

Correlation between electoral cycle and fiscal policy decisions in Romania

Dima BOGDAN¹, Nicoleta MOLDOVAN², Lobonț OANA³

¹ West University of Timișoara, Faculty of Economics and Business Administration, E-mail: dima.bogdan@feaa.uvt.ro

² West University of Timișoara, Faculty of Economics and Business Administration, E-mail: nicoleta.moldovan@feaa.uvt.ro

³ West University of Timișoara, Faculty of Economics and Business Administration, E-mail: oana.lobont@feaa.uvt.ro

Abstract. Economic reality has shown that current enforcement techniques will produce the desired finalities, avoiding distortion under psychological decision of all members of society and reduce the current costs of tax administration. Therefore, taxation is the product of social factors, which determine, before any other factors widely and work closely on the social physiognomy, which causes various and numerous effects, that could be considered synthetic, two-way, as expressed sequence all taxpayers reactions taxes, such as tastes and scale transformation of values, the redistribution of costs, savings, debt and changing conditions of work and life, in general.

The functioning of a democratic regime depends not only institutions which carry out the division of labor between the executive and legislature, but also of a number of formal rules and informal procedures through which political actors influence the operation of the system. The objective is to provide some empirical evidencies of relation between fiscal policy and electoral cycles. The main output consist in this thesis that some support could be found for this, in Roumania.

Keywords: fiscal policy, electoral cycle, correlation between fiscal policy and electoral cycle

1 Introduction

Since it is known that fiscal pressure reflect the degree of support, seeing it in balance with the contributor's payment power and the facilities granted, in order not to affect contributor's life conditions and not to discourage the initiative to take action, taxation should not reach levels the society cannot bear.

It is considered that one should not pass beyond the limit where its efficiency is decreased (it leads to stagnation, even economical decrease); otherwise, fiscal pressure is not the same for everyone and under tax actions, the sacrifices for citizens are different.

Therefore, the preoccupation of public authorities should be oriented to reducing discrepancies in order to achieve full fiscal equity, this way showing another social effect of taxes and a more complete justice in allocating tasks to society members.

This brings to front a multi-dimensional perspective of politics, that is *the institutional dimension (polity), legal and contents dimension (policy) and the procedural policy (politics)*.

Our interest shall reduce only to the legal dimension (policy) referring to the aims, tasks and policy's objects, identifying in this the understanding manner of the fiscal policy and the procedural dimension, having as purpose the mediation of interest by conflicting situations and consensus.

Thus, the way policy is designed and the way the tasks are being accomplished, depend by various interests, thus identifying the clear relationship between fiscal policy and the political decision. It remains however to demonstrate whether there is a causality relationship between the two variables.

In international theory and practice, there two ways to manifest democratic systems³, which allow the conversion of individual preferences in collective preferences by means of the voting mechanism:

direct democracy (pure) and indirect democracy (representative).¹ Thus, in states with representative democracy, relationships arisen between „voters-citizens” which express preferences by voting instrument, rulers-legislative powers, who make decisions in virtue of the representation power given by the vote, and executors-bureaucrats, who undertake organization activities regarding the enforcement of public decisions made by rulers” should be accepted².

2 Theoretical background

Often elections reduce the time horizon of governments, and they risk compromising the social and economical activities, in disadvantage of votes, as simple and reducible techniques, ignoring the democratic fundament of citizens’ options representation. Drazen (2000), Persson (2001), as well as Persson și Tabellini (2001) study the way fiscal politics is influenced by the electoral and political cycles characteristics, showing at the same time which is the motivation to use discretionary fiscal policy in certain moments. In this respect, four groups of theoreticians have been separated, who take into consideration the opportunistic elective cycle, according to Nordhaus (1975), Rogoff and Sibert (1988), the partisan elective cycle, according to Hibbs (1977) and Alesina (1987), the idiosyncratic changes, incompetence and voracity, according to Stokey (2002) and the non-adjustment or late adjustment periods to shocks due to the impossibility to build coalitions or alliances, according to Alesina și Drazen (1991), Milesi-Ferretti, Perotti and Rostagno (2002).

3 Method and results

Elections represent the basic principle of representative democracies and they ensure the rulers their political legitimacy. From a formal point of view, the voting procedures, electoral operation, such as establishing circumscriptions, organizing election centers, making lists, defining the elector and elected capacity etc are regulated by the Electoral Law. The political representation depends on technical aspects, the parties’ system and government formation method. Crucial for the popular vote transformation in representation at the parliaments or other elected institutions remains the electoral system. It influences the parties system functioning, which, in its turn, triggers the governs’ stability and characteristics.³

Beyond it being a simple technique, the electoral system reports itself to political or existing political cultures it interacts with. In our country, the general elections take place every four years when members of the Parliament – Deputies’ Chamber and Senate are elected. Their mandate lasts 4 years. At the same time elections for the County and City Councils are organized.

Romanian electorate voting preferences have changed during time as follows:

¹ Mutașcu M.I., Enache C., **Lobonț Oana**, Crășneac Alexandru, Nicolescu Cristina, „*Finanțe publice - caiet de seminar*”, Editura Universitară, 2008, pag. 26

² Mazzucato G., Mossetto G., Petrovich G., Rizzi D., „*Lezioni di scienza delle finanze*”, Giappichelli Editore, Torino, 1991, pag.122.

³ *The pillars of the Romanian electoral system are the Constitution adopted in 1991 and revised in 2003 through a national referendum, Act no 373/2004 for the election of the President of Romania and Act no 67/2004 for the election of public local administration authorities.*

Table 1 Political Cycles and Electoral Cycles in Romania, during the timeframe 1990-2012

Analysis timeframe	Electoral cycle	Elections Date	Government	Parliament Representation	Political cycle	Taxes (%)	Public expenses (%)
1990	General elections	20.05.1990	FDSN	28,50%	political cycle 1990-1996 classified: 1990-1992 1992-1996	35,5	34.1
1991	<i>ciclul electoral 1990-1992</i>					33,2	37.0
1992	General, local and national elections	27.09.1992	PDSR	34%		33,5	30.8
1993	<i>electoral cycle 1992-1996</i>					31,3	33.8
1994						28,2	33.4
1995						28,8	34.7
1996	General, local and national elections	03.11.1996	CDR	30,70%	political cycle 1996-2000	26,9	33.8
1997	<i>electoral cycle 1996-2000</i>					26,5	33.9
1998						27,8	35.1
1999						30,1	35.5
2000	General, local and national elections	26.11.2000	PSD	36,60%	political cycle 2000-2004	29,2	35.3
2001	<i>electoral cycle 2000-2004</i>					28	33.3
2002						27,6	32.2
2003						27	30.9
2004	Legislative and presidential elections	28.11.2004	“DA” Alliance PNL-PD – Right and truth, until 2007	*	political cycle 2004-2008	27,1	29.8
2005	<i>political cycle 2004-2008</i>					27,2	31.0
2006						28,1	31.6
2007	European elections	25.11.2007				30	37.5
2008	General, local and national elections	30.11.2008	PSD-PD-L Alliance until 2009	66,80%		29,4	37.4
2009	European and presidential elections	07.06.2009 22.11.2009			political cycle 2008-2012	29,5	38.2

Analysis timeframe	Electoral cycle	Elections Date	Government	Parliament Representation	Political cycle	Taxes (%)	Public expenses (%)
2010	<i>electoral cycle 2008-2012</i>					29,6	38.2
2011						29,9	37.8
2012	Legislative elections					30,2	37.9

* *lack of official data*

Source: performed by the authors based on data provided by the Central Electoral Bureau and the International Monetary Fund, Country Report nr. 06/169/2006 and International Monetary Fund, Country Report nr. 09/183/2009

The public politics performance process, i.e. cycle of public politics, is complex and involves dimensions, mechanisms and actors in a network of interrelations. One of the best known means to make it easier to understand is that of dividing the process in more stages and sub-stages. The cycle of a politics is the series of these stages in more stages and sub-stages and examining them represents a simpler way to understand this process, but in this paper we have not proposed to analyze it in dynamics.

In order to perceive the possible connections between the configuration of the fiscal policy and the route of the electoral cycle, we can choose a simple analytical frame, described formally by:

$$X_t = \alpha_t \text{guv}_t + \varepsilon_{1t} \tag{1}$$

$$\alpha_t = \alpha_{t-1} + \mu_t$$

where:

X = the level of the fiscal politics variable in the current t timeframe;

guv = dummy variable, the electoral cycle;

α = the sensitivity parameters of the fiscal policy in the electoral cycle;

μ, ε_t = „white noises”, of null average and final variance.

The dummy variable, the electoral cycle has two values:

- 1, if the political entity, alliance or governing party has remained for another mandate (governing continuity);
- 0, if the political entity, alliance or party has changed (governing alternation).

By applying a Kalman filter on the dataset represented by the taxes we have the following results:

The results of Kalman model for the time series of public expenditures

Table no 2

Metod: Maximum likelihood (Marquardt)				
Perioada de analiză: 1990 2012				
Included observations: 23				
	Coefficient	Std. Error	z-Statistic	Prob.
C(2)	6.797139	0.672887	10.10146	0.0000
	Final State	Root MSE	z-Statistic	Prob.
α	33.93999	13.38119	2.536395	0.0112
ε	0.000000	29.92126	0.000000	1.0000
Log likelihood	-125.4204	Akaike information criterion		10.99308
Parameters		1	Schwarz information criterion	11.04245
Diffuse priors		2	Hannan-Quinn information criterion	11.00549

The results of Kalman model for the time series of public fiscal revenues

Table no 3

Metoda: Maximum likelihood (Marquardt)				
Perioada de analiză: 1990 2012				
Număr observații: 23				
	Coefficient	Std. Error	z-Statistic	Prob.
C(2)	6.400155	0.696508	9.188920	0.0000
	Final State	Root MSE	z-Statistic	Prob.
α	30.99999	10.97213	2.825340	0.0047
ε	0.000000	24.53443	0.000000	1.0000
Log likelihood	-120.8510	Akaike information criterion		10.59574
Parameters		1	Schwarz information criterion	10.64511
Diffuse priors		2	Hannan-Quinn information criterion	10.60816

The results of Kalman model for electoral cycle

Table no 4

Method: Maximum likelihood (Marquardt)
 Perioada de analiză: 1990 2012
 Număr observații: 23

	Coefficient	Std. Error	z-Statistic	Prob.
C(2)	-2.076364	0.395695	-5.247389	0.0000
	Final State	Root MSE	z-Statistic	Prob.
SV1	-0.085963	0.027748	-3.097933	0.0019
SV2	0.110193	0.032988	3.340396	0.0008
SV3	0.000000	0.354098	0.000000	1.0000
Log likelihood	-38.55885	Akaike information criterion		3.439900
Parameters		1 Schwarz information criterion		3.489270
Diffuse priors		3 Hannan-Quinn information criterion		3.452316

The electoral cycles analysis might conducted by mistaken interpretation, these being perceived by a non-familiarized observer with the Romanian reality as a sign of admirable stability and political predictability. To the electoral cycle predictability one could add the governing alternation or continuity and the existence of a functional market economy, certified by the European Union.

This analytical frame allows the estimation of the changes occurred in the sensitivity parameter during the analysis timeframe:

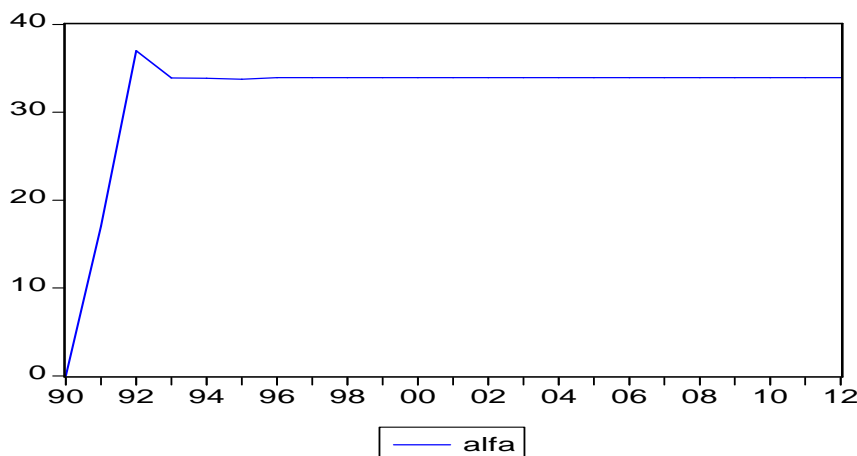


Chart no 1. Sensitivity parameter evolution: public expenses

We can observe that during the timeframe 1994-1996 a continuous growth tendency has been observed in respect with the amplitude of the connection between the electoral cycle and the public expense. When the electoral cycle has begun in 1996, these connections have been stabilized, and the fiscal policy, in its turn, has stabilized its sensitivity during the electoral cycle.

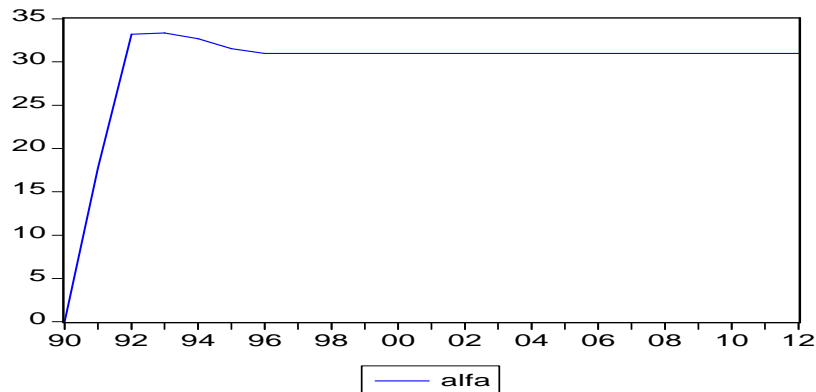


Chart no 2. Sensitivity parameter evolution: taxes

The same conclusions can be drawn from taking into consideration the taxes as synthesis variable.

The operation of a democratic regime does not depend only on institutions which perform the labor division between executive and legislative, but also by a number of formal rules and informal procedures through which the political actors influence regime operation. In this context, the debate regarding the voting system is tightly connected to the consolidation of democratic processes. And the adopted electoral system can influence both the parties system as well as the political participation. The key of the reform process of the political class recruitment systems lies in the capacity of the parties to change, to reorganize their structure and correctly and responsibly understand their dominant role. The functionality of a parties' system depends on the way electoral constrictions created a certain political environment, both for the competition system organization, as well from a strategic perspective. The new electoral system introduced for the general elections on November 30, 2008, is proportional with candidates in uninominal colleges.

4 Conclusions

These results suggest that in Romania, there is no complete correction mechanism of the fiscal politics reported to the electoral cycle, and some triggering causes can be identified:

- absence of a ideological coagulation, and thus of a doctrine change of the fiscal politics;
- preservation of the pro-cyclical nature of the fiscal politics, regardless of changes in the social and political architecture;
- practical behavior, with a reduced number of prevention components of public authorities and adopting the public decisions set through inept mechanisms;
- the adjusting nature of the fiscal politics in detriment of its reactive nature;
- preservation of some political system-specific cleavages, which impressed the bipolar system characteristics;
- ideological or conjuncture affiliation, beginning with the year 1992 to the present day, which show a polarization of the parliamentary political parties;
- using administrative decisions as substitute for the lack of support from an adequate mix of politics;

To all these causes one adds the organizational instability of political alliances, marked by separations, internal fights, temporary or permanent ruptures, which led to the continuous modelation of the political scene and not last, the opportunistic way in which the opposition parties have developed their activity, adding also the electors' opportunism.

5. References:

- Mutaşcu M.I., Enache C., Lobonţ Oana, Crăşneac Al., Nicolescu Cristina (2008), „*Finanţe publice - caiet de seminar*”, Editura Universitară;
- Mazzucato G., Mossetto G., Petrovich G., Rizzi D., (1991) „*Lezioni di scienza delle finanze*”, Giappichelli Editore, Torino;
- Drazen A., (2000) „*Political Economy in Macroeconomics*”, Princeton: Princeton University Press;
- Persson T., (2001) „*Do Political Institutions Shape Economic Policy*”, NBER Working Paper No 8214;
- Persson T., Roland G., Tabellini G., (1997) „*Separation of Powers and Political Accountability*”, Quarterly Journal of Economics no. 112;
- Persson T., Tabellini G., (2001) „*Political Institutions and Policy Outcomes: What are the Stylized Facts?*”, CEPR DP No 2872;
- Nordhaus W., „*The Political Business Cycle*”, Review of Economic Studies 42, 1975;
- Rogoff K., Sibert Anne, (1988) „*Elections and Macroeconomic Policy Cycles*”, Review of Economic Studies 55;
- Hibbs D., (1977) „*Political Parties and Macroeconomic Policy*”, American Political Science Review 71;
- Alesina A., Ardagna Silvia, Perotti R., Schiantarelli F., (2002) „*Fiscal Policy, Profits, and Investment*”, American Economic Review 92;
- Alesina A., Drazen Al., (1991) „*Why Are Stabilizations Delayed?*”, American Economic Review 82;
- Alesina A., Perotti R., (1996) „*Fiscal Expansions an Adjustment in OECD Economies*”. Economic Policy 21;
- Alesina A., Perotti R., (1994) „*The Political Economy of Budget Deficits*”, NBER Working Paper No 4637;
- Alesina A., Roubini N., Cohen G., (1997) „*Political Cycles and the Macroeconomy*”, MIT Press;
- Alesina A., Wacziarg R., (1998) „*Openness, Country Size, and Government*”, Journal of Public Economics 69;
- Stokey Nancy, (2002) „*Rules versus Discretion after Twenty-Five Years*”, NBER Macroeconomics Annual;
- Stokey Nancy, Rebelo S., (1995) „*Growth Effects of Flat-Rate Taxes*”, Journal of Political Economy, nr. 103;
- Milesi-Ferretti Gian Maria, Perotti R., Rostagno M., (2002) „*Electoral Systems and Public Spending*”, Quarterly Journal of Economics 118;
- Milesi-Ferretti Gian Maria, Roubini Nouriel, (1998) „*Growth Effects of Income and Consumption Taxes*”, Journal of Public Economics 66, 99–126.