

**The political economy of public spending decisions in the Dominican Republic: credibility, clientelism and political institutions**

**Report prepared for the Public Expenditure and Institutional Review,  
The Dominican Republic**

**March 28, 2002**

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## **The political economy of public spending decisions in the Dominican Republic: credibility, clientelism and political institutions**

This chapter focuses on two striking differences in public expenditure patterns that the DR exhibits relative to other countries. These are at the core of adequate public service provision in the DR. First, compared to other Latin American nations, or to other nations with similar incomes, or to other countries with a small or young population, the government of the Dominican Republic is simply smaller. State effort to provide goods of all kinds to citizens is markedly less than in comparable countries. Second, the allocation of spending in the Dominican Republic deviates significantly from that of comparator countries. For example, spending on education relative to public investment is significantly less in the Dominican Republic – as much as 50 percentage points lower. This chapter explores the unique historical circumstances and the specific political arrangements that contribute to these differences.

Briefly, the argument of the chapter is the following. As many respondents of all political tendencies insisted in interviews in February 2002, there is a strong under-current of clientelism in the Dominican Republic. One consequence of clientelism is that public spending is biased towards public and private goods that are easy to target to specific voters or groups of voters, such as jobs, buildings and highways, and away from publicly-provided goods and services that are more difficult to target, such as higher teacher salaries, improved school curricula, or regulatory predictability. Going beyond most discussions of clientelism, the chapter identifies the characteristics of the Dominican political landscape that make clientelism more prominent there than in other countries. These include the absence of national political organizations capable of making credible policy promises to voters, the significantly disproportionate representation of rural constituencies in the Congress and Senate, and the legacy of personalized and de-institutionalized government decision making that characterized 30 years of *Trujillismo*.

Clientelism does not explain the low levels of government spending in the Dominican Republic, however. On the contrary, we would expect that politicians motivated only by the political imperative of delivering government-provided goods and services to local constituencies would be inspired to spend excessively. This is the lesson of the pork barrel literature, which demonstrates the tendency of multiple legislators, all motivated solely by local constituency concerns, to agree to excessive spending.<sup>1</sup> However, the role of the president in the Dominican Republic, his inability to make credible promises of targeted spending to the legislature, and his unwillingness to delegate spending discretion to potential competitors within his own party, generate downward pressures on spending. Because of these conflicts of interest among different players in the Dominican government, the legislature is unwilling to authorize, and the president prefers, lower levels of spending. The net effect of these presidential preferences is to bring total government spending in the Dominican Republic to the levels seen in other presidential systems with similar incomes and population characteristics.

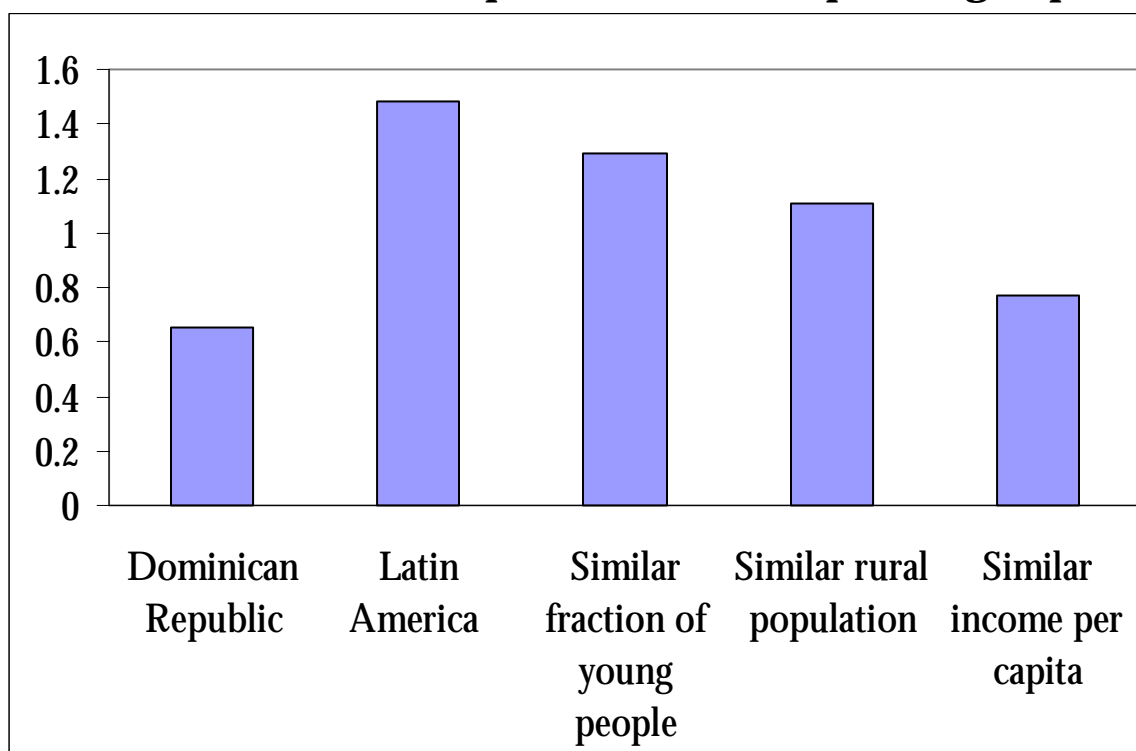
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<sup>1</sup> See Thomas Schwartz (1994), "Representation as Agency and the Pork Barrel Paradox," *Public Choice* 78: 1 (January), 3-21.

## Public spending in the Dominican Republic in international comparison

On any number of indices it is clear that public spending in the DR differs from international comparators. Two in particular are of interest here. The first is the overall size of government relative to national income. The second is the tendency of policy makers to prefer narrowly targeted expenditures, which can more easily be used to reward supporters to the exclusion of opponents, over expenditures that cannot be so easily targeted. An example of the first is public investment – roads, bridges, overpasses, irrigation projects, etc. An example of the second is education spending.<sup>2</sup>

**Figure 1. The ratio of education to public investment (1998) is lower in the Dominican Republic than in comparator groups**



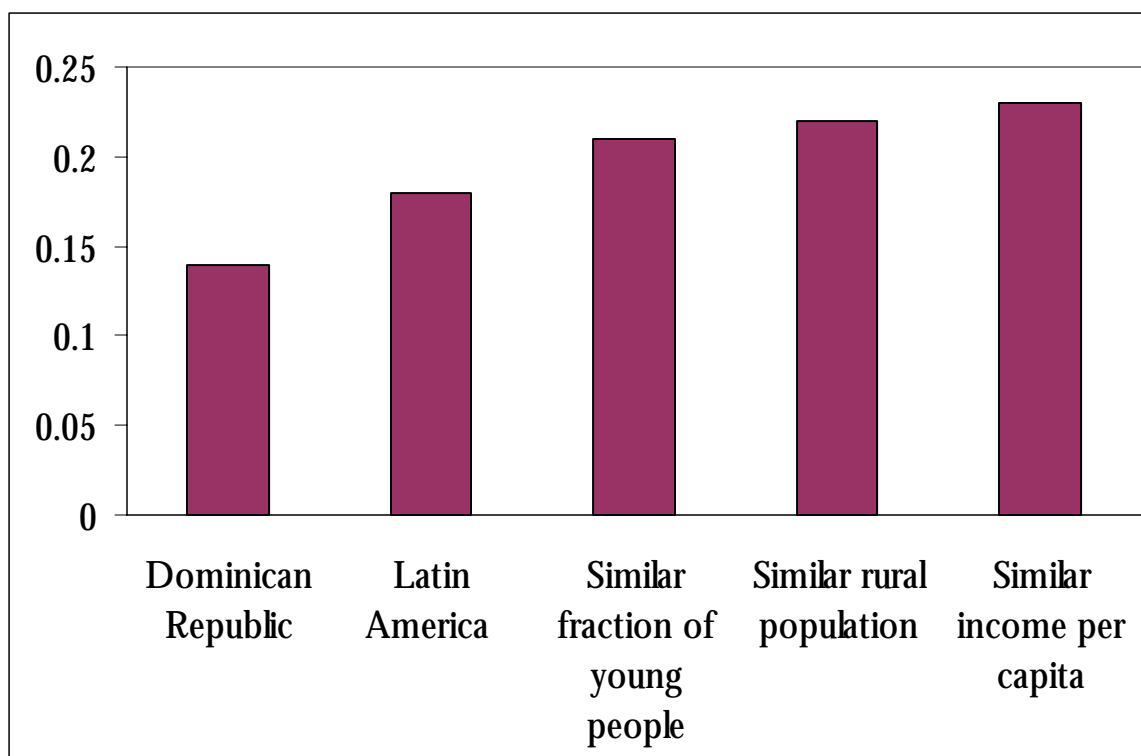
N.B. The nine Latin American comparator countries are Argentina, Bahamas, Bolivia, Chile, Colombia, Costa Rica, Mexico, Panama and Uruguay. There were 10 countries with data with incomes per capita greater than \$3,500 and less than \$6,500, adjusted for purchasing power parity. There were eleven countries with fewer than 39 percent and more than 28 percent of the population younger than 15 years old; and 23 countries with rural populations between 25 and 60 percent of the total population.

<sup>2</sup> Education spending in any given year is heavily weighted towards teacher salaries – 71 percent of Secretaría of Education spending in the Dominican Republic in 2000 went to salaries. Even in the most heavily politicized education system, these salaries are not easily targeted – it is difficult to give teaching jobs to voters or groups of voters in exchange for their support, not least because this could require replacing many currently employed teachers. It is much easier and valuable to take new public investment funds and target them politically. The Secretaría of Obras Publicas spent only 5 percent of its budget on salaries. Historically, in every country, public investment is among the most politicized of government spending decisions.

As Figures 1 and 2 indicate, either ratio is quite low in the DR, relative to any of a number of comparator countries. For example, relative to nine other Latin American countries, the Dominican Republic (in 1998, the last year for which cross-country information is available) spent twice as much on public investment relative to education. Even in the most favorable comparison, with countries from around the world with similar incomes per capita, the Dominican Republic spent ten percentage points less on education to public investment.

The comparison is similar looking at total government spending as a fraction of national income. Spending in the Dominican Republic is notably less than in all four groups of comparator countries. These results are displayed in Figure 2.

**Figure 2. Total government spending as a fraction of GDP (1998) is much lower in the Dominican Republic than among comparable groups of countries**



NB: See note to Figure 1.

The following two sections of this chapter offer two hypotheses for these expenditure patterns. While the two overlap, they are roughly the following:

- 1) the conditions for clientelism are particularly pronounced in the Dominican Republic, giving rise to excessive spending on public investment relative to education, and
- 2) the incentives of the president, members of his party, and legislators are particularly misaligned with respect to spending priorities, leading to low spending as a fraction of GDP.

### **Clientelism and the allocation of government spending in the Dominican Republic**

Observers and scholars typically characterize clientelism as the extreme personalization of politics and political exchange, in the form of specific favors in return for political support. Every country exhibits personalization to one extent or another, but few would disagree that the Dominican Republic is among the more extreme examples of this. The very fact that targeted public spending – public investment – is of such relative importance provides strong evidence of this. However, this observation does not illuminate the conditions that give rise to clientelism. The argument that undergirds this chapter is that countries are more likely to exhibit clientelist behavior when national political organizations cannot make credible promises to voters. Under these circumstances, the credibility of promises to voters will depend on the candidate making the promises, not on the party of the candidate.

Although national parties may find it impossible to make credible promises to local voters about the provision of local public or private goods, the promises of (some) local individuals may be credible to local voters. Unlike their national counterparts, such local candidates have had extensive interactions with local voters, through their activity in community organizations, by being one of the principal employers or landholders in the region, etc.. Through these interactions, they have shown that they make and fulfill their commitments.<sup>3</sup>

However, local candidates have no incentive to make promises regarding government provision of goods and services to all Dominicans, but only to the narrow group of voters to whom they can make credible commitments. They cannot get credit from these voters for providing public goods that benefit many voters, since their voters cannot know whether it was the efforts of their local candidates, or the local candidates representing some other set of voters, that were pivotal in securing the public goods that benefit all of them.<sup>4</sup> Once elected to the legislature, these candidates will care disproportionately about locally-provided goods, such as roads and bridges, and less about the rule of law, corruption, or the quality of education provision across the country.

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<sup>3</sup> It is possible, as well, to argue that through these interactions locally credible individuals attempt to distinguish themselves as persons whose own welfare is enhanced by enhancing the welfare of local citizens, either because they value the local prestige that this behavior brings, or because they are altruistic. The important point is that, regardless of whether local candidates are more appealing to voters because they are more credible or because they have more successfully signaled their personal utility function, voters are more willing to believe that some local candidates will act in their interests than they are willing to believe that national parties or candidates will.

<sup>4</sup> See David Baron (1989), “Service-induced campaign contributions and the electoral equilibrium,” *The Quarterly Journal of Economics* 104: 1, 45-72 (February), for an elaboration of this point.

Non-credible parties and presidential candidates compete to attract these locally credible individuals to their cause. Such individuals both enhance the electoral offering that parties can make to voters and enable parties to conduct more effective local campaigns to enhance turnout. With regard to the first, even parties that fully intend to improve the quality of public good provision across the whole country, reduce corruption, and improve the rule of law, cannot do so credibly. They will find, if they rely on these promises, that voters will ignore them, believing instead that regardless of what non-credible parties promise, if elected they will provide voters with only a minimal level of public goods and instead focus on the extraction of rents. However, if these same parties are able to bring locally-credible candidates on board, they will then be able to make credible promises to local voters at least about local public and private goods, if not about national policy issues.

There is considerable evidence for the prevalence of clientelism in the Dominican Republic – particularly, that party stances on issues are unimportant or not credible, and that personal contacts with candidates matters more. One is that even the most successful party, the PRD, is well-known to be highly factionalized. This is true at the national level, where there are three well-identified factions. But it extends to the local level. In one small town with a PRD mayor, the mayor reported that he was better able to collaborate with council members from the opposition than with council members from his own party (but different factions), a view that was seconded by the opposition. The reason that one can anticipate from the argument above and that the mayor himself expressed, is that council members from his own party viewed themselves as potential mayoral competitors, and did not want him to get credit for significant public works. In fact, this mayor confronted five official competitors for PRD mayoral nomination. The PRD mayor in neighboring and larger Fantino had six competitors. Factionalization is the inevitable outcome of a system in which local or personal characteristics of candidates matter more than their party affiliation.

Second, voters do not place great stock in party identification, and they select candidates for legislative office in the Dominican Republic based on their capacity to deliver government services locally.<sup>5</sup> If voters believed party promises regarding national policy issues and national public good provision, they would tend to resist local candidates who switched parties, or had only a passing affiliation with a party prior to becoming a candidate. However, if they most value only whether a candidate can credibly deliver local goods and services, then we would expect to see weak affiliations between candidates and their parties.

This is what we observe in the Dominican Republic, in contrast to other countries, such as the United States. A common saying in rural areas of the Dominican Republic, repeated by one *alcalde peldaño* of a farming community, was “*Los hechos son los que hablan,*” indicating a clear preference for local works over political affiliation. In addition, most observers interviewed said that, particularly in rural provinces, senate candidates often had no political affiliation before running for the Senate. Several candidates interviewed who spoke of their political trajectory confirmed this. One senator from a small rural province reported that he started with the PRSC but moved to the PRD to run for the Senate. He had recently received overtures from the PLD to switch once again (which he rebuffed). A

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<sup>5</sup> As the discussion below outlines, party affiliation matters to the extent that it is very important for voters that they select a candidate who is locally credible *and* who belongs to the party of the next president, since the president is such a powerful figure in the allocation of public spending.

council member in a small town near Santiago also reported switching from the PRI to the PLD in 1997, when he ran for the town council.<sup>6</sup>

Furthermore, if the credibility of the local candidate is all that matters, we would expect to see candidate histories filled with stories of community work, but not with stories of party activism. This again was commonly observed. All politically active individuals, and all observers of political activity in the Dominican Republic, agreed that successful candidates are extremely active in the community. Senators talked of 30 years of working in the community, in *clubes de servicios*, *asociaciones de deportes*, and other community works. So also did members of town councils. These activities are of course important to political candidates everywhere. However, in places where political parties convey credible policy stances, and clientelism is less evident, we would also expect candidates to be active in their party. This was less in evidence.

The legislative activities of Dominican legislators provides further confirmation that only locally targeted benefits are of much importance to them. No observer claimed that senators were active in legislating issues of national scope; all observers interviewed emphasized that congressional concerns related to the budget, for example, were limited to the quantity of works in their constituencies, the resources flowing to the NGOs that they control, and financing for the legislature itself. Legislative contributions to the budget process are correspondingly brief: in the first year of the Mejía government, the legislature approved the president's budget proposal less than a day after receiving it.

The phenomenon of legislator-controlled NGOs is particularly important. The government budget assigns substantial resources to these NGOs to smooth the passage of the budget through the legislature. Through these vehicles, legislators are able to channel public funds to the provision of goods and services to their constituents, but because they control the NGOs, they are able to take complete credit for their provision and reinforce their personal ties with constituents. This also indicates their preoccupation with the capacity and willingness of the executive branch to implement targeted works included in the budget. One interviewee indicated that the current government issued a decree to establish a commission that would set up criteria that NGOs funded from the government budget would have to meet. Not surprisingly, given the importance of NGOs to legislators, this commission has not yet met.

Although the incentives of legislators in the Dominican Republic to prefer targeted over untargeted public spending are extreme, it is the president who wields greatest institutional power over the budget process. Presidents in the Dominican Republic (and in other countries, such as Perú, where presidential influence over the budget has also been historically significant) turn out to exhibit a strong preference for infrastructure spending, which can be more easily targeted to preferred groups. This was notorious in the late 1980s and early 1990s, when one observer has written that, rather than serve as an engine to re-start the economy, “. . .el programa de construcciones se va convirtiendo en un objetivo en sí mismo. . .”(Ceara, p. 46.) Other presidents – particularly those with a more urban constituency – have preferred to offer jobs, enlarging the civil service. Despite severe

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<sup>6</sup> There is little evidence that it is easy to switch parties after taking office, but turnover in legislative office is so high (26 of 30 incumbent senators lost their seats in 1994, and 17 of 30 lost their seats in 1998), it is difficult to say. Of the 17 incumbent senators who were re-elected in 1994 and 1998, none switched parties.

economic pressures, Presidents Gúzman and Jorge both appear to have raised public sector employment by 50 percent and 40 percent, respectively (Kryzanek and Wiarda, p. 69).<sup>7</sup> The PEME scandal that is currently under investigation involves precisely the targeting of state resources to specific individuals. The head of the Programa de Empleo Mínimo Eventual is accused of paying US\$60 million out of the budget for the program to individuals in poor neighborhoods so that they would not strike in opposition to the government of President Fernández.<sup>8</sup>

The question that emerges, then, is why the president, a nationally-elected figure, does not offset the legislative tendency to targeted expenditures with spending allocations that generate more positive externalities, such as education. One reason is that, because of their limited credibility – a key ingredient of clientelism, presidential candidates require the assistance of locally credible individuals to build their support base locally and to ensure that his voters actually turn out to vote. In other countries, where parties are credible, the president can rely on the party faithful to vote on the basis of their ideological affinity with the party's (credible) policy stances. In the Dominican Republic, where parties are less credible, the president relies disproportionately on those who believe that they will receive something in exchange for their vote, as in the legislative elections. Promises regarding private and narrow public good provision are, consequently, an important way in which presidential candidates distinguish each other. But these are only credible when presidents have the support of locally credible individuals. Numerous interlocutors indicated that presidential candidates rely on the active support of local influential people to secure votes.

This has direct implications for spending. For example, presidents that lack a network of locally credible individuals in particular areas would be expected not to target expenditures to those areas. This is exactly what was observed under the PLD government. The PLD is widely recognized to have been much less well-organized in rural areas than the PRD. This is reflected directly in the number of “comités de base” that the PRD has relative to the PLD: in the area of Jima Abajo, the PRD has 500 committees, the PLD only 170. In addition, the PLD has greater difficulty recruiting senatorial candidates in rural areas: it was a rural PRD senator who reported PLD efforts to recruit him, for example.

However, since President Fernández was unable to make credible promises to rural voters, one would not have expected him to target significant public spending to them during his term in office. We would expect spending targeted to rural areas to have dried up during the PLD presidency. All commentators, including one representative of a farming community outside of Santo Domingo, reported that this is indeed what has happened. They further confirmed that spending on rural areas under the current PRD government, with its elaborate rural organization (and a president well-regarded in rural areas for his

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<sup>7</sup> Kryzanek and Wiarda write that “The negative views of Dominican farmers toward Jorge and the PRD were in large part the source of Joaquín Balaguer’s political rejuvenation in 1986. Many farmers had vivid memories of Balaguer’s agricultural policies which helped modernize the rural sector after the civil war and initiated the first land resettlement program during the 1970s. Campesinos also remember Balaguer as a man who often visited the rural areas handing out pesos and listening to their personal concerns as a father figure who cared about their problems” (p. 106). The rural bias of the PRSC and the urban bias of the PRD explains the different types of private goods that each provided when in office.

<sup>8</sup> EFE News Service, 11/24/2000, “Dominican Republic, Corruption: Ex-President To request detention after arrests of aides.”

plain-speaking qualities and deep agricultural background) has increased tremendously. The PRD was able to make credible commitments to rural areas, the PLD was not.

Presidents also appeal to targeted expenditures to woo legislative support. Because most legislators care primarily about local issues, it is a straightforward, if possibly expensive matter for the president to “buy” their support by targeting government expenditures to serve the political interests of formerly opposition legislators. This is a common practice in, for example, Thailand, and was confirmed by a Dominican diputado from a small party.

Finally, the increasing phenomenon of organized demonstrations, which more directly threaten presidents than legislators, create an important incentive for presidents to prefer targeted state resources rather than widely available public goods. Holding aside the PEME issue, ex-President Fernández declared that it was crucial for the president to be able to respond to brewing social crises with targeted spending in a timely manner. At the time of the alleged diversion of PEME resources, the Dominican Association of Teachers led a strike of 40,000 public sector teachers, there was a partial strike by the Dominican Medical Association, and a strike by the Fenatrano public transport union, paralyzed Santo Domingo and other urban centers. The government at that time accused the opposition of organizing these actions. Whether or not this is true, the important point is that mounting and opposing these types of actions requires funding.<sup>9</sup>

The final piece of more direct evidence that presidents are unable to make credible appeals on the basis of policy, and have a strong preference for targeted expenditures, comes from interviews with officials of the teachers’ union, the *Asociación Dominicana de Profesores*. This union adamantly refuses to ally itself with one party or the other, a prohibition written into its charter. The clientelist milieu of Dominican politics provides two reasons for their failure to align, even in the face of massive education spending by the PLD. First, no party can credibly commit to a future policy towards education, and it therefore does not benefit the ADP to ally itself to one party or the other. Second, the more politically ambitious among the ADP membership compete for elected office on the basis of their local contacts and activity. Their choice of political party affiliation to advance these local political ambitions is secondary, and so the politically active members stretch across the political spectrum. It is therefore not in their interest for the ADP to ally with one party or another.

Note, finally, that the clientelist milieu builds upon itself. Political decision makers are not particularly interested in education. They are very interested in being seen to solve problems personally, however. Consequently, they essentially ignore the thousands of teacher complaints that are filed by teachers with the ADP for resolution with the government (such as late or non-payment of wages, arbitrary transfers, unwarranted suspensions, etc.). Instead, they prefer to solve these problems in direct interaction with the teachers (if at all), so that others (in this case, the ADP) do not get credit. This in turn weakens the ADP as an organization, since it is able to offer fewer services than otherwise.

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<sup>9</sup> Before the consolidation of democracy in the Dominican Republic, other kinds of political competition were also likely to have demanded significant directed payments. “The early 1970s were particularly dangerous for opposition leaders as paramilitary gangs with the support of the police roamed poor barrios in and around Santo Domingo beating and killing those viewed as leftists” (Kryzaneck and Wiarda, p. 50).

### ***The roots of clientelism in the Dominican Republic***

While the conditions under which credible political parties emerge or do not emerge is a difficult issue that exceeds the scope of this chapter, there are nevertheless clear historical precedents in the Dominican Republic for non-credible parties. Historically, the obvious and dramatic difference between the DR and most other countries is 30 years of uninterrupted *Trujillismo*, followed by another 30 years of presidential rule by a close Trujillo ally, in a democracy in which the president can exercise unusual discretionary authority. Three aspects of *Trujillismo* are particularly important for the evolution of clientelism.

First, personal connections to the dictator, or to the dictator's inner circle, were key to economic success and personal welfare. That is, the value to the average citizen of personal contacts with a member of the inner circle were disproportionately high. Although membership in the inner circle changed over time, it changed much less than it would have in a more typical authoritarian setting, where autocrat turnover is frequent. Personal relationships that were valuable at the beginning of Trujillo's rule were likely to be valuable at the end, as well. Moreover, many of the same people, chief among them President Balaguer, reappeared in important government positions after Trujillo's demise. The same personal relationships continued to be useful, therefore.<sup>10</sup>

At the grassroots level, for voters, this meant that no promises of transfers to them or their neighbors were credible absent personal ties, first to their representatives in the government, and second between those representatives and high level officials in the executive branch. For all those individuals who lacked such ties, votes could only be based on the charisma of individual candidates, since parties themselves were not credible advocates of specific policy or ideological positions. Balaguer, as the individual with the strongest reputation and the most valuable personal ties, therefore had a permanent and significant advantage.

The second characteristic of the Dominican Republic that makes reliance on personal relationships a more pronounced feature of citizen-government interactions is the extraordinary influence of the president. As the section below discusses, there are few countries in which the elected president confronts as few constraints on his actions. For example, in contrast to most countries, congressional rejection of the president's budget proposal can have the effect of enhancing rather than diminishing the president's influence over government spending. Absent more elaborate institutional checks on executive discretion, citizens must rely on personal relationships with executive branch officials to guarantee satisfactory interactions with government.

Third, the electoral system gives great weight to rural provinces, where candidates are most likely to have built up the ability to make personally credible commitments with a large fraction of the voters. The Dominican Republic is comprised of 30 provinces, including the Distrito Nacional. The Distrito Nacional has 28 percent of the electorate, while the 16 smallest provinces together have 23 percent of the electorate. There are 18 provinces with fewer than 100,000 registered voters, so the percentage of voters who could

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<sup>10</sup> Electoral competition should, of course, mitigate the tendency to favor only close allies. However, President Balaguer received a large fraction of the vote for more than 10 years after he first took office, and faced only weak electoral competition.

have a personal relationship with elected representatives is correspondingly high. Each elects one senator, so the Dominican Senate naturally over-represents rural areas, in precisely the same way as the United States Senate, where each state is entitled to two senators, regardless of population.

The representation of rural provinces is more exaggerated than in the United States, however, by the requirement that each province elects at least two representatives to the lower chamber of the Dominican Congress, with the number of representatives above two depending on the population of the province. In the US, the requirement is only that each state must have at least one representative.<sup>11</sup> Effectively, then, relative to more populated provinces, rural provinces in the DR have double the representation in the lower chamber compared to the representation of rural states in the United States House of Representatives. The exceptionally strong representation of these smaller provinces means, essentially, that no law that is opposed by rural constituencies can achieve legislative approval.

In all countries, such exceptional weight for rural districts would mean that farm policies would reflect farm interests. This is true in the Dominican Republic as much as in the United States. The effects of rural representation go beyond farm policy in the DR, however, because the dynamics of rural politics are different in the DR than in the United States. In particular, as many political observers and politicians in the Dominican Republic indicated in interviews, politics is more “clientelist” in rural areas than in urban areas. Clientelism is defined in various ways, but all definitions imply that rural politics are more intensely focused on the provision of private or very local public goods rather than on broader issues of national policy. This was evident in comparing the political activities of rural politicians that were interviewed – who spent their time dealing with local issues – with the activities of politicians from the Distrito Nacional, who devoted time and resources to the elaboration and discussion policies related to national issues, such as Haitian immigration.

### ***Money politics and spending allocations***

It should be emphasized that clientelism, as described above, does not fully explain public policy outcomes in the Dominican Republic. Most voters, particularly those in large urban districts, have no candidates to choose from with whom they have sufficient personal experience to regard their commitments as credible. Party activists said explicitly in interviews that “*liderazgo personal*” and personal connections mattered most in the provinces, but the image of the party mattered more in the city. This is changing – with the introduction of new, smaller electoral districts in the Distrito Nacional and preferential voting, it will be the image of the candidate as much or more than the image of the party that matters.

Still, the concept of “*liderazgo personal*” will continue to be more powerful in the provinces. Senate candidates competing in the Distrito Nacional, with more than 1 million registered voters, cannot possibly build the same personal reputation for delivering on promises that the senator from Independencia, with 21,000 registered voters. This is all the

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<sup>11</sup> In the United States, the state with the largest population, California, has a slightly smaller population, at 33 million people, than the 24 smallest states together, with approximately 36 million people. Obviously, the US is much larger in population and land area. However, even in 1790, when the US population was less than 3 million inhabitants, out of eighteen states, the largest state had a population larger than the eight smallest states.

more true for presidential candidates, even after they have recruited all of the locally credible supporters that they can. Given that the promises of many candidates cannot be made credible to most of their voters, they must distinguish themselves in other ways, such as advertising, meetings and demonstrations.

These expenditures have two effects. One is to create a personal affinity between voter and candidate, quite apart from issues. The second effect is to inspire heightened electoral activity among those voters who do have a personal connection to the candidate and reason to trust his policy promises (e.g. party activists in the PRD who were personally loyal to José Francisco Peña Gómez). Through advertising and meetings, candidates can convince voters who favor them that they and the interests that finance the demonstrations and advertising believe they can win. All of these activities are common in more developed democracies. The difference is, however, that issues matter less in the Dominican Republic, again because of credibility problems, and so we would expect resources spent on advertising and meetings to matter more.

This is indeed the case. High-ranking party insiders report that presidential campaigns require a minimum of US\$20 million, of which only a fifth, at most, is covered by grants from the state. In contrast, according to US campaign records, the successful and expensive campaign by George W. Bush cost \$193 million. Adjusting either for land area or for population, it is clear that the elections in the Dominican Republic are much more expensive: almost \$2.50 per Dominican per presidential candidate versus less than \$1.00 per American.

Campaigns for legislative office are, if anything, more costly. In February the PRD was completing its internal primary election process for candidate selection. There were reports that for these primary elections alone, one candidate spent US\$4,000,000 in one of the new electoral districts in the Distrito Nacional. With only 200,000 PRD voters in that district, he spent \$20 per voter.<sup>12</sup> This is consistent with the theme of the chapter: where issues play less of a role, and they certainly play less of a role in intra-party primary elections than in inter-party elections, and where candidates are not credible, we would expect more money to be spent in the campaign process.

The types of election expenses that were reported support the notion that elections are expensive. A tremendous concern for mobilizing voter turnout was expressed in all interviews, whether senators or city councilmen, and was generally regarded as even more important in rural areas, not surprisingly. For example, one city councilman from the city of Santiago reported that for the presidential elections he arranged for the transportation of 4,000 voters from his part of the city to the polling places. A PLD city councilman from Jima Abajo, a town of a few thousand voters 90 minutes from Santiago, reported transporting 800 voters for the PLD candidate in the presidential elections. The mayor of Jima Abajo, from the governing PRD party, reported organizing 30 pickup trucks that each transported 75 voters to the polls. While all parties in all democracies tend to devote resources to voter turnout, however, the resources dedicated to this effort in the Dominican Republic seem high.

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<sup>12</sup> Primaries are new, and are one of the responses party's have made in response to the introduction of preferential voting, which encourages candidates to build up individual constituencies even in constituencies with large district magnitude, like Santiago and Santo Domingo.

The impact of high spending on elections is well-known. Campaign resources can only be raised, in any country, from those who are particularly enthusiastic about the ideological tendency or policy preferences of a candidate, and from those who expect candidates to be particularly sensitive to their special interests if they are elected. Since policy differences do not provide a credible way to distinguish parties and candidates in the Dominican Republic, it must be the case that the role of money in politics exaggerates the influence of special interests. One way to satisfy special interests is through targeted spending in the budget, particularly spending on infrastructure projects that involve lucrative contracts.

### ***Presidentialism and spending allocations***

Both empirical and theoretical analyses in the literature (see, e.g., Persson and Tabellini, 2000, Chapter 10) indicate that presidential systems generate more targeted relative to untargeted expenditures than do parliamentary systems. As the next section describes, the institutions of the Dominican presidency are not those of the “textbook” presidency. However, they have a similar effect. In particular, they vest in a narrower group of politicians – those in the executive branch – the ability to target spending. This is clearly evident in the numbers: almost 30 percent of total public investment in the Dominican Republic in 2000 was undertaken by the Ministry of the Presidency, an exceedingly high fraction, and one that was surely much higher under earlier presidents. Given the president’s unusually significant authority to target spending without seeking the approval of other political actors, we would expect the president to prefer more targeted rather than untargeted spending compared to a country executive who did have to seek approval.<sup>13</sup>

The preference for targeting by Dominican presidents is perhaps best exemplified by the number of incomplete projects that one administration leaves and the next does not complete. The Technical Secretary of the current president claimed that the current government has completed 3,000 public works projects, among which were hundreds of projects that were begun by the Balaguer government and paralyzed under the Fernández government. At the same time, many observers noted that incomplete projects from the Fernández government have been paralyzed under the current government. Such a stop-and-start pattern is consistent with consecutive presidents each targeting their public works to different groups, and each seeking to avoid providing benefits to the groups favored by the earlier government.<sup>14</sup>

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<sup>13</sup> The logic is the following: the president has a choice between using untargeted expenditures with a large social payoff, and targeted expenditures, with a smaller social payoff. To the extent that the constituency he wants to please is small, he is more likely to choose the second; if the constituency is large – because political actors representing multiple constituencies insist that their constituencies also benefit from the spending decision – the president internalizes the larger social payoff of the non-targeted expenditures and chooses them.

<sup>14</sup> Despite this pattern of paralyzing the public works begun by predecessor governments, governments still initiate as many works as possible. A former high-ranking planning official in the PLD government said that although the government knew it had financing for only 14 billion pesos of public works, it began much more than 17 billion pesos worth of projects.

## Presidentialism and low spending

The foregoing discussion suggests that where clientelism is most pronounced and issue-based politics is not possible, public policy will favor targeted spending over non-targeted spending for two reasons: because locally credible candidates and presidential supporters value such spending most highly; and because candidates who cannot make credible commitments to most of their constituency require campaign resources to mobilize support through advertising and meetings. However, there is another characteristic of spending in the Dominican Republic that also draws considerable attention, its low level, as depicted in Figure 2.

A recent strand of political economy research has identified the conflicts of interest between president and legislature as the reason for the notoriously lower levels of government spending in presidential democracies compared to parliamentary democracies.<sup>15</sup> In 1997, for example (the last year for which the political data is available), government spending was 18.8 percent of GDP in 24 presidential democracies, but 23.8 percent in 32 parliamentary democracies.<sup>16</sup>

This explanation for low government decision making in presidential democracies is persuasive, but it assumes a different institutional set-up in presidential democracies than the one that prevails in the Dominican Republic. In particular, the literature assumes US-style institutions in which different committees in the legislature are able to exert strong control of the spending and tax agendas. One committee makes an all-or-nothing proposal regarding the level of taxes, which the legislature votes on, and then one committee makes an all-or-nothing proposal to allocate spending across jurisdictions and sectors. The two committees have a conflict of interest which they cannot credibly reconcile: the spending committee cannot credibly promise that they will allocate substantial resources to the tax committee legislators. The tax committee therefore proposes a low level of taxes.

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<sup>15</sup> See, especially, Torsten Persson and Guido Tabellini (2000), *Political Economics: Explaining Economic Policy*, Cambridge: MIT Press, Chapter 10.

<sup>16</sup> These are countries that scored not more than three out of seven on the political liberties index produced by Freedom House, where seven is least free, to ensure that the comparator countries were ones in which the different institutional rules of presidentialism and parliamentarism would have been at least relatively binding on government decision makers. See also Torsten Persson and Guido Tabellini (2000), "Political Institutions and Policy Outcomes: What are the stylized facts?", CEPR working paper (July).

**Table 1. Key constitutional restrictions on legislative budget authority**

Country/year of constitution	<b>Dominican Republic</b> 1994	<b>Perú</b> 1993	<b>Argentina</b> 1994	<b>Bolivia</b> 1967 (1994 reforms)	<b>Brazil</b> 1988 (1999 reforms)	<b>Chile</b> 1980 (1989 reforms)	<b>Colombia</b> 1991 (1997 reforms)	<b>Costa Rica</b> 1949 (1997 reforms)	<b>Ecuador</b> 1998	<b>Venezuela</b> 1999
Only the President can propose the budget	Article 55	Article 78	Article 100.6	Article 147	Article 61(1)II(b)	Article 64	Article 346	Article 178	Article 258	Article 313
Congress cannot increase the budget for any items or create new budgetary categories	Article 115.3 (but there are also other restrictions, see note)	Article 79	No restrictions on Congress	No restrictions on Congress	Article 166, but loophole exists (see note)	Article 64, but loophole exists (see note)	Article 351	No restrictions on Congress (but see note)	No restrictions on Congress (but see note)	No restrictions on Congress (but see note)
If no new budget approved, current budget remains in effect OR President's proposal takes effect	Article 115.4	No	Yes (Implicit)	No	No	No	No	Yes (Implicit)	No	Article 313
	No	Article 80	No	Article 147	No	Article 64	Article 348	No	Article 258	No

Note: Dominican Republic: Congress can make amendments to the president's budget proposal, but all amendments, either to reduce or to increase budgeted amounts or to introduce new spending categories, require a two-thirds majority. The same article requires that Congressional modifications of any executive spending proposal be subject to a 2/3 vote. Brazil: Article 166(3): Congress can increase budgets if amendments are compatible with the pluriannual plan and with the law of budgetary directives and if it specifies the necessary funds (for example, some categories of spending can be increased by the Congress provided that other categories are reduced). Chile: According to Article 64, Executive has sole authority to estimate revenue. The Congress can propose new or higher expenditures if it indicates a revenue source to pay for it. Colombia: If Congress doesn't pass a budget, the one proposed by the government is used unless government doesn't submit one on time, in which case the one from the year before is used. Costa Rica: Article 179: Assembly can increase expenditures if it indicates a revenue source, for which it must receive a report from the Controller General. Ecuador: Article 258: Congress can change line items in Executive's proposed budget, but cannot increase **total** revenues or expenditures. Venezuela: In Article 313, Legislature can alter (introduce or remove) budget categories but cannot authorize reductions in public revenues nor **total** expenditures that exceed the revenues in the proposed budget.

The institutional framework in the Dominican Republic, most of which is a legacy of the Trujillo era, is quite different. First, the two chambers of the Dominican legislature are tightly controlled by their respective presidents: no bill can be presented to either house without the consent of the president. The chamber president, then, can ensure credible agreements between congressmen that obviates the conflict of interest postulated in the literature. Second, the president wields more agenda-setting authority in fiscal policy than is assumed in the literature. Table 1 contrasts the strong budgetary powers of the Dominican president with that of his colleagues around Latin America. The Dominican president is one of only three presidents in the group of ten whose budget proposals can only be amended by the legislature if the legislature musters a super-majority (a two-thirds majority in the Dominican Republic) in favor of the amendment.

Moreover, the president has significant discretion to spend unbudgeted revenues as he sees fit. Since, if the legislature fails to pass a budget, the previous year's budget takes effect, any nominal increase in revenues over the nominal amounts budgeted in the last year can be spent without legislative oversight. Hence the assertion made earlier, that the president's discretion over spending can actually increase if his budget is rejected by the legislature. This was certainly the viewpoint expressed by former President Fernández, who experienced legislative rejection of his budget.

More generally, Articles 51 and 52 of the Ley de Presupuesto allow the Executive to spend at his discretion 75 percent of any monthly surplus that arises between planned and actual spending. Budgets can be manipulated in various ways to take advantage of these articles and maximize presidential discretion over spending. The president can underestimate fiscal revenues and overestimate the costs of particular activities in his annual budget proposal in order to ensure a surplus. The president can also underestimate spending that will be funded out of internal resources and overvalue spending from funds from external sources since the budget law only governs spending out of internal resources. The exploitation of these strategies seems to have reached its apex in the late 1980s. In his last terms in office, President Balaguer submitted budgets that called for expenditures on particular items (particularly infrastructure) as much as 20 percent less than was expended in the prior budget year. He used the procedural requirements in the budget law to control up to 50 percent of total spending (Ceara p. 44).<sup>17</sup>

All of the foregoing suggests that agenda control over spending does not seem to be split between different actors, but resides primarily within the presidency. As a consequence, only if Dominican presidents preferred low government spending for some reason could we explain low government spending. This might have been true in the Trujillo era, when the Trujillo family had a stake in most significant private (taxable) enterprises, but seems unlikely to be the case now. There are, however, at least two sources of conflict in the Dominican system, other than those anticipated in the literature, that work to drive down government spending.

First, it is taken for granted in the literature that budgets are implemented as passed. That is, the president could structure a large budget with significant earmarks for legislators,

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<sup>17</sup> Miguel Ceara Hatton, "De reactivación desordenada hacia el ajuste con liberalización y apertura (1987 – 1990 y 1991 – 1992).", Chapter 2, 33-73, in Betances, Emelio and Hobart A. Spalding, Jr. (1996). *The Dominican Republic Today: Realities and Perspectives*. New York: Bildner Center for Western Hemisphere Studies.

to secure their support, along with ample funding for his own initiatives. However, in many countries, among them the Dominican Republic, the executive branch has been able to ignore the provisions of legislatively-approved budgets. One interview respondent said that the current government is the first one ever in the Dominican Republic to have requested legislative approval of a proposal to transfer spending from one budget rubric to another, as the law require. Previous presidents had done this unilaterally. This gives legislators little reason to believe that any promised earmarks are credible. That is, they may not believe that the executive branch has the intention or capacity of implementing earmarked projects. As a consequence, rather than approve high taxes to fund promised earmarks that may or may not materialize, they prefer to approve low taxes, to restrict the unbridled spending authority of the president. Indeed, the legislature has frequently resisted presidential efforts to increase taxes or to increase external borrowing, most recently under the government of President Fernández.

The second problem not taken up in the literature is the conflict of interest within the executive branch. Every president confronts two challenges from his cabinet. The first is that, as in the current government, some cabinet members view themselves as viable presidential candidates and have every reason to use their cabinet position to further that ambition. For example, the minister of education has been vigorous in opposing the government's budget allocations to education and working hard to build up support among teachers. Second, cabinet members, regardless of whether they are aiming for the highest positions, nevertheless gain by using their position to build up their "clientele" of people who are personally loyal to them. One high-level PLD official said that there is always significant tension between the president and the party, reinforcing the point.

In either case, the interests of cabinet members are not those of the president. As government spending grows, the proportion of total spending that the president must delegate to ministries increases, and the proportion that the president can closely monitor declines (assuming that more spending means more transactions, and the president can personally or through his most trusted advisors supervise only a limited number of transactions per day).

More money creates opportunities for others to spend it and to reinforce their own (potentially competitive) clientelist networks. Balaguer, an indefatigable president, spent enormous amounts of time authorizing specific expenditures and monitoring their completion. One legislator said, perhaps exaggerating but nevertheless making the point, that Balaguer did not talk to his finance minister. Any effort to delegate these tasks risked either the misallocation of expenditures to purposes or voters other than his preferred targets, or the misallocation of credit away from him. There is considerable anecdotal evidence of this. Some have alleged that the program to distribute 300 pesos to mothers on condition that they send their children to school was suspended because the Minister of Education discovered that the ministry officials were diverting the money to their own "clients."

There is ample evidence that presidents concern themselves with even the smaller decisions, and problems of monitoring are the most likely reason for this. Observers talk of recent presidents intervening in decisions about which farm animals to import. Balaguer, following his return to power in 1990, engaged in a vigorous program of visits to communities in the interior of the country. Among the several reasons for this was to verify the advance of public works projects and compliance with his decisions (Ceara, p. 41).

These conflicting incentives arise in all presidential and parliamentary democracies. There are two differences in the Dominican Republic, however. First, the president confronts greater difficulties monitoring the spending decisions of his ministers in the Dominican Republic than he does in the United States. Public expenditure management, discussed elsewhere in this report, lacks important elements that would permit monitoring of expenditure flows and outcomes. If the president could perfectly monitor the spending and outcome decisions of the different ministries, there would be no problem. However, as former presidents and close observers have all noted, this is difficult to do. They insist that the only way to control the functioning of the Secretarías is to manage the funds out of the presidential office.

One might ask why presidents do not improve the public sector financial management system of the country, which another chapter discusses in detail. The reason is straightforward: given the president's need for money to finance his political party and presidential campaign, there is considerable advantage to him in preserving a system of opaque public sector financial management. The more stringent is public expenditure management, the more difficult it is to divert government resources to campaign finance.<sup>18</sup> The price of this opacity, however, is the inability to closely track spending decisions and outcomes in government ministries.

The second difference between the Dominican Republic and the textbook presidential democracy is that clientelist pressures are stronger in the Dominican Republic. This has two effects. First, presidents themselves need to be seen as directly providing benefits to targeted groups of supporters. Consequently, they resist delegation of spending even to others in their cabinets. Second, clientelism widens the divergence in spending preferences between competing officials. For example, since voters in the United Kingdom, France or the United States make decisions on the basis of both broad policy concerns as well as more parochial issues, a minister in the UK or US can enjoy a meaningful political payoff by reforming a public policy that affects everyone. Voters in the Dominican Republic place less value on policy promises of national candidates, are less likely to regard current accomplishments as an indicator of future performance, and so reward ministers who have policy accomplishments fewer political benefits.

The net effect of these conflicts is to reduce the presidential preference for large government: the larger is government, the more that must be delegated to potential competitors inside the party. After a certain threshold, established by the scope and depth of issues over which the president can personally make decisions and supervise outcomes, the marginal political payoff to the president of additional spending drops off rapidly. Hence, we very low public spending in the Dominican Republic.

It is important to note that spending, while still low, has been increasing. One likely reason for this is that the current and last presidents of the Dominican Republic have enjoyed much less control over their parties than President Balaguer did and does. There are two indications of this. First, in the PRSC, no one seems to come close to Balaguer in electability. In the PLD, during the Fernandez presidency, there were more plausible

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<sup>18</sup> Note that the preference or need of presidents to fund political activity out of government spending also affects allocation decisions. It is much easier to extract campaign finance resources from public investment projects than from education, and so presidents in the Dominican Republic have an additional reason to prefer public investment over education.

alternatives; and in the PRD, there are several factions that seem to be actively jockeying for the 2004 nomination. The more attractive are intra-party competitors as presidential candidates, the less costly it is for party loyalists to switch their support to them and the more leverage they have in intra-party decision making venues. The second indicator is that parties are not casting aside legislative incumbents at the rate they once did. In the 1994 senate elections, incumbent parties managed to retain ten seats, out of 30. Of these ten seats, six were occupied by new people – 60 percent of incumbent senators were replaced with other candidates from their party. In 1998, the ratio had dropped to 13 percent – incumbent parties retained 15 seats, and of these only 2 incumbent senators were replaced by others from their party.

The impact of less party discipline and greater intra-party competition is that presidents face greater pressures to meet financing demands from the ministers they appoint. Consequently, since they have to surrender funds to these ministries anyway, they prefer to request increases in the level of overall spending to maintain funding for their own priorities. This is a positive development, as long as the money is used for worthwhile purposes, but also because it increases the payoffs to the president of a thoroughgoing reform of the public sector financial management system. But the conflict of interest persists, and is likely to impose unusually large downward pressures on government spending for as long as political candidates and parties are unable to make credible commitments to policies other than the provision of local public and private goods.

### **Quantifying the effects of institutions, clientelism and money politics on spending allocations in the Dominican Republic**

Figures 1 and 2 use simple averages to show that overall spending and spending on education relative to public investment in the Dominican Republic are significantly below what they are in reasonable comparator countries. The foregoing analysis offers reasons for this: the prevalence of clientelism and the conflicts of interest that exist within the presidency. Figures 3 and 4 below assess how well these factors explain the differences between spending patterns in the Dominican Republic and other democracies.

The basis for each figure is three regressions. The first regression asks, how much does spending (either total or on education relative to public investment) in the Dominican Republic exceed or fall short of the amount that would be expected if we controlled for income per capita, the percent of the population that is young, the percent that is of working age and five regional dummies (e.g., accounting for whether a country is located in Africa, Latin America, Eastern Europe, etc.). A negative number – a negative residual – indicates that spending in the Dominican Republic is *lower* than expected, exactly as in Figures 1 and 2.

The second regression asks the same question, but in addition controls for a variable that roughly captures the extent of clientelism in a country – that is, the extent to which voters rely on personal relationships with candidates in order to elicit credible commitments from them. Based on the observations of informed observers and participants in the Dominican Republic, and observations in other countries, it seems likely that a larger percentage of voters in rural areas than in urban areas have clientelist ties with politicians. Therefore, the proxy for clientelism is the percentage of the population that is rural. This variable underestimates the influence of rural-based clientelism, however, since it does not capture the possible over-representation of rural constituencies in the legislature, as in the

Dominican Republic. The third regression takes into account two political variables, one asking whether a country is parliamentary or presidential, and the other whether a country uses majoritarian or proportional representation electoral laws.

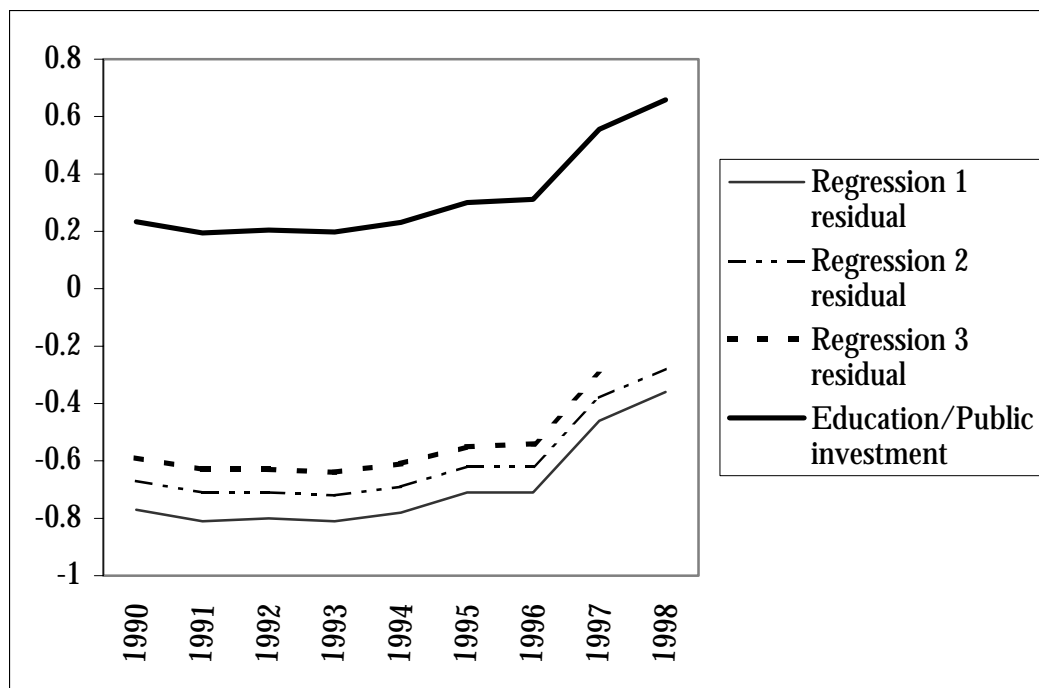
Figure 3 presents the results for the *allocation* of government spending between education and public investment. The top line is the actual ratio of education to public investment. The bottom lines are the residuals from the three different regressions. In all cases, the residual is highly negative: spending on education relative to public investment in the Dominican Republic falls far below what we would expect after taking into account the relative values of the control variables in the Dominican Republic and other democracies. For example, the Regression 1 residual, tracked on the lowest line of Figure 3, shows the difference between the actual ratio of education to public investment spending in the Dominican Republic and the ratio that one would have predicted based on the population age distribution, income per capita and continental location of the Dominican Republic. From 1990 to 1996, when the actual ratio of education to public investment never surpassed 0.30 (as the top line in Figure 3 indicates) the regression 1 residual was never higher than -0.7, meaning that the expected ratio of education to public investment was at least three times the actual ratio (the expected ratio is the sum of the residual and the actual, or  $-.7 + .3$ ).

The regression 2 residual additionally controls for the percent of the population that is rural. We would expect this to close the gap between the Dominican Republic and the rest of the world, and it does: the regression 2 residual line is above the regression 1 residual line, indicating that the gap between actual and predicted spending drops approximately 10 percentage points when percent rural – when clientelism – is taken into account.

Finally, given the strong incentives of the Dominican president to spend on targeted public goods, related to the pressures he confronts to satisfy clientelist interests of his own, and to raise campaign finance, we would expect that controls for political institutions should also close the gap. Controlling for whether a system is presidential and majoritarian, as in regression 3, leads to a drop in the residual of another ten percentage points in absolute value.

The pattern of spending allocations changes significantly in 1997. This is important and consistent with the story above. This was the first year in which a president was in power who did not have significant clientelist ties – a large personal following in the country – unlike his predecessor, Juan Balaguer. President Mejía is in a roughly similar situation: he does not command the huge personal constituency that the recently deceased former president of the PRD, Juan Pérez Gomez, possessed. This reduces the incentives of both to pursue targeted expenditures. A second reason for the relative ascendance of education spending under President Fernández was that the PLD had, and continues to have, much less organization in rural areas. It therefore depends more on voters with whom it lacks clientelist ties. The incentives to engage in targeted expenditures to please party activists were therefore fewer – but the incentives to engage in targeted expenditures to raise funds for party and campaign financing remained constant. Consequently, although the ratio of education to public investment rose notably over the period, a large gap remained in 1998 with the ratio in comparable countries.

**Figure 3: Explaining the evolution of education to public investment spending in the Dominican Republic**



NB: The bottom three lines chart the residuals – the (predicted values – actual values) of the ratio of education to public investment spending in the Dominican Republic, taken from three regressions. Regression 1 estimates the ratio of education to investment as a function of income per capita (ppp-adjusted); the fraction of the population under 15 years old; the fraction between 15 and 64 years old; and regional dummies (e.g., South Asia, Africa, Latin America). Regression 2 is identical, but controls in addition for the fraction of the population that is rural. Regression three, finally, adds controls for whether a system is parliamentary or presidential, and whether its electoral rules are majoritarian or proportional. All regressions use only those country-year observations in which countries were rated not higher than 3 on the Freedom House political freedoms index, where 7 is least free. All regressions used only those country-year observations for which data was available on all observations (that is, there are 620 observations on 63 countries in all three regressions). All regressions assume within-country observations are not independent of each other.

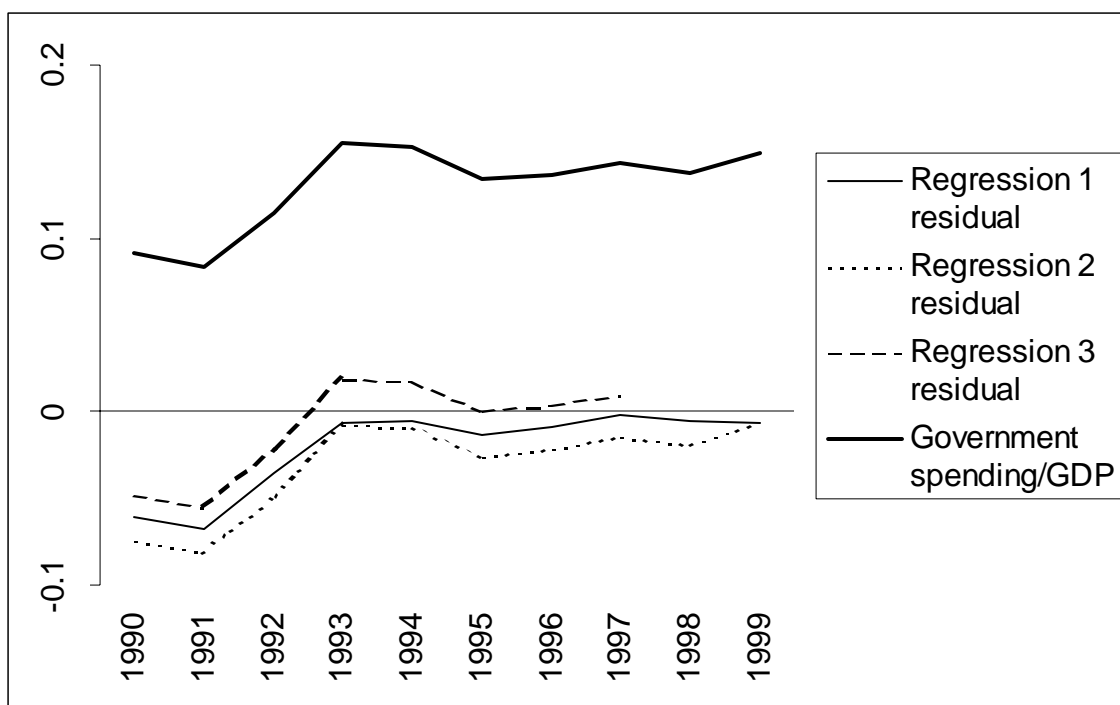
Support for the changed incentives of the PLD government comes from the choice of public investment projects that that government did in fact pursue. First, we would expect that the government would target urban areas, since its rural ties were weak. All observers agree that this in fact occurred (the massive elevated highways of Santo Domingo and Santiago are concrete evidence of the shift). Second, we would expect that the government would have approved expenditures for which it could take credit, and not those preferred by opposition politicians. Again, this was the case: the Santiago elevated highway was constructed contrary to the wishes and recommendations of the Santiago city hall, governed by the PRD.

Though data are not available to examine the assertion in detail, it appears that post-1998 trends under the current government are the same. Data on 2000 spending, for example, shows that total education spending (total spending by the Secretaría de Educación) was 76 percent of total public investment (under the rubric *construcción de obras y*

*plantas agrícolas* for both ministries and decentralized or autonomous institutions). This is higher than the 1998 ratio depicted in Figure 3. Although the sources of data may be different (the spending data in Figures 3 and 4 necessarily comes from the *Government Financial Statistics* of the IMF), this at least suggests that the allocation of government resources in the Dominican Republic increasingly resembles allocation decisions in comparable countries.

Figure 4 conducts the same exercise, but with total government spending as a fraction of GDP. Here, the picture is different and leads to two conclusions: first, government spending was unusually low under the Balaguer government, but not since; second, compared to other presidential governments with similar incomes and rural populations, spending in the Dominican Republic since the Balaguer government stepped down has been at least as high or higher than expected.

**Figure 4: Explaining the evolution of total government spending to national income in the Dominican Republic**



NB: See notes to Figure 3. All regressions use 848 country-year observations from 77 countries.

Both conclusions are immediately evident from Figure 4. Total government spending rose significantly as a fraction of GDP from 1991 to 1993, in the waning years of the Balaguer era, most likely a response to growing political opposition, but has remained roughly constant since then. After 1993, all three residuals hover around zero and there is little difference between spending in the Dominican Republic and comparable countries. On the contrary, in 1997 the Dominican Republic spent almost exactly what one would have expected given the spending of other presidential democracies with similar per capita incomes and rural populations. However, in 1997, the government spent approximately 2.5 percent of GDP less than one would have expected of a parliamentary democracy with

similar rural population and per capita income, as the difference between the regression 2 and regression 3 residual lines in Figure 4 indicate.

The arguments presented earlier suggested that clientelism, strong presidential control of spending allocations, and the need for campaign financing drive a preference for targeted spending (public investment) over non-targeted spending (education). They also suggested that conflicts of interest within the executive branch would drive down total spending, to the extent that the president could reserve to himself as much decision making as possible. Figure 3 shows that allocation outcomes in the Dominican Republic are more akin to those in comparable countries when one takes into account the possibilities of clientelist motivations (the percent of the population that is rural) and the institutional environment (the fact that the Dominican Republic is presidential).

Allocation decisions are still substantially more biased than expected towards public investment even after all controls are applied. Two natural explanations are simply that neither the regime variables (presidential versus parliamentary) nor the clientelism variable (rural population) are sufficient proxies for the exact institutional and political motivations for spending decisions in the Dominican Republic. In particular, if it is the case that the effects of clientelism in rural areas in the Dominican Republic are exaggerated by the disproportionate rural representation in the legislature, and the exceedingly small populations of some of the provinces, then controlling for the percent of rural population would still leave a sizeable and unexplained clientelist residual. Similarly, if the president's control over spending allocation in the Dominican Republic is substantially greater than the control of any president or legislative committee in other presidential democracies, a large and unexplained presidential residual would remain.

On the other hand, it is evident from Figure 4 that the conflicts of interest between the president and his cabinet in the Dominican Republic are approximately as great as the conflicts of interest observed in other presidential systems with different institutions. Total public spending in the Dominican Republic is, therefore, approximately what we would expect in the Dominican Republic, after using as the appropriate comparators those presidential democracies with similar incomes per capita, demographic features, and location.

### **Alternative explanations for public spending outcomes**

There are alternative explanations for the findings above, none of which can be completely discarded, but none of which are fully satisfactory themselves. One might argue, first, that rural inhabitants themselves prefer a different allocation of public spending than do urban residents, so that the population variable reflects not clientelism, but simply the different public spending demands of rural populations. There is, however, no evidence that the household welfare of rural residents benefits more from public investment and less from education than the household welfare of urban residents. At the same time, de Walle (2000) has shown in Vietnam that the returns to rural public investment seem in any case to depend strongly on rural education.<sup>19</sup> This suggests that education demand might even be higher in rural areas than in urban areas, bolstering rather than diminishing the conclusions regarding clientelism in the previous section.

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<sup>19</sup> Dominique van de Walle (2000), "Are returns to investment lower for the poor? Human and physical capital interactions in rural Vietnam," The World Bank, Development Research Working Paper no. 2425 (August).

However, it might also be that most of the poorest Dominicans, who are least able to substitute out of public and into private education, are unable to vote. These are Haitian immigrants who do not (are not allowed to) vote. Hence, there is less political pressure for increased spending on these public goods. This explanation is consistent in some ways with the findings of Alesina, Baqir and Easterly (1999), who present evidence of lower public spending in jurisdictions with greater ethnic heterogeneity.<sup>20</sup> However, their results obtain where all the ethnic groups can vote (the US). Their results do not necessarily show that public spending must be lower when the disfavored group is also prohibited from voting.

The substantial number of disenfranchised Haitian immigrants is, of course, an important factor in Dominican politics and public policy. Its effect could be, however, to exacerbate the distortions in spending allocation that are observed, rather than to reduce total government spending. The larger the number of non-voting residents in a country, the greater the incentives of politicians to avoid broad public goods, which benefit non-voters (and are therefore offer few political advantages to decision makers), and instead to target spending to voters. However, the presence of non-voting taxpayers also gives politicians the incentive to raise taxes higher than they might otherwise, or to shift the tax burden to non-voters. Either of these effects can leave total government spending higher than it would have been had the disenfranchised group been allowed to vote.

### **Implications for policy**

The analysis of this chapter suggests that the pattern of public spending in the Dominican Republic is the conscious product of an elaborate political calculus. In some cases, this calculus is changing, as with the allocation of spending between education and public investment. However, there remains a significant bias towards targeted government spending that deprives the country of valuable public goods such as education – but extending as well to the absence of well-performing public utilities, such as water and electricity, and to difficulties with predictability in government regulatory policies and contracting. Inadequate education and public utilities and arbitrary government regulation are all natural outcomes of a decision making process that gives excessive weight to particularistic rather than societal interests.

Shortcomings in the management of public finances are another natural consequence of this system. The president, with unusually ample authority over spending, has no incentive to improve the ability of voters, legislators and other outsiders to track the flow of funds to their ultimate destination. This interferes with his ability to use public funds to finance political campaigns or to reward supporters. All government officials, in or outside of the legislature, benefit as well from this – any effort to increase accountability procedures for public funds would no doubt spill over into increased attention of the spending of NGOs, for example. As evidence for this, one need look no further than congressional refusal to consider a draft law that would improve the contracting process of government (an observation made by one diputado who was interviewed).

Broad legal and constitutional changes would surely improve outcomes, though they are obviously difficult to implement and would be vigorously resisted. Increased

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<sup>20</sup> Alberto Alesina, Reza Baqir, and William Easterly (1999), “Public Goods and Ethnic Divisions,” *Quarterly Journal of Economics*, 114: 4, 1243-84 (November).

representation of urban voters, for example, would advantage relatively less clientelist interests. This alone would likely lead to a significant shift in public spending patterns in favor of non-targeted spending, and would likely be the single most important reform at the constitutional level that the Dominican Republic could undertake.

Congressional authority over the budget would also change budget outcomes substantially. First, if the Congress were more important in the budgetary process, voters would be more willing to split their ticket – vote for presidential candidates from one party and congressmen from another. Currently, this is counter-productive, since the only hope of getting benefits from a presidentially-dominated system is to have a representative with links to the president. The time horizon of legislators would also increase: now, because of the great swings in presidential voting, turnover in the Senate is still at 50 percent. Legislators with a longer time horizon would pay more attention to the long-run implications of government actions for their constituents, and would be less tempted to divert significant rents to themselves every period.

The possibility of divided government would also prevent one president from leaving the public works projects of other presidents paralyzed, and would also limit the great swings in targeting of expenditures (e.g., from rural to urban areas and back again) that the country has experienced in the last few administrations. Each of these would be blocked by a potential or actual majority of opposition candidates in the government. Naturally a split ticket could also lead to problems, such as a lethargic response to crisis; these problems, however, are more appropriately solved by reducing the “clientelist” motivations of government office-holders than by vesting control of all policy making in the president.

With a more powerful Congress, it would be more difficult for the president to deliver clientelistic benefits himself – he would require the approval of Congress. This would reduce popular expectations and allow the president to devote more resources to broad public goods and policies.

More pragmatic reform efforts, though still difficult, can be targeted at the procedures of government decision making. A sure target for reform, for example, is the public sector financial management system, the topic of another chapter. This is, however, more difficult to sustain in the current political system than in a system in which authorities outside of the president’s office have the incentive and ability to question government spending decisions. Relative to ten years ago, under the Balaguer government, these possibilities are greater, but only because the president is politically weaker, vis a vis his ministers, than was Balaguer. Since he must delegate spending to his ministers, President Mejia is more likely to authorize a more elaborate and precise apparatus for monitoring government spending.