections, thus creating a cycle of the monetary guarantee which results from the bank's attempt to avoid high oscillations of the interest rates.

**Heckelman and Berument** (1998) adopt a different approach, proving that some electoral campaigns are endogenous (for example, governments prefer to organise anticipated elections instead of influencing macroeconomic variables before the elections, in case the economic signals are pretty good).

**Schuknecht** (1998) studying the impact of electoral cycles on the exchange rate in 25 developing countries revealed the existence of fiscal policies in countries with a fixed exchange rate and sufficient foreign exchange reserves.

**Schuknecht** concluded that the flexibility of the exchange rate before the election year reduces desires and impulse of governments to promote an expansionary fiscal policy, thus producing inflation and affecting the image of the government. In reverse case, in countries with a fixed exchange rate, governments are motivated to adopt an opportunistic fiscal behaviour before the election to ensure a new mandate.

The German economist **Hayo** (2000) concluded that the success of the Government depends on keeping the rate of inflation to a level as low as possible. He also argued that deficits can also help to strengthen their support,

while the differences in employment, GDP per capita, the opening of the business environment, the share of the private sector and microeconomic transition progress shows no strong effect on people's attitudes towards the creation of a market economy.

According to the Mundell-Fleming model under the condition of the capital mobility, it is shown that the exchange rate and the degree of independence of the Central Bank affect the use of intervention upon macroeconomic variables before the election. **Drazen** (2000) showed the existence of a monetary cycle in the United States, based on the M1 increase over the 1961-1980 period, but he did not find any aspects which may prove the influence exercised by the Central Bank on business cycles.

**Treisman** and **Gimpelson** (2001), focusing on the election in Russia, examined in which way the political cycle is affected by rational motivations of politicians and economic policies geared to a retrospective voting electorate. They found that the results of elections and macroeconomic policies may differ according to circumstances at that time: some tools and means of economic influence are only used in certain electoral period and not in others.

The literature reveals few studies on the interferences between the political cycle and the business cycle in the cases of Slovakia, Romania and the Republic of Moldova. As historical evidence, we can mention the study of **Lafay** (1981), which analysed the interdependence between politics and economics under the communist regime in countries from the Warsaw Pact during 1960's and 1970's: Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

**Fidrmuc** (1996), studying the impact of unemployment upon voters' preferences in Czech Republic, Hungary, Poland and Slovakia, showed negative relationship between unemployment and the election results of the right-wing parties and positive causality between unemployment and the election results of the left-wing parties.

**Hallenberg** and **Souza** (2000) examined the role of exchange rates, capital mobility and independence of central banks as supporting or opposing the development of the political cycle between 1990 and 1999 in 10 countries of Eastern Europe (including Romania and Slovakia) and highlighted that the exchange rate and the degree of independence of the Central Bank affects the use of intervention upon macroeconomic variables before the election. Thus the countries with a "dependent" Central Bank and flexible exchange rates tend to weaken the monetary policies in the election to the rest of the time. In contrast,

countries with an “*independent*” Central Bank record monetary contraction during the election years.

Making use of a large panel data, covering 85 countries (among the countries included in the model is Romania) over a period of 21 years (1975-1995), **Shi** and **Svensson** (2006) analysed the relationship between electoral cycles and politics. In order to perform the research **Shi** and **Svensson** were guided by arguments according to which before elections, regardless of whether revenues decrease, the government increases their spending in order to increase the chance of being re-elected, which triggers an increase of the budget deficit in the election years. An important aspect of this research is that authors divided countries in developed and developing, thus making a comparative study of interference, highlighting some important differences between the developed countries and those developing, regarding the composition and size of the political business cycle. Specifically, political business cycles are large in developing countries but small or nonexistent in developed countries. **Shi** and **Svensson** also conclude that in order to increase his chances of re-election, the incumbent has an incentive to boost the supply of public goods prior to the election, hoping that voters would attribute the boost to his competence. In the model, all politicians, independent of their competence levels, face the same incentives, implying that the empirical predictions are not conditional on their type or ability.

Analysing the economic impact of political cycles in Romania, **Jula** (2001) identified a degree of correlation between the political behaviour of the politicians and macroeconomic evolution. He mentioned that the Romanian electorate reacted according to partisan political business cycles theory, so that the improvement of the economic conditions immediately before election was not accompanied by increase of electoral support for the party in office. The analysis at regional level confirms the hypothesis of a strong correlation between the economic situation and political behaviour of the electors. The unemployment at regional level has a very important influence on the vote behaviour, exactly as in the partisan political business cycle theory. Thus, in the zones with a higher unemployment rate there is a tendency for voting the political left side.

**Grosjean, Ricka** and **Senik** (2011), studying the political attitudes in 30 transition economies (including Republic of Moldova, Romania and Slovakia), provided evidence of cyclical political preferences. They argued that the sensitivity to large swings in the business cycle can be interpreted as the result

of a process of learning and beliefs updating.

### 3 Models of political business cycles

#### 3.1 Model of the “Opportunistic” Cycles - Traditional Opportunistic Political Business Cycles

The Nordhaus model is centred on the relation between the following two macroeconomic indicators: unemployment and inflation. In economy, in general, it is believed that a reaction of reversed proportionality exists between the level of unemployment and the inflation rate. Thus, the political factor must make a decision with regard to the reduction of inflation with a higher cost of unemployment or the decrease of the last mentioned indicator with a higher cost of inflation.

It is also worth mentioning the fact that voters have the tendency of paying more importance to the unemployment rate which they expect to be as low as possible and which they associate with economic expansion (Nordhaus, 1975). In case voters do indeed manifest this preference, then politicians should maximise the utility of the electorate in order to increase the number of votes they will receive during the following elections.

Once the voters' preferences have been determined, it is easy to predict the politicians' behaviour and the business cycle can be developed.

Inflationary expansion of the money caused by the banking system guided by the government prior to the elections leads to overinvestment in the industries which produce capital (a low unemployment rate) and underinvestment in the consumption industry, and the “recession” or “depression” which follows after the elections is the necessary process whereby the market eliminates the distortions of the pre-electoral expansion, returning to the free system of production, oriented towards serving the consumers, but with a corresponding unemployment rate. The cycle ends when this adjustment process is completed. (Huerta De Soto, 2011)

**Nordhaus** tested this theory with the help of historical statistics, using annual data concerning the unemployment rate during 1947-1972. His findings showed that the unemployment rate registered a sudden decrease before the elections and increased after the elections, thus suggesting the existence of a relation between the business cycle and the political one. He also discovered another interesting fact: there were two elections which did not follow the

anticipated model and which were lost (Nordhaus, 1975).

### 3.2 Rational Opportunistic Political Business Cycles Model

Rational opportunistic political business cycles model differs from the previous one in the aspects of the rational behaviour of the voters. This model combines classical hypothesis of politicians having an opportunistic behaviour with the ideas of competence and asymmetric information (Rogoff and Sibert, 1988). Contrary to the traditional opportunistic model, where voters don't "*learn*" from the politician's behaviour, the term of rationality indicates that every voter tries to maximise his or her individual preference function.

In the Rational opportunistic political business cycles model the inflation rate tends to rise before the election and continues to be high for several quarters, having a decrease after that (the same as in Nordhaus model), but cycle effects are lower in intensity and time. Percentage of traditional votes increases during the growth periods and decreases in periods with unemployment.

### 3.3 Model of "Partisan" (Ideological) Cycles

The "*partisan*" or "*ideological*" cycle was developed by Hibbs (1977). This model is based on the correlation between ideological views and economic policies. According to Hibbs' theory, each party can be identified through its unique ideology. The partisan theory has divided the political spectrum in two guidelines: left and right. Left-wing parties choose a high level of inflation and a low unemployment rate. On the other hand, right-wing parties will opt for a low inflation rate and a high level of unemployment. The voters will make a decision based on the ideology that they share with one of the parties. Politicians do not act in the opportunistic manner presented in the original theory of Nordhaus. In addition, cycles do not appear when the party governing the people is changed following the elections.

### 3.4 Model of Partisan – Opportunistic Cycles (Context-Dependent Models)

The partisan – opportunistic model relies on the traditional operator's wish to resort to the "*median voter*". The obtained cycle is similar to the ideological cycle in which each party has a distinct set of ideologies which are unique. The difference arises from the desire to deviate from these ideologies in order to maximise votes. The logic behind this theory is explained by Alesina, Roubini

and **Gerald** (1999): *“The left-wing parties will implement at the beginning of their term an expansionist monetary policy to reduce unemployment, but they may also be willing to deter monetary growth at the end of the term to reduce the inflation caused by their initial policy. Opportunistic governments belonging to the left wing may consolidate their anti-inflationary policy in order to get to the median voter during electoral years. On the other hand, right-wing governments would implement constrictive monetary policies to reduce inflation and increase incomes towards the end of the term, surprising the voters with an economic expansion”*.

In 2005, **Krause** tested this model (Krause, 2005). As part of his study, he analysed the results of the hypothesis by using quarterly data concerning the real growth of an individual's income in the USA over the 1948-2004 period. The findings related to the regression show that the pre-electoral real income of an individual is significantly higher during the Republican administration than during the Democratic one.

### 3.5 The Model of “Rational” Voters

If voters were truly rational, politicians would not be able to have an opportunistic behaviour. As long as voters have access to all information and can see and understand everything that is being done, politicians will have no chance to use the opportunistic behaviour to win votes. As **William Nordhaus** mentioned, *“If, for example, Governments would stimulate economy before elections hoping that present pleasures will be higher than the future problems, then rational voters could see these political manipulations.”* This behaviour would push politicians to remain loyal to their party's ideology.

Following the results from different studies the rationality in voting is not a real threat to political business cycle theory as the existence of alleged rationality in the voting process may not be supported by real evidence.

## 4 Country Case Studies

Even though the most of political business cycles studies have been focused on developed countries and less on developing countries, the recent researches demonstrated that this phenomenon can occur in the same way in countries with different economic situations.

The next step of the research represents a case study on the interferences between the political/electoral cycle and the business cycle in three European

countries: Slovakia (Euro Zone Member), Romania (EU Member, non-Euro Zone member) and the Republic of Moldova (non EU Member, non-Euro Zone Member). This part of the study aims to identify the relationship between the inflation and unemployment rates for each targeted country, thus matching the theoretical models presented before with a practical example.

## **4.1 The Case of Slovakia**

The Velvet Divorce of January 1st, 1993, paved the way for the re-emergence of genuine multi-party systems in Slovakia, a parliamentary democratic republic. The legislature of the Slovak Republic, the National Council, is composed of 150 members directly elected by universal adult suffrage for a four-year term of office. National Council seats are filled by proportional representation (PR) in a single, nationwide electoral constituency, where political parties or coalitions of two or more parties submit lists of candidates. Voters may indicate preferences for up to four candidates in one list.

National Council seats are distributed on a nationwide basis by the Hagenbach-Bischoff method. However, in order to participate in the distribution of National Council seats, a party must obtain at least 5% of the vote, while coalitions of two to three parties and four or more parties are required to obtain at least 7% and 10% of the vote, respectively. An electoral quota - the republic electoral number - is calculated by dividing the total number of valid votes polled by qualifying lists by 151 - the number of National Council seats plus one. The number of votes won by each qualifying list is then divided by the electoral quota, and the result of this division, disregarding fractions, is the initial number of seats obtained by each list. Any seats that remain unallocated after the application of the electoral quota are distributed according to the largest remainder method.

List seats are allocated first to candidates whose preferential votes constitute at least three percent of the total number of votes cast for the list; however, if there are more qualifying candidates than available list seats, these are allocated to the candidates with the largest number of preferential votes. If the number of preferential votes is the same, seats are allocated to candidates in the order in which they appear on the list.

The President of the Slovak Republic is elected directly by universal suffrage in two stages of voting. In order to secure a place on the ballot, Presidential

candidates must be nominated by 15 members of the National Council, or by a petition signed by 15,000 citizens. If no candidate obtains an absolute majority of all valid votes cast in the first round, then the top two candidates qualify for a runoff election, in which the candidate with the largest number of votes is elected to office for a term of five years.

Originally, the National Council elected the President, but a 1999 amendment to the Constitution established the popular election of the President by runoff voting. Popular voting for Presidential elections was adopted following a prolonged impasse in 1998, in which the National Council repeatedly tried to elect a new President, but no candidate attained the three-fifths majority required by the Constitution.

Considering the period 1994 (when the first National Council Election took place) – 2012, this part of the paper will analyse the evolution of the inflation and unemployment rates as well as the variation of this indicators in order to identify the electoral years when political cycle “beat” the business cycle.

Following the analysis of the inflation and unemployment rates (see the Graph 1 from the Annexes) one can see a lack of pro-political cycle evolution in 1994 and 1998, registering a synchronous and concerted evolution of analysed indicators, either decrease (1994) or increase (1998). First two election years can be considered free, democratic and devoid of personal interests, at least considering this criterion of inflation and unemployment evolution.

Starting with 2002 election year there can be identified slight economic interventions in order to capture the electorate (given the fact that during the last two electoral cycles the leading party lost a part of electorate, thus registering in 1998 just 43 seats in the National Council, compared with 61 seats in 1994), the unemployment rate slightly decreasing and inflation rate increasing during the electoral and pre-electoral period, but then registering a reverse trend. Nevertheless, the election results were not the expected ones, thus the leading party obtaining just 36 seats in the National Council.

The 2006 and 2010 election years are more convincing regarding the interference between political cycle and business cycle. In this period the indicators follow the Nordhaus Model of the “*Opportunistic*” Cycles, thus the unemployment rate registering a sudden decrease before the elections and increasing after the elections, while the inflation rate tracing a reverse tendency.

The Slovak Republic held an early parliamentary election on March 10, 2012, following the collapse of Prime Minister **Iveta Radicova's** coalition government.

This “*crack-up*” could be considered as a natural result of the interference between political cycle and business cycle in Slovakia.

All above mentioned findings also can be proved using the graph of inflation and unemployment variation (see the Graph 2 from the Annexes).

## 4.2 The Case of Romania

Romania is a semi-Presidential republic. The executive functions are held by both the President and the government. The President is elected by popular vote for a maximum of two terms, and since the amendments in 2003, each term lasts five years. He appoints the Prime Minister, who in turn appoints the Council of Ministers. The legislative branch of the government, collectively known as the Parliament, consists of two chambers – the Senate with 140 members, and the Chamber of Deputies with 346 members. The members of both chambers are elected every four years by simple plurality.

This part of the study aims to test the interferences between the political/electoral cycle and the business cycle in Romania, verifying the hypothesis according to which the Romanian government had an expansionist policy before the elections, followed by a restrictive one.

Following the analysis of the unemployment rate (see the Graph 3 from the Annexes), we may notice that the labour force market was affected by severe imbalance over the 1990-2012 period. The most important imbalances are the ones between the active and the inactive population (unemployment rate). The unemployment rate shows signs of cyclicity, with significant decreases during the 1996, 2000, 2008 and even 2012 pre-electoral periods, followed by considerable increases of this index in the following periods (except for the period after 2012, for which we did not find data yet). The 1992 electoral year (and pre-electoral period) is an exception from the rule, because this year represents the first democratic election in Romania after a 40 years period of socialism. One can see that 2004 electoral year (and pre-electoral period) is also an exception from the rule, the unemployment rate increasing before the election and decreasing after that, fact explained by the Euro-Atlantic aspiration of the Romanian government (joining NATO in 2004 and European Union in 2007). Moreover, we cannot overlook the fact that the migrating tendency of the Romanian population had an important impact on the unemployment rate.

Graph 4 from the **Annexes** presents the annual evolution of inflation in Romania during the 1990-2012 period. The HICP inflation rate was cyclical and

highly volatile until 1998. In the 1992 and 1996 pre-electoral periods, we may notice that the inflation rate increased to a significant extent. If the 1992 pro-political cycle evolution can be left to the socialist period inheritance, the 1996 electoral year (and pre-electoral period) represents a typical political interventions (not policy interventions). Starting with 1998 (with exception of 2008, when the Ministry of Finance unilateral decision to increase VAT from 19% to 24% led to an increase in inflation to 7.9%), the inflation registered a descending trend caused by the efforts of the National Bank of Romania to stabilise the inflation and the setting of the objective of direct inflation targeting in 2005. Overall, this indicator does not follow the trends of the model described by *Nordhaus*, but rather reflects the conclusions of the economists *Alesina*, *Roubini* and *Gerald* (1999). The contradictory tendencies that can be traced from 1998 till present may also suggest a high level of independence of the National Bank of Romania.

All above mentioned findings can be proved using the graph of inflation and unemployment variation (see the Graph 5 from the Annexes): excepting the 1992 and 2004 electoral years, before elections, the economic policy adopted by the government is expansionist, accompanied by the reduction of the unemployment rate and by the increase of inflation, and that, immediately after the elections, the policy becomes restrictive.

### **4.3 The case of Republic of Moldova**

The Republic of Moldova is a unitary parliamentary representative democratic republic. The Constitution of Moldova, adopted on July 29, 1994 sets the framework for the government of the country. In order to amend the Constitution of Moldova a parliamentary majority of at least two thirds is required, but in time of war or national emergency it cannot be revised.

The country's central legislative body is the unicameral Moldovan Parliament (Parlament), which is composed of 101 members elected by popular vote on party lists every four years. Under the electoral legislation, starting 1994 the parliamentary elections take place on the basis of the proportional system, with the whole territory of the country being an electoral constituency which elects 101 members of the Parliament. The elections shall take place not later than 3 months after the end of the mandate or dissolution of the precedent Parliament.

The head of state is the President of Moldova, who is elected by the Moldovan Parliament, requiring the support of three fifths of the deputies (at

least 61 votes). The President of Moldova has been elected by the parliament since 2001, a change designed to decrease executive authority in favour of the legislative body. The President appoints a Prime Minister who functions as the head of government, and who in turn assembles a cabinet, both subject to parliamentary approval.

Analysing the unemployment rate (see the Graph 6 from the Annexes), one can see that the trend is slightly downward, without incurring any cyclic movements over the 1995-2012 period. Official statistics registers stabilisation of the level of logged unemployment. This is, however, just a tip of the iceberg. In reality, more complex processes take place: the gap between registered and general unemployment (determined by the ILO Methodology) increases, the extent of hidden and chronic unemployment rises, outward migration of labour force grows and socio-demographic characteristics of the unemployed change. The emigration of population to other countries and improper definition of unemployment are the most appropriate explanations of the low and decreasing rate. In Moldova, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force. According to latest surveys, the unemployment has hit more than 80 percent of families, i.e. at least one family member was dismissed or obliged to take an undesired vacation.

Approximately, 25 percent of those who lost their jobs have plans to immigrate to other countries and the “unemployment rate” does not take them into account. The latest statistics indicates a number of over one million persons that works outside the country, especially in Russia and EU countries.

Graph 6 from the **Annexes** also presents the annual evolution of inflation in the Republic of Moldova during the 1995-2012 period. The HICP inflation rate was cyclical and highly volatile during the analysed period. In the 1998, 2001 and 2009 pre-electoral periods, one can notice that the inflation rate dropped significantly, but in the period after the election it returns to a high level. The explanation is very simple: the population perceives the change for the better by the prices decreasing (Bernd Hayo demonstrated that the success of the government depends on keeping the rate of inflation to a level as low as possible). People have become accustomed to low prices when they lived in the Soviet Union. Moreover, they associate the Communist Party with that “good times” when they used to live “well”. That is the reason why at the beginning of 1990’s in Moldova arose a pseudo-Communist Party, which speculated on the nostalgic feelings of the population by decreasing the inflation rate in pre-electoral periods and won the 1998, 2001 and 2005 elections. They used the

same tactics in 2009, but disappointed population punished them with April Revolution from Moldova (or Twitter Revolution). After a long period of communist's governance, Republic of Moldova returns to democratic aspiration and process of the Euro-Atlantic integration.

All above mentioned findings can be proved using the graph of inflation and unemployment variation (see the Graph7 from the Annexes): except for the 2005 electoral year, when before elections the economic policy adopted by the government is accompanied by the reduction of the inflation which, immediately after the elections, returns to a high level.

All these trends indicate that the Republic of Moldova followed the Model of "*Partisan*" (Ideological) Cycles, which is based on the correlation between ideological views and economic policies.

## Conclusions

The theory concerning the interference between the political cycle and the business cycle is one of the most controversial theories in modern economy. According to the economic theory, and also taking into consideration the results presented above, the economic policy adopted by each government prior to elections is expansionist, leads to a lower level of taxes and unemployment and contributes, at the same time, to the increase of the consumption per inhabitant, of the GDP and of the subventions granted by the government. The government adopts a restrictive policy after each electoral campaign.

The analysis conducted in this paper shows that, regardless of the "*ideology*" of the governing party, the same tactics were employed to attract voters in two of the analysed countries (efforts to reduce the unemployment rate during the pre-electoral period). Although it involved very high costs, this policy did not generate the expected result: in Romania all the elections from the 1996-2012 period were lost, while in Slovakia, starting with 1998, the leading party began to lose seats in the National Council, until losing all of them in 2010. It seems that the parties abandon the ideological dimension of the policies they promote. The new governing parties always mention the "*difficult legacy*" left by the previous government and leave, in their turn, a similar "*legacy*" to their successors. The analysed period fits the Model of the Partisan-Opportunistic Cycles perfectly.

The Republic of Moldova (non-EU Member, non-Euro Zone Member) shows a different model of interference. Basing its tactics on the correlation between

ideological views and economic policies by keeping the rate of inflation to a level as low as possible before the elections, the political parties follow the Model of “*Partisan*” (Ideological) Cycles. Making abuse of the same tactics during a long period of time and just fooling the people is the best way to be punished by own electorate. An adequate example is the 2009 election year in Moldova, when disappointed people punished the Communist Party during the April Revolution (or Twitter Revolution). After a long period of communist’s governance, Republic of Moldova returns to democratic aspiration and Euro-Atlantic Integration.

This study reveals that some tools and means of economic influence are only used in certain electoral period and not in others. The contemporary rational politicians use different ways to intervene in the economy, depending on the election. The incumbents have the ability to choose several ways to affect the economic situation of the voters: besides the unemployment and inflation rates manipulation, they can use the law on the minimum wage or pension benefits, public spending or tax cuts.

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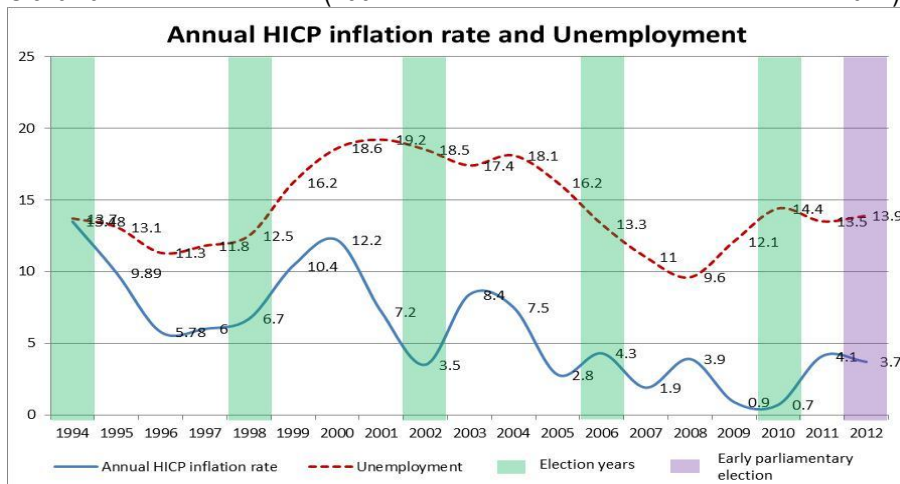
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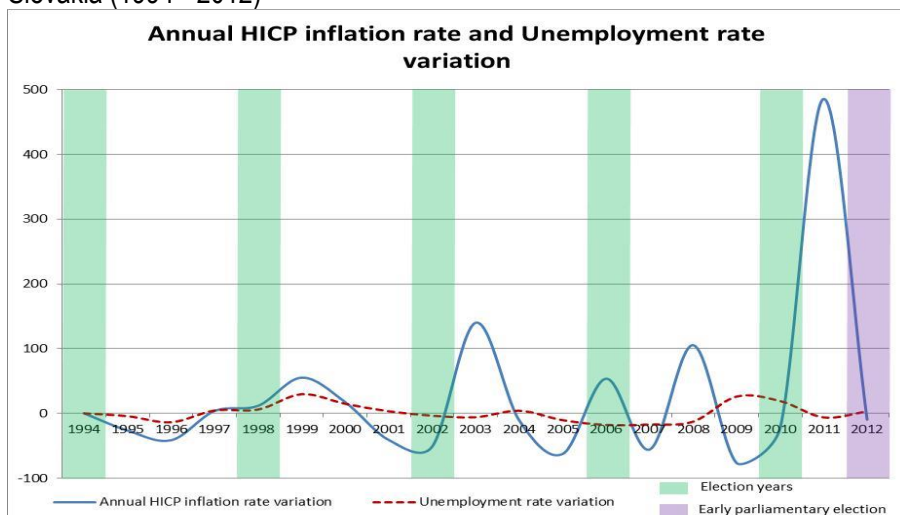
## Annexes

Graph 1: The annual HICP inflation rate and Unemployment rate evolution in Slovakia (1994 - 2012)



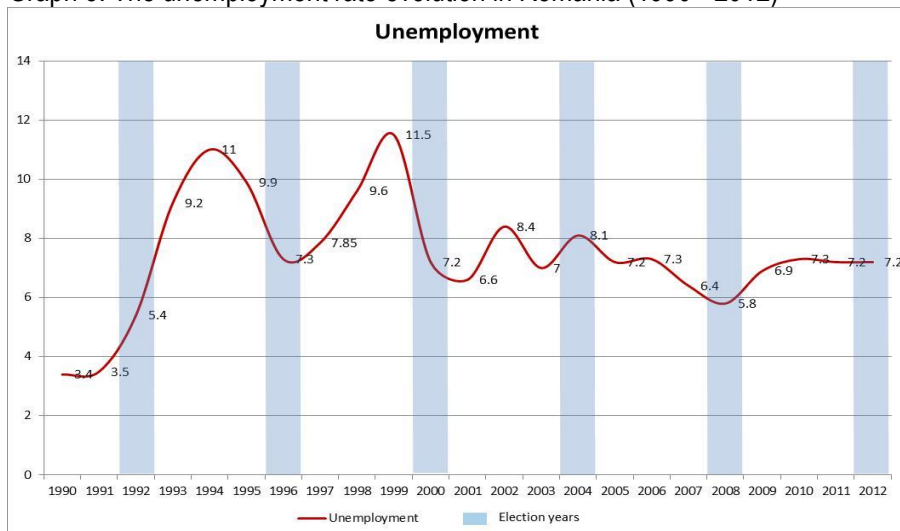
Source: Authors' elaboration based on Eurostat and National Bank of Slovakia data

Graph 2: The annual HICP inflation rate and Unemployment rate variation in Slovakia (1994 - 2012)



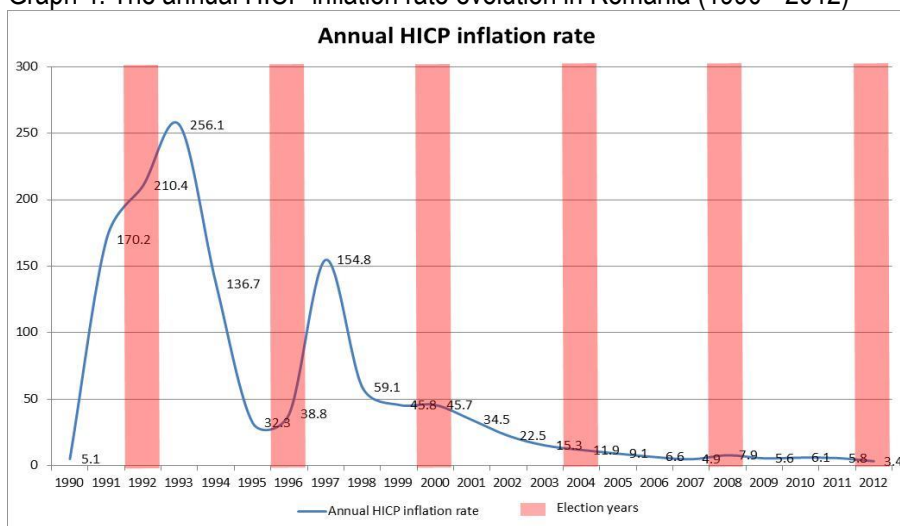
Source: Authors' elaboration based on Eurostat and National Bank of Slovakia data

Graph 3: The unemployment rate evolution in Romania (1990 - 2012)



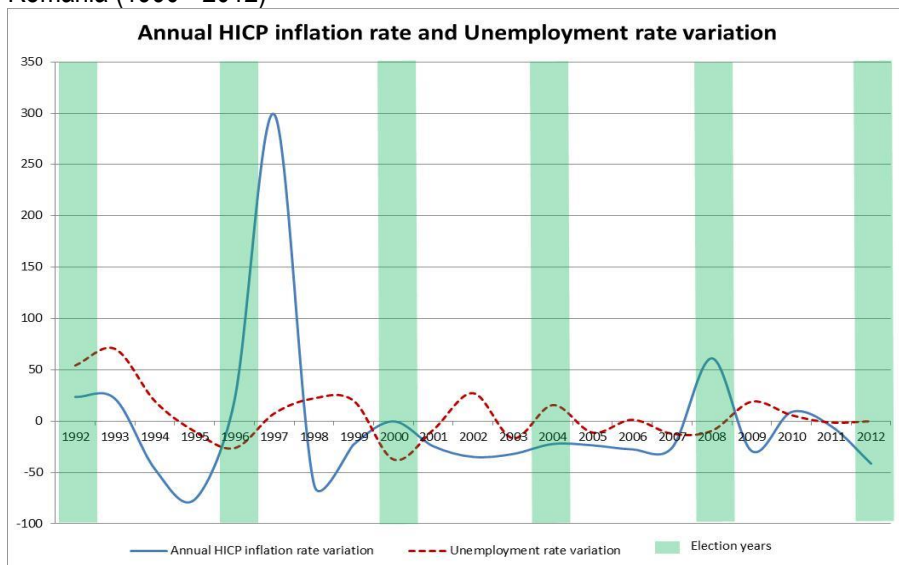
Source: Authors' elaboration based on Eurostat data

Graph 4: The annual HICP inflation rate evolution in Romania (1990 - 2012)



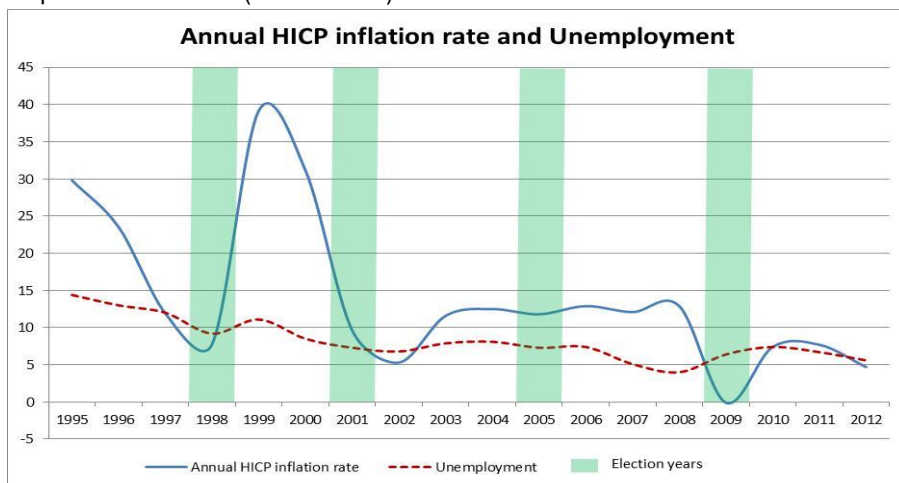
Source: Authors' elaboration based on Eurostat data

Graph 5: The annual HICP inflation rate and Unemployment rate variation in Romania (1990 - 2012)



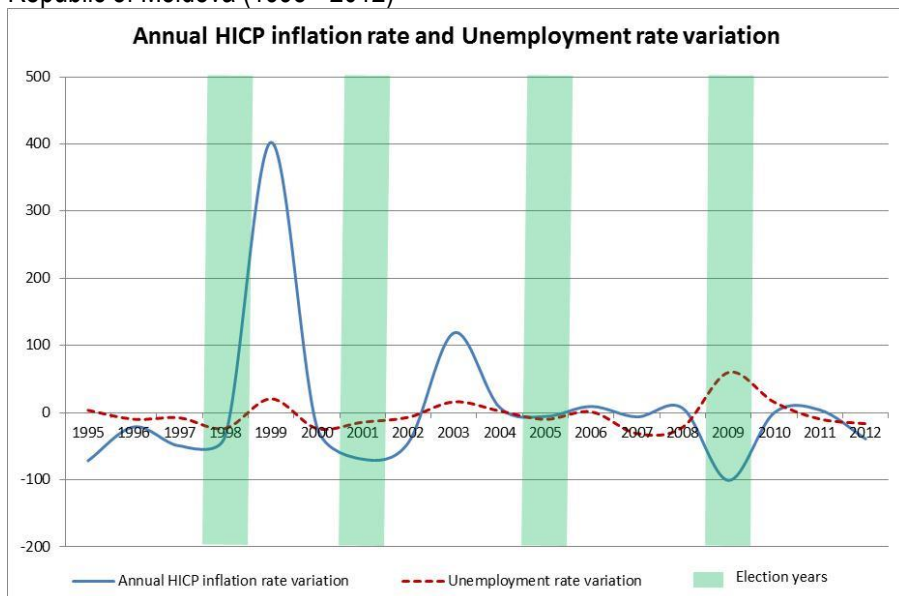
Source: Authors' elaboration based on Eurostat data

Graph 6: The annual HICP inflation rate and Unemployment rate evolution in Republic of Moldova (1995 - 2012)



Source: Authors' elaboration based on National Bureau of Statistics of the Republic of Moldova data

Graph 7: The annual HICP inflation rate and Unemployment rate variation in Republic of Moldova (1995 - 2012)



Source: Authors' elaboration based on National Bureau of Statistics of the Republic of Moldova data