



REGIONAL ECONOMIC VOTING IN ROMANIA

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Abstract

In the paper we examine the economic voting theory for the Romanian local elections in June, 2008. Econometrically, we demonstrate that in the regional structures the main economic variables (dynamics of the gross domestic product per capita, rate of unemployment, dynamics of the average net nominal monthly earnings, etc.) do not significantly influence the voting behaviour, so that a model based on the responsibility hypothesis is not adequate for explaining the creation of voting preferences in the Romanian regional structures in the June 2008 elections. We also demonstrate that for the June 2008 local elections the hypothesis of partisan voting cannot be econometrically supported. As a consequence, we have conceived a political impact model. Therefore, we have tested the hypothesis of faithful voters between two consecutive electoral moments, the engine role played by the well-known leaders, and the impact of the ethnic behaviour on the electoral space of the political party.

Key words: Political Business Cycles, Vote Popularity Function, Partisan and/or Opportunistic Behaviour, Residuals in Regional Econometric Models

JEL Classification: C31, C33, D72, O18

1. Theoretical background

Connections between economy and politics appear in economic literature with two aspects:

- (1) Political business cycles;
- (2) Theory of economic voting.

The political business cycle can be seen as a business cycle that results (a) from the manipulation of policy tools (fiscal policy, monetary policy) by incumbent politicians with the hope to stimulate the economy just prior to an election and, thereby, to improve greatly their own and their party's re-election chances or (b) from the competition amongst political parties with different ideologies. On that account, the theory of

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political business cycle investigates the relationship between political cycles and economic cycles, namely how the timing of elections, the ideological orientation of governments and the nature of the competition among the political parties influence unemployment, economic growth, inflation, and the use of various monetary and fiscal policy instruments.

The two main types of political business cycles are:

- *election cycles*, generated by governments manipulating the economy to maximize re-election chances (opportunistic cycles models), and
- *partisan cycles*, generated by the change of governments pursuing different goals (Alesina, Roubini and Cohen, 1997).

Also, in literature, models based on the *syntheses* between *opportunistic and partisan* political behaviour have been built (Fray and Schneider, 1978). Further on, to set out from the opportunistic-ideological spectrum of political motivation, the models of the political business cycles can be classified according to the expectations that individuals are assumed to have.

In the paper we will stress the other aspect of the relation between politics and economics, meaning that we examine the effect of economic conditions on the election results (theory of economic voting). Concerning the standard theory of economic voting, Owen and Tucker (2007) asserted: "In its most straightforward form, the predominant model of economic voting employed in studies of established democracies expects that voters will tend to punish the incumbent in bad economic times and reward the incumbent when the economy is doing well"¹, or as Lewis-Beck and Stegmaier (2000, p. 183) affirmed: "The citizen votes for the government if the economy is doing all right; otherwise, the vote is against"². That is because "after all, nothing is more fundamental to popular control than the idea that citizens hold government officials accountable for their collective actions" (Kuklinski and West 1981, p. 437)³. According to Nannestad and Paldam (1994)⁴, this is the so-called *responsibility hypothesis*: the voters hold the current government responsible for the state of the economy.

There is nowadays a rich literature dedicated to this subject. Or, as Anderson stated (2007, p. 273)⁵, by the end of the twentieth century the flow of scholarly papers on the topic had "changed from a trickle to a torrent of over 300 articles and books on

¹ Owen A., Tucker J.A., 2007, It's a Multifaceted Economic Effect, Stupid! Conventional vs. Transitional Economic Voting in Poland, 1997-2005, p. 4 (*Annual Meeting of the Midwest Political Science Association, April 12-15, Chicago, IL. http://homepages.nyu.edu/~jat7/MPSA_13-3_Owen_Tucker.pdf*).

² Lewis-Beck M.S., Stegmaier M., 2000, "Economic Determinants of Electoral Outcomes", *Annual Review of Political Science, June, Vol. 3: 183-219*.

³ Kuklinski J.H., West D.M., 1981, *Economic expectations and voting behaviour in United States House and Senate elections*. *American Political Science Review. 75:436-47*

⁴ Nannestad P., Paldam M., 1994, "The VP-function: a survey of the literature on vote and popularity functions after 25 years", *Public Choice 79:213-45*

⁵ Anderson C.J., 2007, "The End of Economic Voting? Contingency Dilemmas and the Limits of Democratic Accountability", *Annual Review of Political Science, vol. 10: 271-296*

economics and elections" (Lewis-Beck and Stegmaier 2000, p. 183) and covered virtually every democracy for which data on economics and elections were available.

The connection between vote and the condition of the economy is recognized not only in academic researches, but also in the analyses of the policymakers. The statement of Harold Wilson⁶, former British Prime Minister is well known: "All political history shows that the standing of a Government and its ability to hold the confidence of the electorate at a General Election depend on the success of its economic policy"⁷.

Just after the first free electoral moment (in the early 90'), in the former communist countries studies regarding the effect of economic conditions on the election results have started to appear. Moreover, a review carried out by Tucker (2002, p. 271)⁸ concerning the study of the economic impact on post-communist elections and voting counted over 100 articles in only 16 academic journals between 1990 and 2000. Obviously, these studies started to consider also the economic and political features of those countries. The outcome was the creation of some models starting from the main hypotheses in the standard model. For example, Tucker (2002, 2005, 2006) make the following "two assumptions to craft a model that is based on the partisan approach to economic voting but is appropriate for the post-communist context"⁹: (1) voters have low levels of information about political parties, and (2) instead of assuming that voters are guided by concerns with specific economic problems, he assumes that they have general concerns about the economy; they react to it either being "bad" or "good"¹⁰.

2. Empirical results for Romania

To explain the creation of voting behaviour in the local elections held in Romania in June 2008, we start in a first approach to Anderson's idea (2007), which is: "Given citizens' limited willingness and capacity to process complex information about politics, reward and punishment should most easily be detectable with regard to the performance of the economy - after all, the economy is perhaps the most perennially talked-about issue during election campaigns in democracies". Consequently, we examine the effect of economic conditions on municipal election results.

First, we have tested whether there is an econometric relation between the votes for candidates representing the ruling party and the state of economy, the so-called *responsibility hypothesis*. Practically, we have tested the connection between the votes for the ruling party (National Liberal Party) in the elections for County Councils of June 1st, 2008, and the local economic conditions existing just before the elections. The

⁶ Harold Wilson (11 March 1916 – 24 May 1995), Prime Minister of the United Kingdom from 1964 to 1970, and again from 1974 to 1976.

⁷ Quoted by Watt (1968, p. 15): Watt D., 1968 "Labour's hard road to recovery", Financial Times, March 8:15.

⁸ Tucker J.A., 2002, "The First Decade of Post-Communist Elections And Voting: What Have We Studied, and How Have We Studied It?", Annual Review of Political Science, vol. 5: 271-304.

⁹ Tucker J.A., 2005, "Red, Brown, and Regional Economic Voting: Russia, Poland, Hungary, Slovakia, and the Czech Republic from 1990-99", Annual Meeting of the Mid-West Political Science Association, Chicago, IL and the University of Michigan's New Challenges for Political Parties and Representation Conference, May 6-7.

¹⁰ Idem, p. 6.

economic conditions are represented by the unemployment rate recorded in the 42 counties in May 2008 (U)¹¹, the dynamics of Gross Domestic Product per capita (dGDP)¹² and the evolution of the Average Net Nominal Monthly Earnings – dANME¹³.

The estimated model was:

$$NLP_t = a_0 + a_1U_t + a_2 \cdot dGDP_t + a_3 \cdot dANME_t + a_4 \cdot dumCV_t + a_5 \cdot dumHR_t + e_t$$

where:

- NPL = vote for National Liberal Party (incumbent party) in the elections for County Councils, 1st June, 2008;
- U = rate of unemployment, by counties, in May 2008;
- dGDP = dynamics of the gross domestic product per capita, by counties, yearly estimations (2007 = 100%);
- dANME = dynamics of the average net nominal monthly earnings, by counties, yearly estimations (2007 = 100%);
- t = county, t = 1, 2, ..., 42;
- dumCV = dummy variables used for Covasna county;
- dumHR = dummy variables used for Harghita county;
- e = error variable.

We use the dummy variables for Covasna and Harghita counties due to the stable fidelity of the voters from those counties for the Democratic Alliance of Hungarians in Romania (ethnic vote).

The expected results are:

- $a_1 < 0$ increase in unemployment rate has a negative effect on voting for incumbents,
- $a_2 > 0$ economic development increases the electoral chances for incumbent party
- $a_3 > 0$ increase in wages has as effect an increase in votes for incumbents.

The obtained results for the local elections in Romania (June, 1st, 2008) are not econometrically significant:

| Explanatory variable | Coefficient | | t-Statistic |
|----------------------|-------------|----------|-----------------------|
| | Symbol | Value | |
| Constant | a_0 | 20.4921 | 2.518 ^{*)} |
| U | a_1 | 0.6892 | 0.944 ^{**)} |
| dGDP | a_2 | -0.0004 | -0.572 ^{**)} |
| dANME | a_3 | -0.0858 | -0.153 ^{**)} |
| dumCV | a_4 | -22.0212 | -3.245 ^{*)} |
| dumHR | a_5 | -18.2289 | -2.793 ^{*)} |

$R^2 = 0.35$, Durbin Watson statistic = 1.75.

^{*)} Significant at 5% level.

^{**)} Econometrically non-significant.

¹¹ National Institute of Statistics, 2008, Monthly Statistical Bulletin 5: "Number of Registered Unemployed, by County, at the End of May 2008", p.126, table 78.

¹² Because we do not have quarterly estimation of regional GDP (at NUTS-3 level), we have used the yearly estimations of National Commission for Prognosis, see www.cnp.ro

¹³ Yearly estimations of National Commission for Prognosis, see www.cnp.ro

The estimators a_1 , a_2 and a_3 are not significantly different from zero.

Next, we test other models, based also on the responsibility hypothesis. After the general elections in 2004, the resulted government included the DA-Alliance (Justice and Truth Alliance – in Romanian "Dreptate și Adevăr" – formed by the National Liberal Party and the Democratic Party), together with the Democratic Alliance of Hungarians in Romania. Although on April 11, 2007 the DA-Alliance was politically dissolved and the Democratic Party was excluded from the government, we have tested the hypothesis of a common perception (NLP + DP) at the electorate's level, through a model such as:

$$\text{Former D.A. – Alliance}_t = b_0 + b_1 \cdot U_t + b_2 \cdot dGDP_t + b_3 \cdot dANME_t + b_4 \cdot \text{dumCV}_t + b_5 \cdot \text{dumHR}_t + \varepsilon_t,$$

where the variable *Former D.A. – Alliance* collects the votes for the National Liberal Party and the Democrat-Liberal Party. The Democratic-Liberal Party was constituted in December, 2007 by the merger between the Democratic Party and the Liberal Democratic Party¹⁴.

Neither this model is econometrically significant (the estimators b_1 , b_2 and b_3 are not significantly different from zero for a reasonable confidence level):

| Explanatory variable | Coefficient | | t-Statistic |
|----------------------|-------------|----------|-----------------------|
| | Symbol | Value | |
| Constant | b_0 | 37.9628 | 3.561 ^{*)} |
| U | b_1 | 0.2941 | 0.307 ^{**)} |
| dGPD | b_2 | -0.0009 | -1.075 ^{**)} |
| dANME | b_3 | 1.0640 | 1.448 ^{**)} |
| dumCV | b_4 | -50.6484 | -5.697 ^{*)} |
| dumHR | b_5 | -41.6028 | -4.866 ^{*)} |

^{*)} Significant at 5% level

^{**)} Econometrically non-significant

$R^2 = 0.627$, Durbin Watson statistic = 1.705.

We have not included in such an economic-political model the Democratic Alliance of Hungarians in Romania (DAHR) because the votes for that alliance are not political votes, but based on ethnic criteria (the percentage of DAHR votes in the total votes for each county is similar to the percentage of the Hungarian population in that county).

As a conclusion, a model based on the responsibility hypothesis is not adequate for explaining the creation of voting preferences in the regional structures in Romania in the June 2008 elections.

Based on this conclusion, we have tested a *partisan* model. Only the Social Democratic Party of Romania (SDP) can be loosely classified as a centre-left party, although the right-left division in Romania is quite blurred¹⁵. Therefore, we test the hypothesis that in the poor areas and in those with high unemployment rate the votes go to the left-wing party, namely SDP. Thus, we test the model:

$$SDP_t = c_0 + c_1 U_t + c_2 \cdot dGDP_t + c_3 \cdot dANME_t + c_4 \cdot \text{dumCV}_t + c_5 \cdot \text{dumHR}_t + v_t$$

¹⁴ The Liberal Democratic Party was a wing detached from the National Liberal Party in December 2006 and officially enlisted on March 1st, 2007.

¹⁵ See [http://en.wikipedia.org/wiki/Social_Democratic_Party_\(Romania\)](http://en.wikipedia.org/wiki/Social_Democratic_Party_(Romania)).

(v_t is the error variable).

We expect that $c_1 > 0$ (the unemployed vote for the left-party), $c_2 < 0$ and $c_3 < 0$ (in poor areas the people vote with the left-wing party).

These are the results:

| Explanatory variable | Coefficient | | t-Statistic |
|----------------------|-------------|----------|----------------------|
| | Symbol | Value | |
| Constant | c_0 | 34.7995 | 3.007 ^{*)} |
| U | c_1 | 1.3283 | 1.279 ^{*)} |
| dGPD | c_2 | 0.0005 | 0.583 ^{*)} |
| dANME | c_3 | -1.0446 | -1.309 ^{*)} |
| dumCV | c_4 | -31.6950 | -3.284 ^{*)} |
| dumHR | c_5 | -25.3350 | -2.729 ^{*)} |

^{*)} Significant at 5% level.

^{**)} Econometrically non-significant.

$R^2 = 0.345$, Durbin Watson statistic = 2.10.

The estimators for the coefficients c_1 , c_2 și c_3 are not statistically significant (not significantly different from zero) on a reasonable level of confidence. This leads to the conclusion that the hypothesis of partisan voting cannot be econometrically supported. An explanation can be found in Tucker's suggestion (2005): "Transporting a simple partisan based approach to the post-communist world is problematic because of the pervasive levels of uncertainty in any new democracy. It is difficult to apply a simple left-right classification scheme to parties in transition countries; both because it is hard to know where parties stand and because they can often change their positions. Moreover, even if analysts could come up with a compelling schema, it would be a stretch to assume that those voters would be able to associate parties of a certain partisan persuasion with specific policies as closely as voters can in established democracies"¹⁶.

It seems that no evidence (at least through econometric reasons) is found for partisan model in Romanian regional elections, or for the responsibility hypothesis based model.

"The end of economic voting?" asked Christopher J. Anderson in a recent paper¹⁷. Actually, the stable relationship between economic performance and voter behaviour was challenged by Paldam since 1991¹⁸ (the so-called instability dilemma¹⁹). In

¹⁶ Tucker J.A., 2005, "Red, Brown, and Regional Economic Voting: Russia, Poland, Hungary, Slovakia, and the Czech Republic from 1990-99", Annual Meeting of the Mid-West Political Science Association, Chicago, IL and the University of Michigan's New Challenges for Political Parties and Representation Conference, May 6-7, p.4-5.

¹⁷ Anderson C.J., 2007, "The End of Economic Voting? Contingency Dilemmas and the Limits of Democratic Accountability", Annual Reviews of Political Science. 10:271-96.

¹⁸ "First X presents an impressive study of the Vote or Popularity function for country Z, with a nice theory and - most important - very fine econometric fits: a high R^2 , very significant t-ratios, and, in addition, some new econometric trick like the $\zeta \zeta$ - test from the latest issues of Esoterica. Everybody is impressed, until a few years later Y demonstrates that, by one little change, X's result collapses" (Paldam M. 1991. How robust is the vote function?, Economics and Politics: The Calculus of Support, ed. Norpoth H., Lewis-Beck M.S., Lafay J.D., p. 10. Ann Arbor: Univ.Mich. Press).

Anderson's statement: "After all, in the imperfect world of social science research, the use of different model specifications and different time periods (in time-series research) is bound to lead to at least somewhat different estimates of the relationship between, say, government popularity and the rate of economic growth"²⁰.

Although the economic performance cannot explain the voting behaviour in the Romanian regional elections, we accept the hypothesis that votes do not follow a random schema and, as a consequence, we have conceived a political impact model. We have tested in this framework the hypothesis of faithful voters between two consecutive electoral moments and the engine role played by the well-known leaders. Thus, we test the model:

$$\text{Vot-P}_{2008,t} = \alpha_0 + \alpha_1 \cdot \text{Vot-P}_{2004,t} + \alpha_2 \cdot \text{LEADER-P}_{2008,t} + \alpha_3 \cdot \text{DUM-ET}_{2008,t} + \alpha_4 \cdot \text{OTH}_{2008,t} + v_{2008,t}$$

where:

$\text{Vot-P}_{2008,t}$ = Votes for the party P, as shares of total votes in county t, June, 1st 2008, local elections

$\text{Vot-P}_{2004,t}$ = Votes for the party P, as shares of total votes in county t, June, 6th 2004, local elections

LEADER-P = Dummy variable, which is 1 if the representative of party P wins the County Council on county t, and 0 otherwise;

DUM-ET = Dummy variables estimating the ethnic electoral behaviour;

OTH = Other political variables;

v = the error variable

t = county, t = 1, 2, ..., 42

We expect that $\alpha_1 > 0$, (that is the occurrence of a faithful electorate), $\alpha_2 > 0$ (this means that a distinguished leader is able to draw up his party in electoral preferences), $\alpha_3 < 0$ (ethnic behaviour limits the electoral space of the political party).

These are the obtained results:

1. For the National Liberal Party, the equation is:

$$\text{Vot-NLP}_{2008,t} = \alpha_0 + \alpha_1 \cdot \text{Vot-NLP}_{2004,t} + \alpha_2 \cdot \text{LEADER-NLP}_{2008,t} + \alpha_3 \cdot \text{DUM-BUC}_{2008,t} + \alpha_4 \cdot \text{DUM-SV}_{2008,t} + \alpha_5 \cdot \text{DUM-NT}_{2008,t} + \alpha_6 \cdot \text{DUM-CV}_{2008,t} + \alpha_7 \cdot \text{DUM-HR}_{2008,t} + v_{2008,t}$$

The estimators are significantly different from zero and they are in concurrence with the expected values: the votes for the National Liberal Party are positively related to the faithful electorate ($\alpha_1 = 0.589874$), and the regional prominent leaders draw up the party ($\alpha_2 = 9.246123$). The impact of well-known leaders was also demonstrated by the negative dummy variables inlaid for Suceava and Neamț – counties where the important leaders from 2004 of NLP migrated towards other political party. Also in Bucharest, NLP had not a prominent leader able to draw up the political votes for the Local Council.

¹⁹ See chapter 3: "The crucial question: is the instability of the VP-function apparent or inherent?" in the paper Lewis-Beck M.S., Paldam M., 2000, *Economic voting: an introduction*. Electoral Studies, Volume 19, Issues 2-3, June, pp. 113-121

²⁰ Anderson C.J., 2007, "The End of Economic Voting? Contingency Dilemmas and the Limits of Democratic Accountability", *Annual Reviews of Political Science*, vol. 10, p.275.

These are the obtained results:

| Explanatory variable | Coefficient | | t-statistic |
|-------------------------|-------------|-----------|-------------|
| | Symbol | Value | |
| Constant | α_0 | 8.880802 | 2.543851 |
| Vot-NLP ₂₀₀₄ | α_1 | 0.589874 | 3.132387 |
| LEADER-NLP | α_2 | 9.246123 | 4.959472 |
| DUM-BUC | α_3 | -12.22901 | -7.569545 |
| DUM-SV | α_4 | -13.80540 | -10.18442 |
| DUM-NT | α_5 | -8.523477 | -8.450914 |
| DUM-CV | α_6 | -11.21842 | -4.052888 |
| DUM-HR | α_7 | -8.084730 | -2.783665 |

$R^2 = 0.7619$, Durbin-Watson statistic = 2.0079.
(All the estimators are significant at least 99%²¹)

2. For the Social Democratic Party of Romania the equation is:

$$\text{Vot-SDP}_{2008,t} = \beta_0 + \beta_1 \cdot \text{Vot-SDP}_{2004,t} + \beta_2 \cdot \text{LEADER-SDP}_{2008,t} + \beta_3 \cdot \text{DUM-CV}_{2008,t} + \beta_4 \cdot \text{DUM-HR}_{2008,t} + v_{2008,t}$$

These are the results:

| Explanatory variable | Coefficient | | t-statistic |
|-------------------------|-------------|-----------|-------------|
| | Symbol | Value | |
| Vot-SDP ₂₀₀₄ | β_1 | 0.776903 | 30.04931 |
| LEADER-SDP | β_2 | 6.049016 | 3.829564 |
| DUM-CV | β_3 | -7.799027 | -30.04931 |
| DUM-HR | β_4 | -1.663674 | -7.189330 |

$R^2 = 0.8333$, Durbin-Watson statistic = 2.0715.
(All the estimators are significant at least 99%).

The votes for the Social Democratic Party of Romania were cast essentially by the faithful electorate and by the engine role played by the leaders. The ethnic behaviour in Covasna and Harghita counties dwindle the votes for the Social Democratic Party of Romania.

3. For the Democratic-Liberal Party the equation is: γ

$$\text{Vot-DLP}_{2008,t} = \gamma_0 + \gamma_1 \cdot \text{Vot-DLP}_{2004,t} + \gamma_2 \cdot \text{LEADER-DLP}_{2008,t} + \gamma_3 \cdot \text{DUM-SV}_{2008,t} + \gamma_4 \cdot \text{DUM-NT}_{2008,t} + \gamma_5 \cdot \text{DUM-CV}_{2008,t} + \gamma_6 \cdot \text{DUM-HR}_{2008,t} + v_{2008,t}$$

The obtained results:

| Explanatory variable | Coefficient | | t-statistic |
|-------------------------|-------------|----------|-------------|
| | Symbol | Value | |
| Constant | γ_0 | 12.03840 | 3.862654 |
| Vot-DLP ₂₀₀₄ | γ_1 | 0.868134 | 4.386154 |
| LEADER-DLP | γ_2 | 9.288316 | 5.007201 |
| DUM-SV | γ_3 | 14.00250 | 2.467003 |
| DUM-NT | γ_4 | 14.01889 | 2.508325 |

²¹ For model analysis we used *Econometric Views*, and the estimation method was Least Squares with White Heteroskedasticity-Consistent Standard Errors & Covariance.

| Explanatory variable | Coefficient | | t-statistic |
|----------------------|-------------|-----------|-------------|
| | Symbol | Value | |
| DUM-CV | γ_5 | -17.00624 | -3.027990 |
| DUM-HR | γ_6 | -12.24872 | -2.166996 |

R2 = 0.7765, Durbin-Watson statistic = 1.7463.
(All the estimators are significant at least 95%).

As for the SDP, the votes for the Democratic-Liberal Party were cast by the faithful electorate and by the engine role played by the leaders and the ethnic behaviour decreased the votes for the DLP. An interesting situation was recorded in Suceava and Neamţ counties: the leaders' migration from the National LP towards the DLP drifted the votes to DLP.

3. Conclusions

The voting behaviours at the Romanian regional election of June 1st, 2008 were first determined by political reasons (faithful electorate), together with the influence of the leaders and ethnical disturbances. For all parties, the renowned leaders drew up the votes. The inertia in electoral behaviour (devoted voters) advantages all the parties and the ethnical behaviour advantages only a nationalist party.

The electoral impact of economic variables was marginal. Perhaps the probability of re-election of the incumbent party decreases when the economic situation deteriorates, but does not increase following a symmetric schema when the economic performance is "good". For example, through an analysis of the economic voting in Denmark, Nannestad and Paldam (1997) demonstrated that the reaction is about three times stronger to deterioration in the economy than to an improvement²². They called this finding the "grievance asymmetry" (voters may react mostly to negative changes than to corresponding positive ones).

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