

ELECTORAL CYCLES IN ROMANIA. CASE STUDY: THE INFLUENCES ON EMPLOYMENT INDUCED BY MACROECONOMIC GOVERNMENTAL ECONOMIC POLICIES

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ABSTRACT

The temporal existence of human society's economic performance, although upward and continuous, cannot be seen as linear because the phases of prosperity are succeed by economic regression, giving a certain cyclicity to the evolution of the society.

The causes of cyclicity and economic crisis have endogenous and / or exogenous origins. In this paper, we want to evaluate only the validity of political endogenous factors and their influence on the national economic performance. The case study is made on Romania, more exactly the post-December-rist election cycles.

This work aims to analyze the effects induced by the measures promoted by various governments regarding the employment at the macroeconomic level in Romania. Lessons learned will be linked with theoretical issues on economic cyclicity promoted by Arthur Spiethoff, endeavoring to find a possible correlation between the governmental economic policy and the macroeconomic environment.

JEL classification: E24, J21

Key words: economic cycle, electoral cycle, inflation, employment, unemployment

Economic cyclicity differs from accidental, random fluctuations of the economic activity because the induced effects and manifestations are aggregated and cumulative, contraction or expansion in a particular area spreads to others, as a result of the connection and dependence between variables and actual flows and the monetary and financial flows. It's a specific manner of wavy evolution of the economic life,

characterized by temporal regeneration in a given sequence and regularity of its own features.

The Romanian history was marked in 1990 by a change of political regime, a shift from a centralized totalitarian regime to a democratic regime. One of the rules governing democracy is the existence of an electoral process, deployed with a certain periodicity, which is meant to allow the voting population to express their free choice on those considered to have the skills to represent its interests.

Generally speaking, the periodicity of the electoral process – the induced effects of it on the economic environment - gave birth to a new type of economic cycle, known under the title of «electoral cycle» [Rutherford, D. 1995].

In the particular case of Romania we have identified the following intervals corresponding to election cycles: 1990 - 1992, 1992 - 1996, 1996 - 2000, 2000 - 2004, 2004 to 2008.

Although the electoral cycle results from the action of political factors on three distinct levels: unemployment, inflation and taxation, in this paper we shall dwell only on the first factor - unemployment – future studies will dwell on taxation, a survey of inflation having already been studied, in one of our previous works, in which we confirmed the causality link between electoral cycles and macroeconomics [Rovinaru et al.; 2009].

Unemployment is defined by the economic theory as an imbalance derived from an excess of supply over demand for labor force, with levels and evolutive trends different from one period to another or from one country to another. Unemployment means a state of economic inactivity of those who do not have a job, are looking for a new job, paid, all combined with an obvious decrease in their income [Dawson, G; 1992].

Unemployment can be characterized by a number of defining issues - size, intensity, temporal length - but its causes are very complex and even contradictory. In order to demonstrate the previous statement we will dwell on the opinion which states that unemployment would be the result of trends specific to *economic growth*.

In a given period of time economic growth causes the creation of new jobs. However if the increase of the active population is higher than the increase of the number of jobs created, we are facing *unemployment*.

Increase of the number of working population, in a national economy is due on the long-term to endogenous factors – increase of the birth rate - and on the short term to exogenous factors- international migration of labor force.

Moreover, labor productivity growth of those already employed affects the ability of economic growth to create jobs in an national economy. [Stiglitz, J. E., 1993]

If during periods when the economy is recording growth we talk about unemployment, recession becomes downright biased to extend the macroeconomic imbalance we are talking about: unemployment.

Enlightening for the recession phase of the economic cycle is the *Keynesian unemployment theory*. This type of unemployment, explained for the first time by J.M. Keynes is determined by macroeconomic imbalances, particularly those arising between aggregated supply and demand. If there is an imbalance between aggregated demand and supply on the goods markets - due to market rigidities on the short term – the imbalance will gradually transfer to the employment market, manifesting itself through decreases of demand for labor force, dismissals caused by the contraction of the producers activity, ultimately increasing the number of unemployed [Keynes, J. M.; 2009].

As noted both economic growth and recession induce adverse effects on employment at macroeconomic level. From this perspective we consider that it is appropriate to use together the terms „employment” and „cyclical”.

Accepting the hypothesis of cyclical unemployment in the context of economic cyclicity we will try to identify a possible correlation between electoral cycles and the unemployment rate at macroeconomic level in Romania, starting from 1990 up to 2009.

Choosing a timespan of this size is reasonable because if we focus on changes of the stocks of labor on short time - from one month to another – we will have a false impression of relative stability of the labor market .

From month to month there are usually no dramatic shifts in the structure of the number of employees and job seekers which could distort the market's dynamic character and even more could blur the overall picture on the macroeconomic environment.

In Romania, determination of the unemployment ratio, according to the methodology of the INS – National Institute of Statistics, is made by percentually reporting the total number of unemployed to the active population.

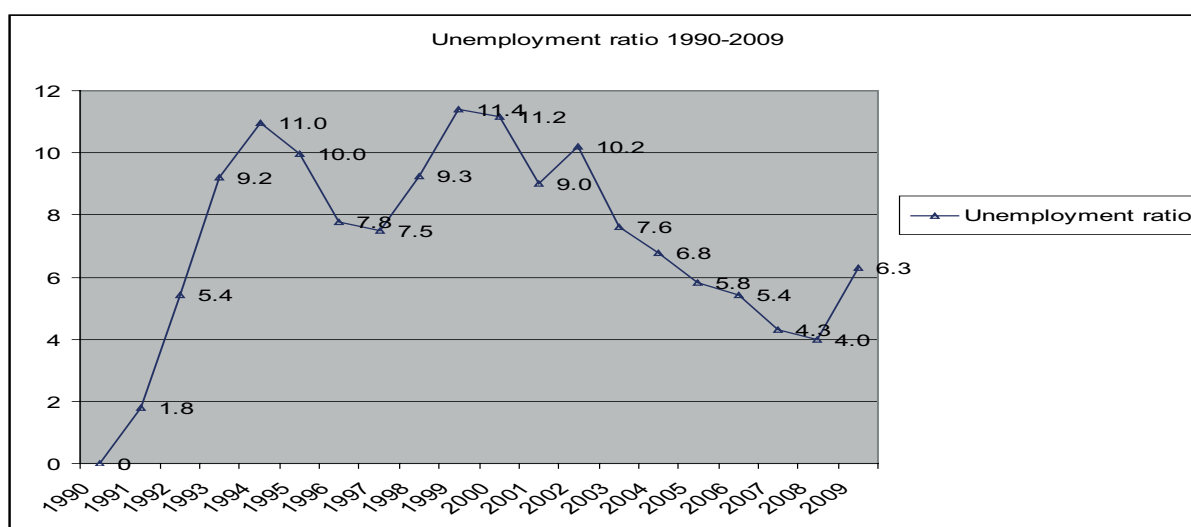
$$Ur = \frac{U_t}{A_p}, \text{ Ur- unemployment rate, } U_t\text{-Unemployed } A_p\text{- Active population}$$

The unemployed (U_t) defined according to the criteria established by the International Labor Organization are those aged between 15 and 74 who during the reference period meet all the following conditions: have no job and no activities generating income, are actively looking a job, are willing to start work within two weeks from finding a job.

The active population (A_p), from an economic perspective, includes people from the age of 15 years and over who provide available labor force for production of goods or services. The category includes the employed and unemployed.

Using the calculation formula presented above, we drafted the temporal evolution of the unemployment ratio in Romania for the 1990- 2009 timespan.

Fig. 1. Unemployment ratio in Romania (1990 – 2009)



Source: Author's calculations, based on data from ANOFM, <http://www.anofm.ro/>

Since 1990 Romania has experienced profound and substantial transformations in the ways in which the national economy has been organized and functioned. The effects induced by the transition from the centralized management of the economy to an increasingly and generalized decentralization has certainly incurred costs, specially to the population.

We must underline that the inflationist process in Romania was more lasting and ample than in other transition countries, due to a high number of causes. For example the fixed pricing system that was promoted in Romania until 1989 or the decision taken in 1990 to establish fixed the dollar/leu exchange rate for 21 lei / dollar, given that on the free market it was about 80 lei / dollar, led to the fall of exports, with an unprecedented increase in imports.

This has facilitated the depletion of the foreign reserve, the consequence being the breakout of a major economic downturn, that lasted approximately two years, between 1990 - 1992, with three-digit inflation rates.

Alongside unprecedented inflation ratio another macroeconomic imbalance appears on the labor market: unemployment. Until 1989 unemployment was only accepted as an element of the economic theory, not as a practical reality. The economic system, of Soviet origins, used until 1989 did not accept the idea of unemployed, proof is the fact that in 1990 the unemployment rate noted in official statistics, was 0. Of course the rate was artificially calculated.

Liberalization of the national market, it's opening for goods and factors of competition, particularly from Western Europe, will demonstrate the economic inefficiency characterizing many domestic businesses in the new competitive environment [Colman, D. & Nixon, F. 1994].

The first heavy activity contraction are registered in those times, in poor areas: heavy industry, extractive industry (mining), manufacturing industry. Along with the contraction of the economic activity - mainly in the state companies – the first firings take place, and thus unemployment begins showing positive numbers.

A simple analysis of the chart above shows us that only within three years 1990 - 1993, the labor market in Romania recorded an unemployment rate of 9.2%, continuing its upward trend in 1994 when an unemployment rate of 11% was recorded, highest up to that time.

The evolution of the unemployment ratio for the period studied has a contradictory trend, periods of increase of employment in the national economy alternate with those in which it decreases. Of course the factors underlying these issues are varied, but nonetheless we believe that in the specific case of Romania, at least for the period 1990 – 2000, they were generated by a period of crisis - recession of the national economy.

The type of unemployment characteristic to that period, in our opinion, is the structural unemployment. This type of unemployment is caused by: trends of restructuring the economy in different business areas, restructuring of the types of ownership, management restructuring and reorientation, changes of the productive apparatus, and not least important social and political phenomena.

The transition to the free market economy - of capitalist origin - requires a deep process of overall structural adjustment to new market conditions, something which requires the adjustment of labor demand to the real needs of companies operating in a competitive environment. This adaptation process brings with itself new economic change: the adaptation of work necessities in volume by dismissals (firings), intermittent use of labor force, employment contracts on fixed periods, adaptation of economic actors to different circumstances.

When talking about transition we can not say that through it we are dealing with a permanent recessionist macroeconomic trend. As time goes by, the macroeconomic environment has a tendency to improve its performance on the account endogenous and exogenous factors - foreign investments - which can and have the ability to provide a new perspective to the economy.

In 1999 we remark an improvement of the general economic climate, that year being considered the year of the relaunch of the Romanian economy, although growth has exceeded the GDP by only 1.8%. The process began in 1999 and continued in 2000, practically this being the beginning of sustainable economic growth amid inflation reduction.

From 2000 until the second period of 2008, following the evolution of unemployment ratio we can say that it has followed a downward trend with only small interruptions.

The unemployment rate recorded a new unfavorable trend starting late 2008. The evolving trend of the unemployment rate since late 2008 and up to today, can be put on the expense of the international economic conjuncture, which has known a process of degradation caused by the financial crisis in the United States and not only.

This briefing on inflation for the period 1990 - 2009, coupled with election moments in Romania, aims to establish a possible link between populist policies at the end of the electoral cycle and the effects induced at macroeconomic level, revealed (in part) by the unemployment ratio.

The mechanism of occurrence and the course of election cycle has a few common, general elements, for all the cases studied but can be subjected to specific analysis.

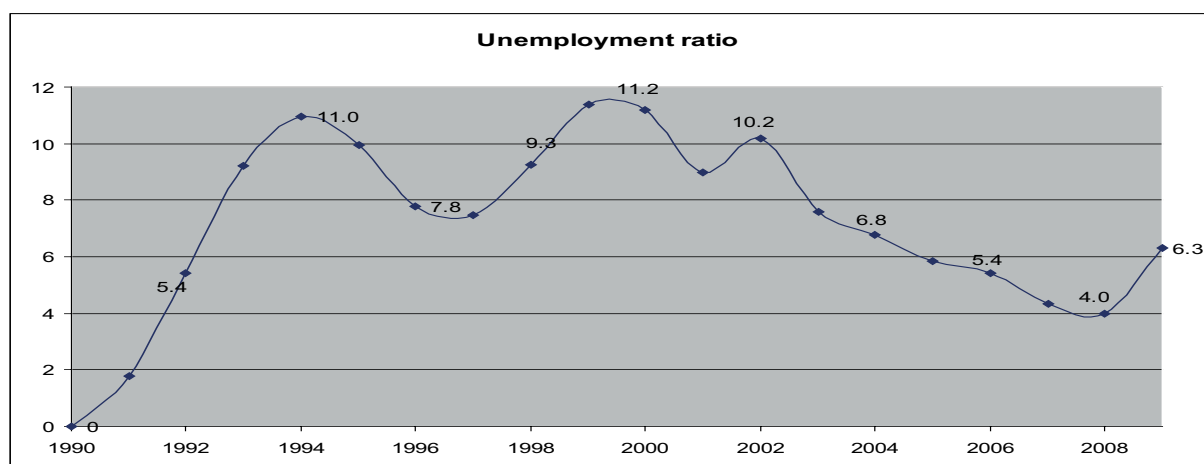
The result of the electoral polls is a certain structure of power that is competent for a given time to govern the country. In a first phase of the mandate, the governments tend to implement an important part of their election program, specifically a part of the electoral promises that assured their access to governing. They seek to implement the measures that affect important categories of the population in areas such as employment, taxation, inflation

Usually by applying a package of electoral inspired measures, in the first part of the mandate the general economic situation improves, the positive effects meeting affecting the targeted population.. These packages of measures lead to increased authority expenditure which will then be corrected through a series of measures and policies that on the short term will be perceived negatively by the population (eg falling share of public spending in GDP, review of tax policies to increase taxation, etc.).

However the government seek nothing else but to generate long-term beneficial effects in the economy, effects which are to make their presence felt on the eve of a new elections, that could help them maintain the position held, if the electorate is aware of such benefic effects.

Based on these considerations we try to establish a correlation between electoral cycles in Romania and their possible influence at macroeconomic level, in the unemployment area.

To determine a possible correlation we made a graphical representation to capture the unemployment ratio over the interval 1990 - 2009 and later considered the beginning or end of electoral cycles in Romania.

Fig.2. Electoral cycles and unemployment ratio 1990 – 2009

Source: Author's calculations, based on data from INS, <http://www.insse.ro/cms/rw/pages/index.ro.do>

During the first election cycle (of only two years) from 1990 to 1992 we face the emergence of unemployment and the first official determined unemployment rates. The emergence of official unemployment finds explanation, in the fact that the period coincides with a reorientation in the way the economy is being organized, passing from a centralized- planned economy to a free market economy.

We note that the trend of unemployment that does not comply with the theoretical - practical correlation between an election process and a possible distortion in the unemployment rate, because the unemployment rate keeps growing. However previous studies conducted on the correlation of inflation - election cycles have confirmed the theoretical hypothesis we started with.

For the second election cycle 1992 - 1996, we note that along with the conclusion of the election process a negative trend of unemployment is kept but, instead, from mid- electoral cycle, during 1994 – 1996, a shortfall of (- 3.2) percentage points was noted.

For a short period before the following elections an increase of employment can be noticed, in particular because the govern is trying to maintain their position. However a change takes place at political level, as the election are won by parties of right, after six years during which left parties have been on governing positions.

Thus, the third election cycle, 1996 to 2000, begins with a slight decrease of the unemployment rate continued during the year 1997, the difference in the unemployment rate is less noticeable, of only (- 0.3) percentage points.

Since 1997, we note a recurrence of the high unemployment rates that culminate in 1999 with the historic high of 11.4% throughout the studied period. The explanation can be found in the inability of the government to find solutions to increase employment or even to keep the existing jobs in the national economy.

For that matter, on the account of the negative ongoings of the national economy, the left parties are brought back to governing the country and the economy, after the elections in November 2000.

The fourth cycle studied 2000 – 2004, validates the correlation between the electoral process and the evolution of the unemployment ratio. During a first timespan 2000 - 2001 an increase of the occupancy rates is registered, immediately followed by a decrease of it for the period 2001 to 2002.

The state intervention through policies that were aimed at increasing consumption of products made in Romania, encouraging exports and attracting new investments in the national economy, resulted, for the second half of the electoral cycle, in a continuous decrease of unemployment. In our opinion, this was possible, as the general economic climate changed, specially by improvement of the performance of the national economy.

The last complete election cycle studied 2004 - 2008, due to the changing international economic situation, which generated negative exogenous influences on the Romanian economy, falls in the general pattern of correlations between the election cycle and unemployment presented. After a period of a decade of almost continuous increase of employment (except 2002), the end of 2008 (election year) is marked by increase of the unemployment rate, in 2009 the rate was 6.3%, higher by 2.3 points percentage to the rate recorded for 2008.

An overview over the entire period 1990 - 2009, allows us to establish a possible link between the electoral process and the development of the national economy, made visible thru some important factors (phenomena), in the present paper: the unemployment rate. For the first three complete election cycles, 1992-1996, 1996-2000, 2000-2004, the causality relation between the election cycle and unemployment is confirmed.

This relationship is confirmed by the last election cycle 2004 - 2008, but does not respect the pattern at least in the first part of the following cycle, 2008 - 2012, due to the effects of the economic crisis and the corresponding global economic downturn.

We recall that the analysis of the relationship between electoral cycles - induced effects in the national economy can be complete only by studying several aspects of labor employment, inflation, taxation, budget deficits, this paper only capturing the first component of the proposed general analysis. Moreover the study already done on inflation confirms the correlation between electoral cycles and the economic environment, the results of all the analysis will be consolidated in a future paper.

We conclude by saying that in our opinion the analysis of all proposed components: inflation, employment (unemployment), taxation, budget deficits, will be responsible for providing us a complete picture of the issue, stating that currently we have achieved a possible correlation. This study is intended as an intermediate step in the overall proposed analysis.

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