

UNEMPLOYMENT AND INVESTMENTS IN VARIOUS POLITICAL ENVIRONMENTS OF THE TRANSITION COUNTRIES EU MEMBERS

DAMIR PIPLICA,¹ and IVO SPERANDA²

Abstract

Regardless of the fact if they are constituted of left-or right-wing parties, the governments of transition countries - EU members, should realize the importance of the growth of the investment activity aimed to reduce the unemployment rate, in order to achieve their set goal in conducting the measures of their economic policy. Should the right-wing governments rather follow their political viewpoint, and at the same time they would still want to reduce the unemployment together with other set economic goals, than they should put bigger ponder on increasing investment activities, than it is usually done by left-wing governments, because the impact of the investments in reducing unemployment rate is lesser than with left-wing governments. However, if the right-wing governments should opportunistically turn more to centre-oriented voters, instead of following their own ideological programme, that would enable them slightly easier position in suppression of unemployment, because of the growing impact of the investments to the unemployment. On the other hand, left-wing governments' effort to increase investment activity would produce more impact to unemployment suppression than right wings', but if they opportunistically turn to centre-oriented voters this would create slightly more difficult position reducing the impact of investments to unemployment, compared to the situation when they would follow their own left-wing programme.

All Croatian governments, regardless of their respective ideologies, should aim to increase investment activity in order to reduce unemployment, which would have bigger influence in comparison with other transition countries of EU. Moreover, right-wing Croatian governments could easier influence unemployment reduction by increasing investment activity compared to other transition countries, without 'necessity' to turn towards 'centre-oriented' voters.

Key words: *unemployment, investment, political parties, transition countries, economic policy*

JEL classification: L14; D23;

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1. INTRODUCTION

Transition of economic and political system of ex-socialist countries into a modern market economy was not developing everywhere at the same pace and efficiency. This unique historic period represents at the same time an opportunity for researching of some economic phenomena that can have specific qualities related to their economic environment. Although the process of transition in eleven countries EU members that we observed is at the very end, they still represent a group of countries that differ in many aspects of other EU members.

The centre of our research is investments and their impact to reduction of unemployment, in the frame of specific transition environment, depending on the fact if current government is constituted by left- or right-wing party. That is why we would observe investments in

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situations when left-oriented governments should be more sensitive to suppression of the unemployment than right-oriented governments, and vice versa. The results of the research would enrich existing theoretical evaluations, having its foundation in ideological and opportunistic models that explain implementing of economic policy of left- and right-wing governments. They can also be useful to transition countries governments that when setting goals in implementing of economic policy, they should count on specific impact of investments in different political environments and that set goals would accordingly be easier or more difficult to achieve. Disregarding of such a specific influence of the investments in relation to set priorities of the economic policy, could result in failure of the government in achieving of its goal – reducing of the unemployment.

The goal to which this paper is aimed to is to stress out the importance of the impact of the investments in unemployment reduction regarding the specific transition circumstances and at the same time, depending on the fact whether operating government is constituted by left or right – wing political party.

Leading hypothesis of the paper could be expressed as: governments should take in to the consideration the importance of impact of the investments on the unemployment reduction in different political environment. If previous statement is being ignored it results with abating the unemployment reduction.

Applied methodology in this paper is statistical processing and analysis of the relevant data, synthesis, concretization of the acquired results, generalization and finally specification what has result with the conclusions based upon the approving stated hypotheses and scientific methodology, what represent the main scientific contribution of this paper in studying and researching these issues

2. POLITICAL MOTIVES AND BEHAVIOUR OF THE CREATORS OF ECONOMIC POLICY

Several authors have focused on research of political environment and its influence on conducting of the economic policy of certain countries, specifically taking into consideration political motives of left- and right-wing governing parties. In this view, Nordhaus (1975) has considered that politicians have winning of the mandate on their minds, so that their behaviour is opportunistic. Thus both, left- and right-wing governments relay on 'short memory' of the electorate and try to make the impression of prosperity before the elections, by growth of outputs and reducing the unemployment, while negative consequences arise only after they receive the mandate, and result in restrictive political measures. Meltzer (1986), Rogoff (1990), Rogoff and Sibert (1988) and Persson and Tabellini (1990), updated the Nordhaus theory in the viewpoint of rational expectations. They consider that the electorate would not be completely informed about the intents of creators of economic politics. Economic participants have rational expectations, but imperfect information basis. Namely, the voters do not have access to information on the level of politicians' abilities that they can only assume, so there are asymmetric information between the bearers of the economic policy and the voters. Cycles are shorter than in traditional model. Opportunistic models have also been researched in works of MacRae (1977), Tufte (1978) and Keech (1995), etc. In their basis opportunistic models explain the impact of the governing party to the economic policy in the pre-elections period, which is aimed to growth of the party's popularity among voters in order to obtain a new mandate (Reichenvater, 2007).

On the other hand, Partisan Theory starts from the presumption that ideologically oriented politicians try to achieve election victory in modern parliamentary democracies, with an aim of realizing specific economic goals, that are not only opportunistic. Phillips curve is in a heart of traditional Partisan Theory. In his traditional model, Hibbs (1977), argues that left-wing governments are more sensitive to increasing of employment and economic growth, than in reducing inflation. On the other hand, right-oriented governments are much more interested in reducing the inflation and price stability, than in reducing the unemployment rate. Namely, most of the left-wing supporters in countries with parliamentary democracy belong to workers

and citizens of lower financial status, while the right-wing supporters are citizens of higher financial status. Hence, it is logical that the interest of the workers and lower class citizens is opening of new working places and increasing of the employment, while the interest of the higher classes of the society is to prevent inflation from diminishing their property (savings), so they are interested in price stability. Victory of left-wing parties would result in their effort to reduce unemployment that would consequently be followed by an increase of the inflation rate, while the victory of the right-wing party would result in such governments' efforts in inflation reduction that would consequently increase unemployment rate.

Minford (1985) also argues that the right-wing parties are reasonably averse to inflation than the left-wing parties for the reason that they are more concerned with protecting the real value of property which are held in larger amount by the higher middle class in relation to the lower class. Oatley (1999) comes to the conclusion that countries have partisan cycles before the 1990's. On the other hand Clark and Hallerberg (2000) didn't find any evidence of partisan cycles in monetary and fiscal policy in OECD countries. Cukierman and Meltzer (1986), Rogoff and Sibert (1988), and Rogoff (1990) in their works criticize partisan theory and partisan business cycles, with rational expectations as its basis.

Chappell and Keech (1986), Alesina (1987), Alesina and Sachs (1988), as well as Alesina and Roubini (1992) have joined parties' preferences to the rational expectations (and prices) and have established that uncertainty of the election victory of left- or right-wing parties affect economic activity. Sudden inflationary or deflationary changes may have economic effects, but they are of temporary character, due to adaptation after post-election surprise. Bigger political polarization between right- and left-wing governments affects bigger discrepancy in the income level than natural. Namely victory of left- (right-) oriented parties would result in higher (lower) rise of income level compared to natural level, which would result in returning on natural level the following year. Alesina (1987) has established that the uncertainty of the election victory and ideological differences between left- and right-oriented parties would cause creation of business cycles.

New Keynesian Phillips curve in the Calvo model (1983) of price stickiness means that inflation dynamics are determined by the present-value of future real marginal costs. Gertler et al. (1999) include Calvo's idea and examine new Keynesian Phillips curve. The sticky-information Phillips curve has been also explained in articles by Mankiw and Reis (2002, 2007). They made model with flexible prices meaning that firms can adjust prices and forecast best possible price instead of predetermined price level. New Keynesian Partisan theory concludes that price increases or goes down without delay as soon as the socialist or conservative party takes office.

In the context of the above stated theoretical evaluations, several authors have conducted researches of transition countries, so Pacek (1994) has researched macro-economic reasons that have influenced voters to take party-side on elections in Bulgaria, former Czechoslovakia and Poland in the period 1990-1992. Some authors like Halleberg and de Souza (2000) concluded that transition countries in the process of joining EU had political business cycles. Treisman and Gimpelson (2001) concluded that the expectations directly correlated with the actual macroeconomic data in Russia, while Akhmedov and Zhuravskaya (2004) clearly identified the political business cycles in Russia. Maurel (2006) identified fiscal changes in election periods at some of EU countries, while Brender and Drazen (2005) argued that political deficit cycle is a phenomenon of new democracies. Besides the authors mentioned above, some other authors have concluded researches and they came to the similar or same results.

3. MODEL AND ANALYTIC INSTRUMENTS APPLIED TO THE RESEARCH

The research of the influence of the investments to unemployment in the observed transition countries would be done in relation to possible behaviour of the creators of the economic policy and political parties in achieving of the set economic goals, as well as keeping their position in executive government, which is in the very core of set theoretical concepts. We

would add indicators of the level on unemployment to the indicators of the investments rate for each country, depending on the fact if the left- or right-wing parties are ruling the country, and then they would all be processed according to the methods of statistic analysis.

Our research would be done in conditions of transition environment, where left- and right governments struggle to obtain a new mandate. In the very core of the research there is a presumption that the creators of the economic policy of the transition countries are well aware of their ideological preferences, whether left- or right- oriented. However, the essential difference regarding researches conducted so far is the fact that all of the governments of the observed countries have monetary stability as a goal, which is defined in their approaching contracts and Maastricht criteria, so we will consider the impact of the monetary policy as neutral and as unchangeable (constant). In favour of such thinking is also the fact that today central banks of transition countries EU members have a high level of independency in implementing of monetary policy, and they have accomplished stability of prices as set primary goal of monetary policy, while some of them are members of euro-zone. The above mentioned difference would especially be obvious if we compared obtained monetary stability of the observed countries today to the period of their administrative-planned economies before transition.

Since governments all over the world nowadays have no authority in conducting of neither monetary policy, nor influence at its conduction, and monetary sovereignty is transferred to their respective central banks, there can be no 'trade off' between inflation and unemployment. Moreover, achieved level of monetary stability and low level of inflation cannot have significant influence to the unemployment any more. Thus in modern circumstances there are no more Phillips's curve as a starting point in a way that it was explained in 'partisan theory' ($\pi = -h(u - u_n)$, whereas: π - inflation rate, u - unemployment rate, u_n - natural rate of unemployment, h - positive constant), and member countries governments have been given a 'hot potato' – they have to use other measures of economic policy to achieve set economic goals. Therefore, our research shows how to efficiently suppress unemployment with right- or left-wing governments of the observed countries, where we cannot count any more on active measures of monetary policy, but we have to keep in mind that its influence in given circumstances is neutral.

4. THE DATA, THE ESTIMATION AND THE RESULTS

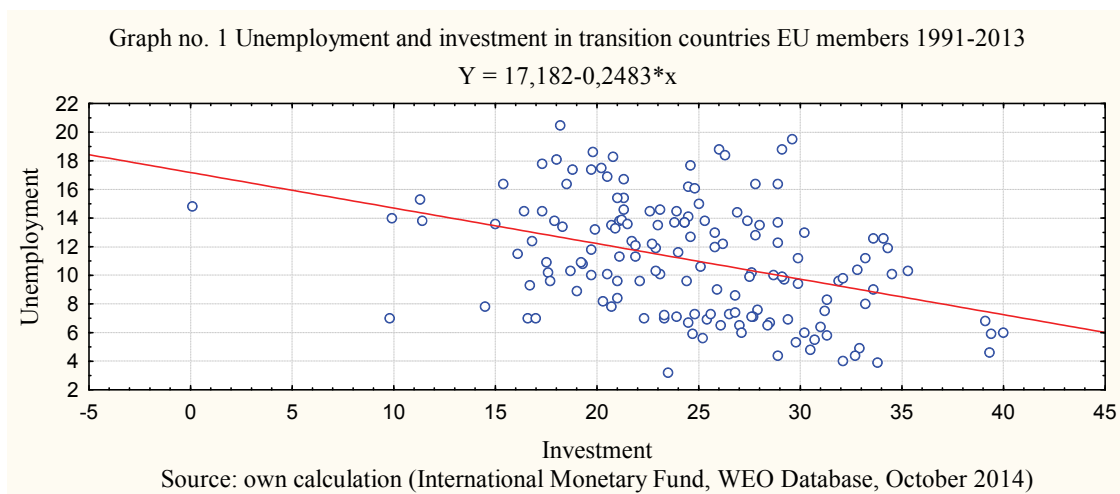
Electorate of the observed transition countries sometime do not consider left- and right-oriented parties in a way it is done by the electoral body of the developed western countries, therefore problems and inefficiency of the transition process may to some voters create perception that all the politicians are 'the same', i.e. that there is no essential difference between them. However there is, without a doubt, a well-defined viewpoint difference between the political parties, as well as certain credibility towards their voters in achieving certain social-economic goals.

The researching paper covered a total of 11 transition countries, EU members: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, and Croatia. The time frame covered by the research was the whole transition period, from 1991 to 2013. We have also taken into consideration the effects of the investments on the unemployment in the period 2000 – 2013 separately, because at that period all of the observed countries were in a mature phase of the transition, whereas in some countries the process of the transition was almost at the end, and markets of the observed transition countries had relatively higher level of liberalization. We have joined a total of 242 investment rates to indicators relating to unemployment, in years when left- or right-wing governments of the transition countries ruled. We have separately analyzed correlation and influence of the investments to the unemployment when right-wing parties ruled, and separately when the left-wing parties ruled the countries.

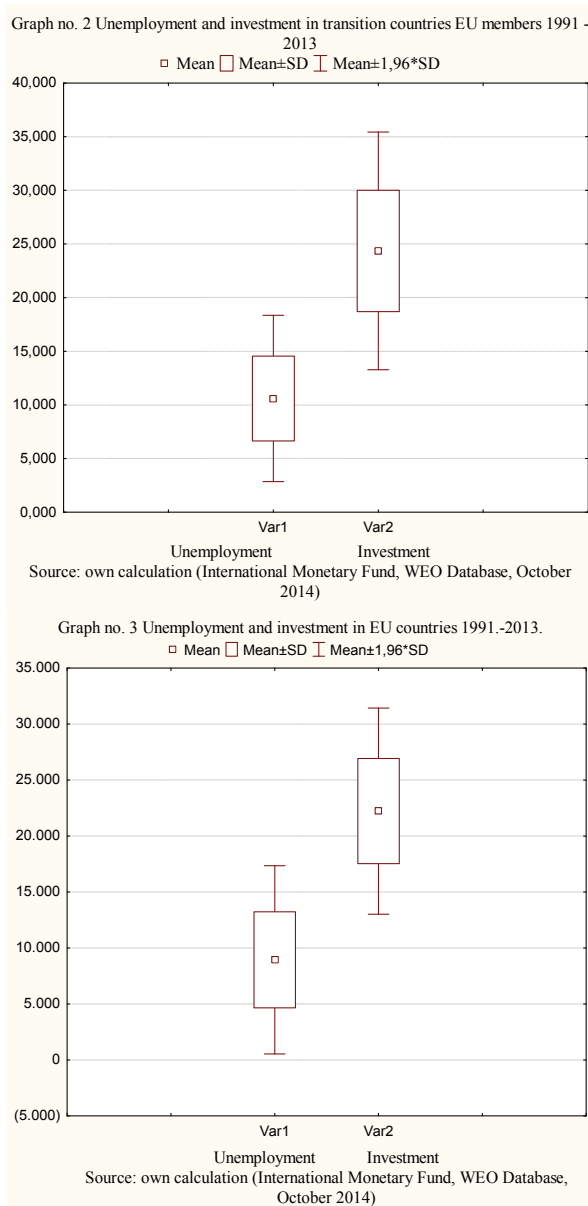
Table no. 1 Unemployment and investment in transition countries EU members 1991-2013

| | | |
|-----------------------------------------|-------------------------|----------------------------|
| Dependent: unemployment | R = 0.41197751 | F = 49.06102 |
| | R2= 0.16972547 | df = 1.240 |
| No. of cases: 242 | adjusted R2= 0.16626599 | p = 0.000000 |
| Standard error of estimate: 3.611626603 | | |
| Intercept: 17.635074589 | Std.Error: 1.029259 | t(240) = 17.134 p = 0.0000 |
| Var beta= - 0.41 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)



When we consider investments and unemployment of all the governments of the observed transition countries in the period of 1991-2013, regardless of the fact if left- or right-oriented parties constituted the government, their significant connection is obviously shown in a negative correlation of the investment and unemployment rates (table No. 1) Should the governments of the transition countries would like to influence reduction of the unemployment, they have to influence increasing of the investments rate, that would increase efficiency of the instruments of the economic policy. However, if left- and right- oriented governments should behave more opportunistically and turn themselves to 'centre-oriented' voters, they would have to consider slightly different influence of the investments to the unemployment, which we will see later. An average investment rate, regardless of the political orientation of the governments, was 24.36%, which is higher rate in comparison to the average rate of investments of today's EU members, which in the mentioned period was 22.29%. However, it had lesser impact on reduction of unemployment which was 10,61%, that was higher than an average rate of today's EU members, which was 8.94% in the period 1991-2013. Therefore it is necessary to additionally increase efficiency of the investment activity in order to achieve set economic goals, especially reducing of unemployment.

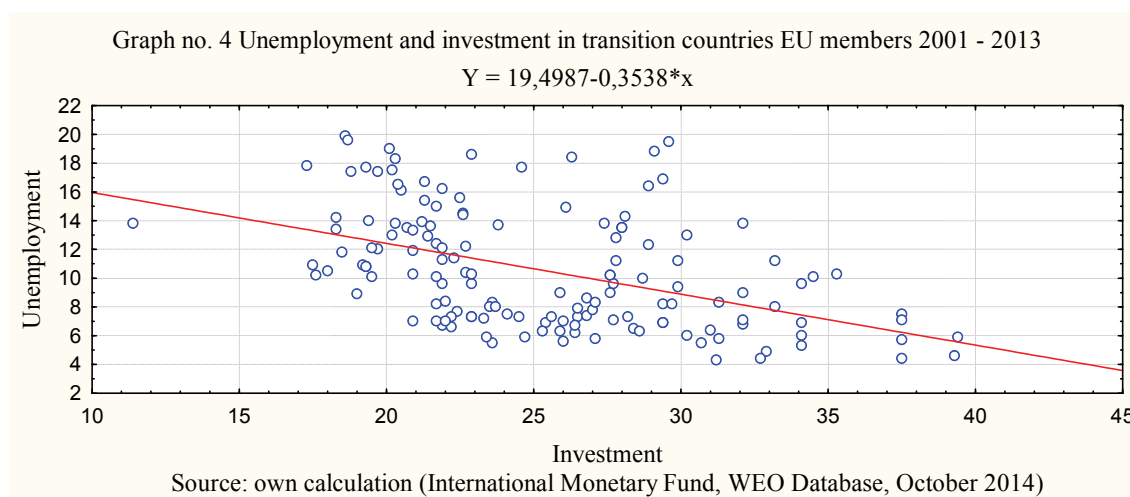


If we consider transition countries in later period, 2001-2013, when transition process was already advanced, even stronger correlation of the investments and unemployment would be obvious, expressed in negative correlation (table No. 2). We have joined a total of 147 investment rates to indicators relating to unemployment, in years when left- or right-wing governments of the transition countries ruled. Although an average rate of investment, regardless of the fact if the right- or left wing governments ruled, counted 24.98%, which is higher rate compared to average height of the investment rate of today's EU members, which in the mentioned period was 22.45%. However, it has lesser influenced reduction of the unemployment compared to the others EU members, where an average rate of unemployment was 10.21% and average unemployment rate of today's members of EU was 8.79%. Although the influence of the investments to the unemployment reduction in the observed countries in the later period of the transition has slightly enlarged, still such efficiency was lower than in other EU members. The reasons for such lower efficiency are surely more bad investments, higher level of the corruption, etc., in comparison to other EU members.

Table no. 2. Unemployment and investment in transition countries EU members 2001-2013

| | | |
|-----------------------------------------|-------------------------|----------------------------|
| Dependent: unemployment | R = 0.46752380 | F = 40.55927 |
| R2= 0.21857850 df = 1.145 | | |
| No. of cases: 147 | adjusted R2= 0.21318939 | p = 0.000000 |
| Standard error of estimate: 3.639598874 | | |
| Intercept: 19.897333266 | Std.Error: 1.511552 | t(145) = 13.164 p = 0.0000 |
| Var beta= - 0.47 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)



4.1 THE DATA, THE ESTIMATION AND THE RESULTS WHEN GOVERNMENTNS OF TRANSITION COUNTRIES WERE CONSTITUTED BY RIGHT-WING PARTIES

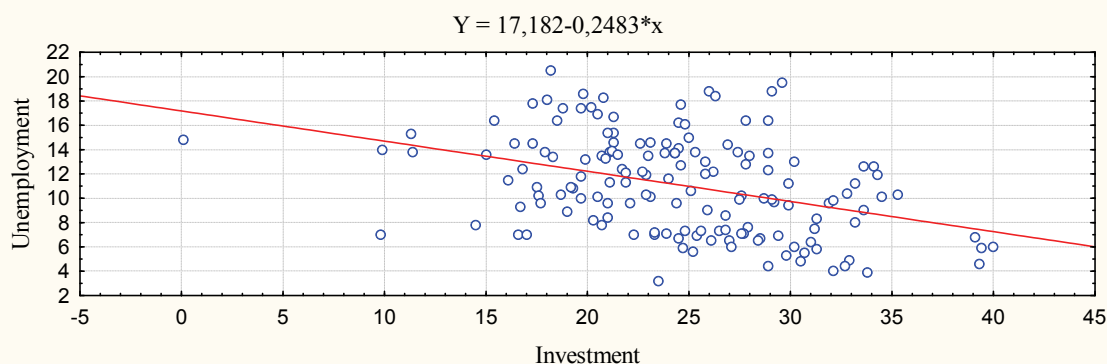
When we consider connection of the investments and unemployment of the right-wing governments in transition countries in the whole transition period (152 cases), it will show their lower negative connection compared to the left-wing governments (table No. 3). Should right-wing governments do not put stronger ponder on reduction of unemployment, than they would not achieve wanted and adequate effect. Considering that the electorate of the observed transition countries is often very sensitive to suppression of the unemployment in a certain country, which is in average higher than in other EU countries, therefore, more opportunistic right-wing governments may have bigger success in unemployment reduction, than if they have followed their right-oriented party programme. Should such governments turn to 'centre-voters' more opportunistically, they would have slightly stronger efficiency of the investments to unemployment reduction.

Table no. 3 Unemployment and investment in transition countries EU members, right-wing government 1991-2013

| | | |
|-----------------------------------------|-------------------------|----------------------------|
| Dependent: unemployment | R = 0.38908134 | F = 26.75845 |
| R2= 0.15138429 df = 1.150 | | |
| No. of cases: 152 | adjusted R2= 0.14572685 | p = 0.000001 |
| Standard error of estimate: 3.683412950 | | |
| Intercept: 17.182000112 | Std.Error: 1.214104 | t(150) = 14.152 p = 0.0000 |
| Var beta= - 0.39 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)

Graph no. 5 Unemployment and investment in transition countries EU members, right-wing government 1991-2013



Source: own calculation (International Monetary Fund, WEO Database, October 2014)

Right-wing governments in later period of transition (2001-2013) showed slightly more efficient influence of the investments to unemployment, but again lower in comparison to the left-oriented governments. It is evident that right-wing governments set up different priorities of the investment policy in comparison to left-wing governments, and that reduction of unemployment is not their only, especially not primary goal. In that sense, we can confirm results of the Partisan Theory, which consider right-wing governments to be less sensitive on unemployment reduction in comparison to the left-wing governments. However, such position enables to the right-wing governments to, by opportunistic behaviour towards 'centre-oriented' voters prior to elections, create an illusion that by measures of investment policy they want to efficiently reduce unemployment, while real effect would become evident only after the elections.

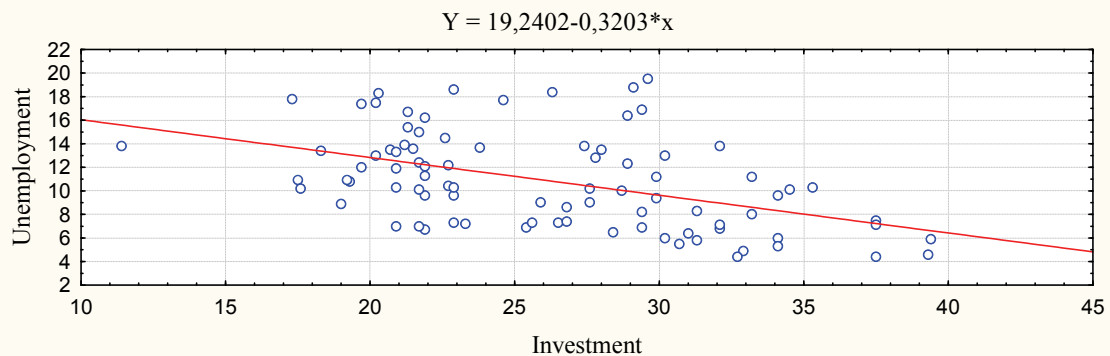
Right-wing governments showed to be more successful in increasing the investments, because in the observed period they have higher average investment rate amounting 26.12%, while left-oriented governments had lower average investment rate of 24.27%. However, right-wing governments showed bigger amplitudes of the investments rate, so standard deviation counted 5.85, while this discrepancy with left-wing government was milder and standard deviation counted 4.22. Despite bigger investment activity, right-wing government were less efficient in unemployment reduction, so an average rate of unemployment in the observed period was 10.88%, which at left-wing governments was 10.00%, although they had smaller, but more efficient investment activity.

Table no. 4. Unemployment and investment in transition countries EU members, right wing government 2001. - 2013.

| | | |
|-----------------------------------------|-------------------------|---------------------------|
| Dependent: unemployment | R = 0.45838788 | F = 23.14324 |
| | R2= 0.21011945 | df = 1.87 |
| No. of cases: 89 | adjusted R2= 0.20104036 | p = 0.000006 |
| Standard error of estimate: 3.639365035 | | |
| Intercept: 19.358904014 | Std.Error: 1.823891 | t(87) = 10.614 p = 0.0000 |
| Var beta= - 0.46 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)

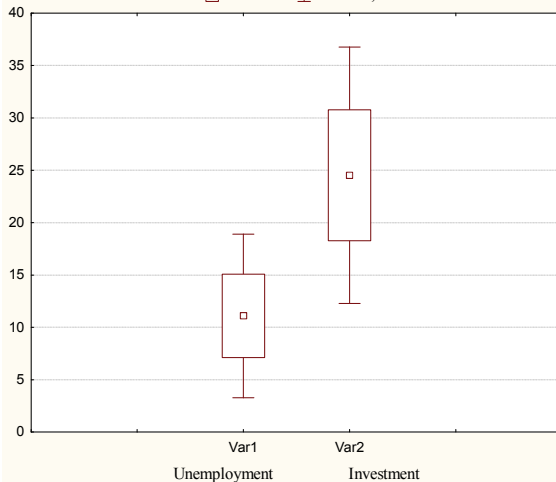
Graph no. 6 Unemployment and investment in transition countries EU members, right - wing governments 2001 - 2013.



Source: own calculation (International Monetary Fund, WEO Database, October 2014)

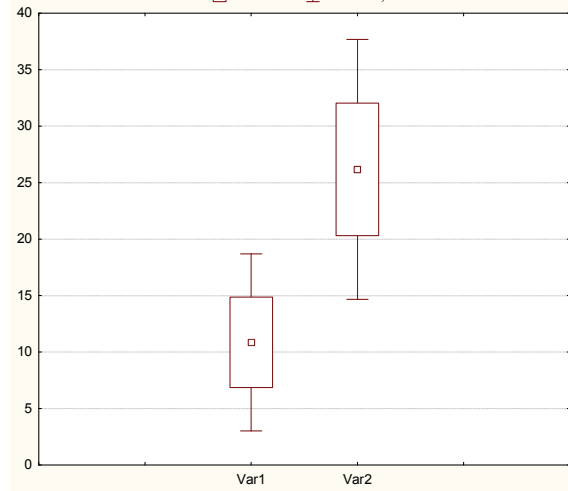
Although an average investment rate of the right-wing governments in later period of transition was enlarged to the level of 26.12%, compared to 24.11 of the whole observed period of transition, the unemployment rate slightly grew, to the level of 10.88% and to 10.81% for the whole observed transition period. It is obvious that the growth of the investment activity of the right-wing governments does not show bigger efficiency in unemployment reduction, but the contrary. It is also obvious that right-wing governments show even further bigger amplitude of the dispersion of the investment rate in comparison to the left-wing governments. However, such position still enables right-wing governments opportunistic turning to 'centre-oriented' voters before the elections, creating position for slightly better efficiency of unemployment reduction, and by this getting bigger voters' trust.

Graph no. 7 Unemployment and investment in transition countries EU member states, right - wing government 1991 - 2013



Source: own calculation (International Monetary Fund, WEO Database, October 2014)

Graph no. 8 Unemployment and investment in transition countries EU member states, right - wing government 2001 - 2013



Source: own calculation (International Monetary Fund, WEO Database, October 2014)

4.2 CASE STUDY CROATIA

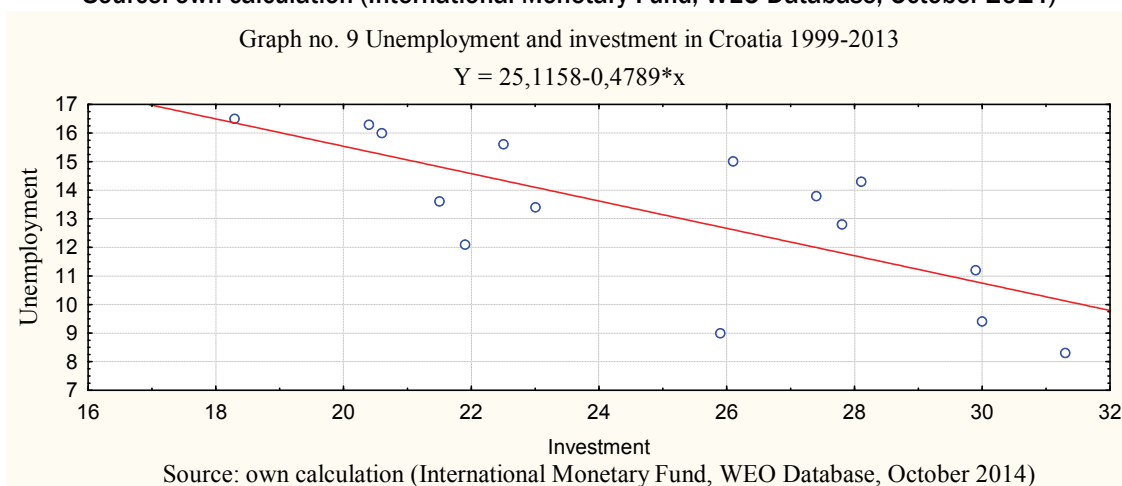
If we observe connection of the investment and unemployment at right- and left-wing Croatian governments, their very high correlation would be obvious (table No. 5), where we should point out that we consider smaller number of observed cases. However, the result shows enough that increased investment activity at all Croatian governments would significantly ease position of the creators of the economic policy in achieving unemployment reduction and that in larger scope than in other transition countries EU members. Despite numerous investment programmes that failed and still very high level of corruption, investments in Croatia have strong influence on unemployment reduction. Therefore it is obvious that mentioned economic

goals almost cannot be achieved without significant increase of the investment rate in Croatia, off course, especially in the economic departments that by their nature request bigger number of employees. Moreover, we could conclude that investments are a key factor of unemployment reduction in Croatia.

Table no. 5 Unemployment and investment in Croatia 1999-2013

| | | |
|-----------------------------------------|-------------------------|---------------------------|
| Dependent: unemployment | R = 0.72658489 | F = 14.53803 |
| R2= 0.52792560 df = 1.13 | | |
| No. of cases: 15 | adjusted R2= 0.49161219 | p = 0.002154 |
| Standard error of estimate: 1.910720783 | | |
| Intercept: 25.115766233 | Std.Error: 3.175929 | t(13) = 7.9082 p = 0.0000 |
| Var beta= - 0.73 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)

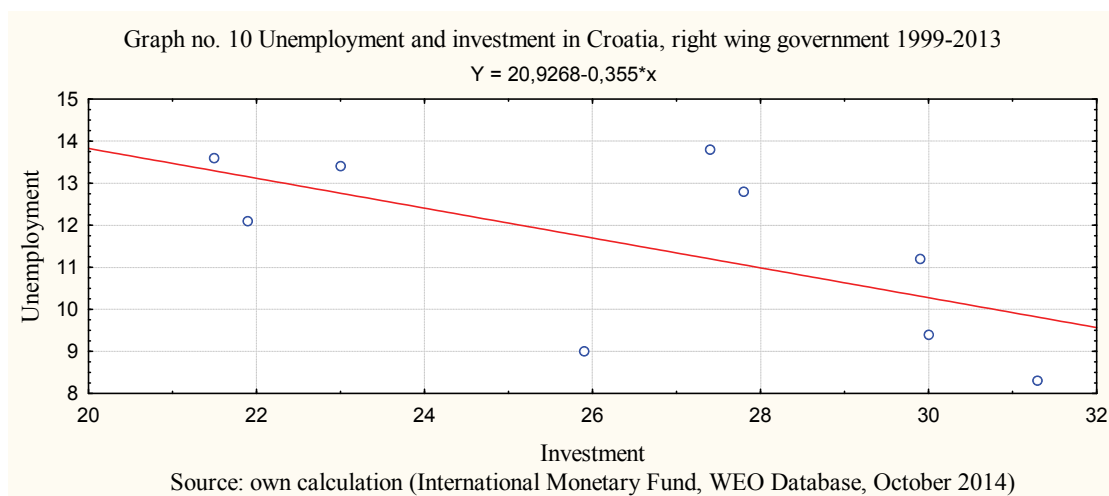


Taking into special consideration position of the right-wing Croatian government that would behave more opportunistically before the elections, and not strictly following their party programme, that would additionally ease their position in reducing unemployment rate in the country by increasing investment activity. It is also obvious that turning of left-wing governments towards centre-oriented voters would make their position in reduction of employment by investment activity slightly more difficult, but such an influence would still be very strong and bigger than in other observed transition countries.

Table No. 6. Unemployment and investment in Croatia, right wing government 1999-2013

| | | |
|-----------------------------------------|-------------------------|--------------------------|
| Dependent: unemployment | R = 0.61226644 | F = 4.197674 |
| R2= 0.37487019 df = 1.7 | | |
| No. of cases: 9 | adjusted R2= 0.28556593 | p = 0.079669 |
| Standard error of estimate: 1.801696581 | | |
| Intercept: 20.926794376 | Std.Error: 4.634731 | t(7) = 4.5152 p = 0.0027 |
| Var beta= - 0.61 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)



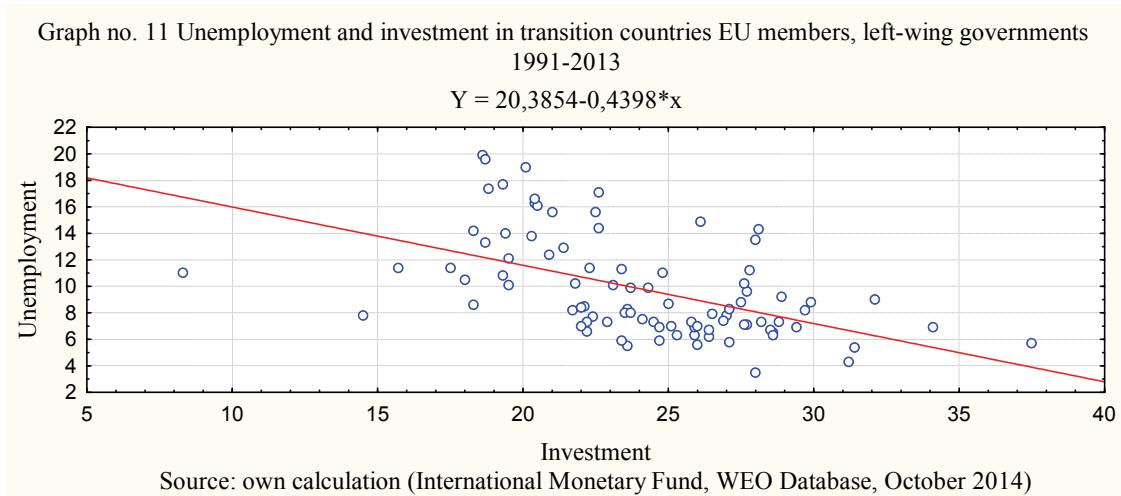
4.3 THE DATA, THE ESTIMATION AND THE RESULTS WHEN TRANSITION COUNTRIES GOVERNMENTS WERE CONSTITUTED BY LEFT-WING PARTIES

Table No. 7 clearly shows a very strong connection of the investments and unemployment at left-wing governments in transition countries, expressed in a negative correlation of the investment and unemployment rates. However, certain failures in the scope of the investment activities at left-wing governments, that usually have stronger sensitivity to unemployment suppression in comparison to right-wing governments, have less negative influence to the efficiency of the measures of the economic policy to unemployment reduction compared to right-wing governments. Likewise, should the left-oriented governments behave more opportunistically, and less ideologically, and turned to 'centre-oriented' voters, that would influenced somehow more significant necessity of the growth of the investment rate in order to ease efficiency of the measures of economic policy aimed to unemployment reduction.

Table No. 7. Unemployment and investment in transition countries EU members, left-wing governments 1991-2013

| | | |
|-------------------------|-----------------------------------------|---------------------------|
| Dependent: unemployment | R = 0.52133646 | F = 32.84455 |
| | R2= 0.27179171 | df = 1.88 |
| No. of cases: 90 | adjusted R2= 0.26351662 | p = 0.000000 |
| | Standard error of estimate: 3.250582653 | |
| Intercept: 20.385390977 | Std.Error: 1.879311 | t(88) = 10.847 p = 0.0000 |
| | Var beta= - 0.52 | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)



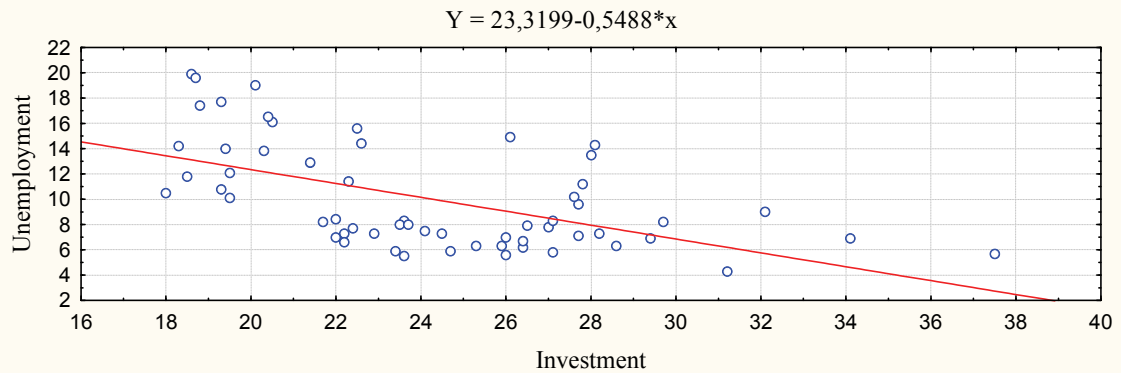
Left oriented governments in the period of 1991-2013 have shown an average investment rate counting 24.08%, which is lower compared to the average investment of the right-wing governments, but still it had stronger impact on the unemployment rate reduction, which counted 9.80%, i.e. lower unemployment rate compared to right-wing governments. It is obvious that the goal of investment policy of the left-wing governments was more pointed to unemployment reduction, than of the right-wing governments. We have also researched in which way the investment influenced unemployment in the observed countries in the later transition phase, when most of the important economic reforms were already done and the grade of the market liberalization was significantly higher than in first phase of the transition. Obtained results show without doubt even higher influence of the investments to the unemployment reduction.

Table No. 8 Unemployment and investment in transition countries EU members, left-wing governments 2001-2013

| | | |
|-----------------------------------------|-------------------------|---------------------------|
| Dependent: unemployment | R = 0.56330424 | F = 26.02865 |
| | R2= 0.31731166 | df = 1.56 |
| No. of cases: 58 | adjusted R2= 0.30512080 | p = 0.000004 |
| Standard error of estimate: 3.449424352 | | |
| Intercept: 23.551005436 | Std.Error: 2.700113 | t(56) = 8.7222 p = 0.0000 |
| Var beta= - 0.56 | | |

Source: own calculation (International Monetary Fund, WEO Database, October 2014)

Graph no. 12 Unemployment and investment in transition countries EU members, left-wing governments 2001-2013

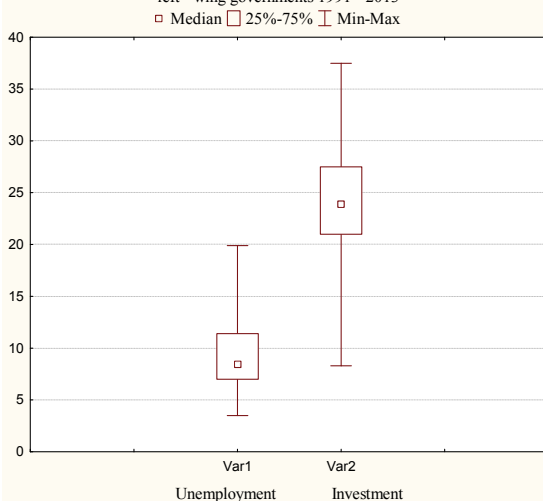


Source: own calculation (International Monetary Fund, WEO Database, October 2014)

In a total of 58 observed cases an average unemployment rate of the left-wing governments in the period 2001-2013 was 10%, while average investment rate counted 24.27%. Left-wing governments showed less success in investment growth compared to right-wing governments. However, left-wing government showed lower dispersion of the investment rates, and showed some more success (interest) in unemployment reduction in comparison to right-wing governments. Investments with left-wing governments have slightly lower part in GDP compared to investments with right-wing governments, but they are more aimed in unemployment reduction than is the case with investments of the right-wing governments. This additionally supports the thesis that left-wing governments of the transition countries are more sensitive to reduction of unemployment in comparison of the right-wing governments. In this sense we can confirm the results of the Partisan Theory that considers left-oriented governments to be more sensitive to reducing of unemployment than right-oriented governments. However, such a position makes it slightly more difficult for left-oriented governments to opportunistically turn to 'centre-oriented' voters because this would diminish the effect of the investments to unemployment.

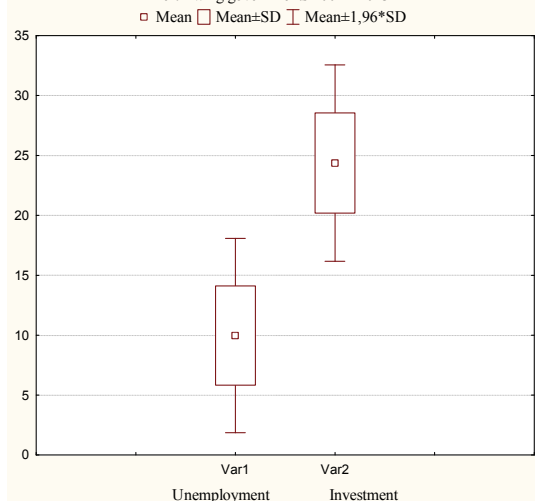
At the end of this section the digest of significant indices and data of all previous statistical calculations is given in table no. 9.

Graph no. 13 Unemployment and investment in transition countries EU members, left-wing governments 1991 - 2013



Source: own calculation (International Monetary Fund, WEO Database, October 2014)

Graph no. 14 Unemployment and investment in transition countries EU members, left-wing governments 2001 - 2013



Source: own calculation (International Monetary Fund, WEO Database, October 2014)

Table No. 9. Recapitulation of statistical processing and relevant data analysis

| Unemployment and investment | R | Regression Equation |
|-------------------------------------------------------------------------------------------------------|------------|---------------------|
| Unemployment and investment in transition countries EU members 1991-2013 | 0.41197751 | $Y=17,182-0,2483x$ |
| Unemployment and investment in transition countries EU members 2001-2013 | 0.46752380 | $Y=19,4987-0,3538x$ |
| Unemployment and investment in transition countries EU members, right-wing government 1991-2013. | 0.38908134 | $Y=17,182-0,2483x$ |
| Unemployment and investment in transition countries EU members, right- wing governments 2001. – 2013. | 0.45838788 | $Y=19,2402-0,3203x$ |
| Unemployment and investment in Croatia 1999-2013 | 0.72658489 | $Y=25,1158-0,4789x$ |
| Unemployment and investment in Croatia, right -wing government 1999-2013 | 0.61226644 | $Y=20,9268-0,355x$ |
| Unemployment and investment in transition countries EU members, left-wing governments 1991-2013 | 0.52133646 | $Y=20,3854-0,4398x$ |
| Unemployment and investment in transition countries EU members, left-wing governments 2001-2013 | 0.56330424 | $Y=23,3199-0,5488x$ |

Source: own calculation (assorted data from previous calculations)

5. CONCLUSION

Creators of the economic policy in transition countries EU members, regardless if they are of left- or right-oriented viewpoint, should take into consideration lower investment influence to reduction of employment than other EU members. Left-wing governments of transition countries have lower average investment activity in comparison to right-wing governments, but they were more oriented to reduction of unemployment in comparison to the right wing governments. However, opportunistic turning to 'centre-oriented' voters would create somehow more difficult position to left-wing governments than in case they were following their left oriented party programme, because in that case they would difficultly suppress unemployment due to slightly weaker impact of the investments to unemployment. Quite contrary, should the right-wing governments opportunistically more turned to a 'centre oriented' voter, that would enable them slightly easier position in reduction of unemployment, because in that case the influence of the investments on the unemployment would be stronger, than if they were following their ideological programme.

Despite smaller number of observed cases, it is obvious that all Croatian governments, regardless of their political point of view, need to especially encourage growth of the investment activity, in order to reduce unemployment more efficiently than other transition countries EU members. Even right-wing Croatian governments could more easily influence unemployment reduction compared to the governments of other transition countries, without 'necessity' to turn towards centre-oriented voters.

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