

THE POLITICAL ECONOMY OF INDUSTRIALIZATION IN THE DOMINICAN REPUBLIC

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INTRODUCTION

Industrialization in the Dominican Republic, like in many other developing countries, did not gather momentum until after the Second World War. The considerable rise in the value of primary exports at the end of the nineteenth century and during the first decades of the twentieth century failed to generate industrialization. The single most important factor for the spurt of industrialization in the late 1940s and early 1950s was the dictator Rafael Trujillo. Behind a protective barrier from foreign competition, Trujillo used resources that he had been able to accumulate thanks to his control of the state, to start and run his own industrial plants. Industrialization was then given new impetus at the end of the 1960s when the country was under the firm rule of Joaquín Balaguer. In the essay some aspects of industrialization in the Dominican Republic will be discussed. In particular we will be concerned with the role played by the state in the promotion of industry.

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THE LACK OF EARLY INDUSTRIALIZATION

The Dominican Republic had become highly involved in international trade during the last decades of the nineteenth century when the sugar plantations became established in the country. The value of sugar exports rose considerably during the decades preceding the Great Depression.¹ Exports of cocoa and tobacco also increased, albeit at a much slower rate. Coffee also played an important role in the Dominican export economy.² However, despite the rather successful performance of exports, the volume of industrial activity was still insignificant at the end of the 1920s.³ In observing the fact that the volume of trade of the tropical countries had generally undergone considerable growth (an average of 4 percent per annum) during the thirty years before the First World War, Arthur Lewis asks the question why these countries did not imitate the industrialized countries and industrialize.⁴ Lewis argues that many of the new ideas employed in the industrial revolution were simple and easy to apply and required remarkably small amounts of capital.⁵ The frequently cited argument that "political" factors in the sense of the hostility of the imperial powers to industrialization, could provide an explanation of the lack of "imitation" by the tropical countries is rejected by Lewis.

In presenting his own interpretation Lewis considers two factors which account for the lack of an industrialization process. The first factor is the low level of agricultural productivity in the tropical countries. Agriculture must be "...capable of producing the surplus food and raw materials consumed in the industrial sector, and it is the affluent state of the farmers that enables them to be a market for industrial products."⁶ Hence, according to Lewis, the low level of agricultural productivity was a severe obstacle to industrialization in these countries. The second factor was the absence of an investment "climate". This lack of a suitable climate was in turn related to the distribution of political power in the tropical countries at the time. Power was concentrated in the hands of the landed class which benefited from cheap imports and which was not interested in promoting an industrial class.⁷

This analysis also applies to the Dominican Republic. The substantial increase in the value of exports around the turn of the century did not lead to any notable expansion of manufacturing production. The domestic market for such products was limited due the low level of agricultural productivity and a small population (about 895,000 in 1920).⁸ Large estate owners exerted considerable political influence and do not appear to have been interested in industrial activities. However, account must be taken of a third factor, not considered by Lewis, the predominant foreign ownership of the country's major export crop. The Dominican sugar industry was completely dominated by American investors. In 1925, they accounted for more than 80 percent of the land area controlled by the sugar estates, while Italians controlled more than

ten percent.⁹ There was significant expatriation of profits¹⁰ and what was reinvested within the country was used almost exclusively to expand the sugar industry.

DICTATORSHIP AND INDUSTRIALIZATION

After the mid-1920s, sugar prices fell considerably and remained low during the 1930s and early 1940s. Accordingly, during these years foreign trade was unable to act as a generating force for industrialization. At the end of the 1940s, the price of sugar rose but this cannot explain, *per se*, the incipient industrialization that took place during the 1950s. Let us again consider Lewis' arguments regarding the opportunities for industrialization. In comparison with the first decades of the century, agricultural productivity in the 1950s does not appear to have undergone any significant change and could thus not explain the industrialization process. However, population growth had occurred. By 1950 the population was about 2.1 million compared with 895,000 in 1920. This undoubtedly provided a larger market for industrial products.¹¹ The major difference was, however, political.

Until the United States occupation of the country in 1916, constant political turmoil had beset the country, with different groups contending for power. The ruling *caudillo* would use state power to increase his personal wealth and to finance political support. The rulers used the treasury for this purpose, land was confiscated and redistributed to relatives, political supporters etc. By concentrating on short-run income considerations, the *caudillos* did not usually undertake measures that were intended to increase national production in the long run, such as the stimulation of agricultural production, and the establishment of domestic industry. However, conditions changed during the period when Rafael Trujillo was in firm control of the country, i. e. 1930-61. The control exerted by Trujillo over a large share of the Dominican economy and the security of his political position permitted him to take a stronger interest in the long run growth of the economy. This should not be viewed as an expression of his concern for the Dominican population but rather a means by which his own wealth could be increased.

Trujillo used all the power that the control of the state gave him to enrich himself and his family. By means of fraud, the intimidation of landowners to sell their land at ridiculously low prices, or by simply dispossessing peasants of their land, Trujillo and his family quickly gained control over a large portion of the country's agricultural resources. It has been estimated that between 50 and 60 percent of the arable land ended up belonging to the Trujillo clan.¹² Trujillo thus controlled a large share of agricultural production. By establishing monopolies over various activities, such as the distribution of rice (imports were prohibited) he was able to accumulate con-

siderable economic resources, part of which he reinvested in industrial activities.

In 1950, Trujillo promulgated a law which offered industrial activities protection and generous tax exemption. Aided by tariffs and government subsidies, the incipient industry made substantial profits. The policies were of course intended to protect the industrial group controlled by the dictator himself and the group that supported him, from both foreign and internal competition. Tax exemptions and government subsidies were highly selective, excluding those who did not belong to the ruling group. More recent industrialization policies have, as will be argued below, largely maintained this kind of arbitrariness and selectivity.

Industrial employment increased from about 14,000 in 1950 to almost 25,000 in 1960¹³ while industrial production grew from an index of 38 in 1950 to 72 in 1960.¹⁴

It must once again be emphasized that this growth was concentrated in the hands of Trujillo and his family. The tax system, government subsidies etc. were shaped to serve the interests of Trujillo's business. Special "concessions" gave Trujillo a monopoly over several sectors of the Dominican economy. He controlled the distribution of milk, the slaughterhouse business, salt, animal fats, meat exportation etc. It has been estimated that the Trujillo family owned 119 enterprises that accounted for about 80 percent of the volume of business in the capital, Santo Domingo.¹⁵

INDUSTRIALIZATION UNDER THE BALAGUER ADMINISTRATION

After the assassination of Trujillo in 1961, the country went through a period of political instability which culminated in civil unrest in 1965. In the 1966 elections, Joaquín Balaguer became president. Balaguer had been both a minister and president under Trujillo. His rule, which at least initially can be described as highly repressive, implied a period of twelve years of relative stability. The industrialization policy which was promoted by Balaguer can be described as *import substitution* since it gave strong incentives to production for the domestic market. However, as will be seen, the policy package also contained many important elements which affected the behaviour of firms and competitive conditions which had nothing to do with protection from foreign competition as such.

In order to understand some of the important consequences of this strategy, it is useful to discuss why industry was favoured at the expense of agriculture. In their comparative study on industrialization strategies, *Industry and Trade in Some Developing Countries*, Ian Little, Tibor Scitovsky and Maurice Scott emphasize the role of the great depression and the Second World War in fostering industrialization in developing

countries.¹⁶ The depression implied that the developing countries' ability to import was drastically reduced due to the fall in the value of their primary commodities. During the war, while commodity prices increased, the industrialized countries were unable to supply manufactured goods. "Those experiences", Little, Scitovsky and Scott argue, "induced a strong desire for self-sufficiency and economic independence, and hence for industrialization."¹⁷ While these factors may be important they must not obscure the fact that the choice of policies by government is conditioned by the interests of different groups. As a consequence of Trujillo's industrialization policies, an industrial class, albeit small, had emerged in the Dominican Republic by the early 1960s. Much of the landed elite had by this time gone into business. According to political scientists, the political influence of this group was considerable. Business groups were, according to Howard Wiarda and Michael Kryzaneck, influential in overthrowing the democratic Bosch government in 1963 and under Balaguer the business class had direct channels into the government and the administration.¹⁸ It is reasonable to assume that industrialists demanded a strengthening of restrictionist policies, since this would increase their surplus. On the other hand, the peasants and other groups who lost as a result of industrialization policies were apparently unable to put up a resistance to these policies.

The influence of important groups on government policy is also shown by the selectivity that has characterized the industrialization strategy. An important aspect of the industrialization policies has in fact been that they have discriminated between different actors, providing special advantages for a subset of industrialists. The classification system and credit policies, discussed in more detail below, have favoured the large scale producers who have the best connections with the authorities. This selectivity can thus probably be better explained by the political influence of the favoured group on policy rather than by government's effort to implement "effective" policies.¹⁹

GROUP BEHAVIOUR AND INDUSTRIALIZATION POLICIES

The pro-industry bias in government policy can be given a more "formal" interpretation with the help of Mancur Olson's *The Logic of Collective Action*.²⁰ He argues that small groups are likely to be more effective in providing collective goods (collective for the group) than are large groups. The smaller a group the greater the incentive for the individual member to work for the common good since he will only have to share the benefit with a limited number of persons. In contrast, in a large group, the individual will do as little as possible since he would have to share the returns

of his efforts with many individuals. He would hope that others would do the job. Hence the free rider problem. In addition to the size of a group, the possibility of excluding non-members from the benefits derived from the group's effort is of crucial importance for the efficiency of the group. If the group cannot exclude non-members it will generally not be effective.

In the 1960s the business sector was definitely a small group compared with consumers or peasants in the Dominican society. While industrialists were well organized, consumers and peasants were not. Since the business community was small and concentrated in the cities, mainly in Santo Domingo, the free rider problem ought not to arise or be too serious. In addition, there was a possibility of excluding non-members from receiving the benefits that could be derived from the group's activities. It would of course not be possible to exclude non-members from the benefit derived from the higher product prices which result from protection. However, other benefits could probably be limited to members. Many of the benefits to be derived from the law of industrial promotion were selective. Non-members could thus be excluded. In addition, it would probably be difficult not to take part in activities that aim to provide the group with a collective good. We are after all dealing with a small geographically concentrated group of individuals who know each other personally.

In contrast, peasants constitute a very large group that is widely dispersed over a country in which communication is very poor. It would be difficult to create selective incentives for peasants who take part in an organization that seeks to resist the welfare losses (for the peasants) of an industrialization strategy. If such an organization is successful in resisting protection, the lower prices of industrial goods would benefit all peasants, i. e. including non-members. The same goes for an increase in agricultural prices (which were kept "artificially" low through government policy). The peasant thus faces the free rider problem.²¹

Given the likely behaviour and influence of different groups in Dominican society, the business sector could be expected to be successful in its pursuit of inducing the government to favour industry.

INDUSTRIALIZATION POLICIES

The Balaguer administration favoured the industrial sector in various ways. It raised tariffs and created an incentive scheme according to which different kinds of exemptions were given. A dual exchange rate system was created, and official credit was largely channeled to the industrial sector. In addition, wages were to be held down by means of an austerity law. Let us look at these elements in some more detail.²²

The basis for the *tariff system* was a tariff structure that had been in force since 1950. All imports were subject to an *ad valorem* tariff plus various additional import charges. Exemptions from tariffs were granted in relation to the imports of capital and intermediate goods for selected industrial activities. The industrial promotion law from 1968 established a *classification scheme* according to which tariff exemption for such imports were given. The law also provided ample fiscal incentives. Without going into details, it can be mentioned that the classification scheme established three categories of industrial firms that were to receive different levels of exemption from tariffs and taxes.²³ The criteria were not always very clear and left considerable scope for arbitrariness on the part of the authorities granting exemptions. The combination of high nominal tariffs on final goods in combination with exemption on different inputs resulted in high rates of effective protection.²⁴

The *exchange rate system* was characterized by a dual exchange rate market. In 1967, the authorities prohibited the use of central bank foreign exchange for the imports of a number of goods. These goods could, however, be imported if foreign exchange could be obtained from the parallel market. Foreign exchange for imports of capital and intermediate goods as well as some consumer goods could then be made at the official one to one rate, while remaining consumer goods could only be imported by means of exchange provided from the parallel market. During the 1970s and early 1980s, an increasing amount of goods were transferred to the parallel market. Supply of foreign exchange to the parallel market has come mainly from tourism, remittances from Dominicans abroad, under-invoicing of exports and over-invoicing of imports.

Credit policy has been another important aspect of the industrialization strategy. The authorities have provided cheap finance for the promotion of industrial activities. A special organ, Fondo de Inversiones para el Desarrollo, FIDE, was created in 1966 to provide finance for machinery and equipment. However, this cheap finance had to be rationed since it was not available to all applicants and was subject to a low rate of interest that was usually below the rate of inflation.

The final aspect of Balaguer's policy was the austerity law. Strikes were banned, union activity was supervised and wages were frozen.²⁵

It is also important to note that the Dominican state has participated directly in industrial production. In order to manage some of the enterprises owned by the government since the death of Trujillo, a government-owned holding company, Corporación Dominicana de Empresas Estatales (CORDE), was established in 1966. CORDE is involved in various kinds of industrial activities, such as cement, glass, paper, batteries and tobacco. CORDE has a long record of deficits.²⁶ Moreover employment at CORDE's headquarters, as well as in its different firms, has often been influenced

by political factors.

CONSEQUENCES OF INDUSTRIALIZATION POLICIES FOR STATIC EFFICIENCY

In discussing the consequences of the industrialization policies, a distinction may be made between the effects on static or allocative efficiency and the effects on dynamic efficiency. Analyzing the effects of restrictionist trade regimes, Jagdish Bhagwati considers the static effects as the effects on investment among alternative activities, choice of technique, capacity utilization, holdings of inventories etc., while dynamic effects are the effects on savings and capital formation, export performance, entrepreneurship and innovation.²⁷

Summarizing the experience of the countries included in the well-known comparative study by the National Bureau of Economic Research, Bhagwati states that the effects of more restrictionist regimes on static efficiency are adverse. When trade regimes have become more restrictionist "excess" holdings of inventories have been piled up, methods of production have been biased in favour of imported capital goods, overall productivity has been lowered etc. Little, Scitovsky and Scott reach similar conclusions.²⁸ The limited data available on industrial activity in the Dominican Republic indicate that industrialization policies have had similar consequences in this country. Let us take a closer look at some of these effects.

One rough indicator of overall inefficiency is the capital-output ratio. An increase in this ratio implies that less output is produced per unit of capital. It appears that the policies implemented in the late 1960s led to an increase in the capital-output ratio. The ratio increased from 2.0 to 2.4 in 1970 to 1973 to between 4.5 and 4.7 in 1974 to 1977.²⁹

There are several possible explanations for this increase in the capital-output ratio. Firstly, restrictionist policies lead to an allocation of investment that does not conform with comparative advantage. Investment in activities in which the country has a comparative disadvantage may imply a lower return to capital. Secondly, different measures have distorted factor prices in the sense that capital has been cheap, biasing the choice of technique in favour of capital. Thirdly, the lowering of the price of capital may induce producers to build up larger inventories. Finally, administrative procedures, involved in the classification of firms, decisions on exemptions on tariffs etc., that delay routine decisions also reduce efficiency which may take the form of higher capital-output ratio.

The overvaluation of the exchange rate under restrictionist regimes implies that im-

ported capital and intermediate goods will be cheaper than they would have been had the exchange rate been allowed to adjust to changes in demand and supply. If capital can be substituted for labour, and this is normally the case, the choice of technique will be biased in favour of capital. As shown by Little, Scitovsky and Scott, countries pursuing import substitution policies have generally exhibited very high capital intensities.³⁰ The Dominican Republic has also conformed with this pattern. The capital-labour ratio increased by 35 percent between 1968 and 1971 after the implementation of the industrial promotion law.³¹ The capital invested per employee appears to have been much higher in the Dominican Republic than in other Latin American countries such as Venezuela where wages have been substantially higher. The capital invested per employee was on average substantially higher in import substituting activities than in export industries.

Another indicator of static inefficiency is the underutilization of capacity. It appears that a very substantial part of Dominican production capacity has not been used. In a study from 1979, more than 50 percent of firms were shown to use less than 25 percent of capacity (see Table 1).

Table 1
Underutilization of Capacity in 1979

Capacity not used %	Percent of firms
75-	54.1
50-74.9	29.0
25-49.9	9.8
-24.9	7.1

Source: Centro de Promoción de Exportaciones (1979), p. 38.

The underutilization of capacity experienced in many developing countries has been explained by different factors. For instance, the insufficiency of imported raw materials, components etc. may force firms to leave capacity idle. The efforts of entrepreneurs to minimize costs tend to become weakened if profits are excessively high (X-inefficiency).³² Both these factors are relevant in the present case.

Dominican firms have been complaining about not getting regular deliveries of inputs, and entrepreneurial efforts may indeed have become weakened due to the policies pursued.

The industrialization policy has implied reduced competition. Firstly, it has given protection from imports of final goods. Second, the system of industrial classification has allowed classified firms a privileged position which appears to have generated very high profits for these firms. The food, beverage and tobacco industries, which have been the most expansive branches during the 1970s, had an average return on

invested capital of 62.5 percent in 1977 (the only year, to my knowledge, for which information on profits is available).³³ This is likely to have caused entrepreneurial slack. Classified firms have also had an incentive to build up excessive capacity due to the way decisions on classification have been taken. If classified firms were able to prove that they already had the capacity to satisfy domestic demand, non-classified firms would be refused classification. Firms could thus be induced to bear the costs of "excessive" capacity since by doing so they could prevent competition.

BARRIERS TO ENTRY

The classification system is likely to have acted as a barrier to entry. This is an aspect of the industrialization strategy that deserves consideration. Restrictionist policies will raise the profitability of domestic import substituting industry. However, this does not constitute *per se* a barrier to entry for potential domestic competitors to existing firms. The Dominican strategy has not solely been concerned with increases in the general profitability of import substitution activities by restrictions on foreign competition. The classification system has contributed to increases in the profitability of a number of *privileged* firms.

The classification system implies that, to varying degrees, classified firms are exempted from tariffs on imported capital and intermediate goods. This gives classified firms a considerable cost advantage over non-classified firms, which may well prevent the latter from entering the market. In addition competitive conditions will be distorted between classified firms, since different classified firms will receive different *levels* of exemptions.

The task of deciding which firms should be classified and the level of exemption that should be given was assigned to the *Directorio de Desarrollo Industrial* (DDI). The DDI consists of eight persons, four of whom represent the business sector. In other words, representatives from established and classified firms have participated in decisions on whether applicant firms should or should not be classified. Accordingly, one would expect these to protect the interests of the firms they represent and impede classification of potential competitors. According to various sources this would indeed appear to have taken place. The DDI has protected the interests of established and classified producers.

Another factor which may work as a barrier to entry is the discrimination between firms as regards access to formal credit. As mentioned above, the authorities have provided credit for industrial activities at usually negative real rates of interest. Credits have been provided to firms that have qualified for classification, while non-classified firms have had serious difficulties in obtaining credit. According to an inquiry car-

ried out by the Dominican authorities, small firms have experienced difficulties in obtaining credit of any kind.³⁴

Thus, both the classification and credit systems can give classified firms an "absolute cost advantage". Joe Bain, in his classic book on barriers to new competition states that a source of absolute cost advantage is that: "There may be imperfections in the markets for productive factors purchased by all firms which permit established firms to secure such factors at lower prices than potential entrants can."³⁵ Classified firms that obtain capital and intermediate goods at lower prices and capital at lower rates of interest must have a considerable cost advantage over non-classified firms and potential entrants.

Moreover, Hla Myint identifies the distortion in the credit market as a major factor in explaining the dualism usually observed in the manufacturing sector in developing countries.³⁶ Large firms with access to "cheap" credit adopt modern and "excessively" capital intensive technologies. These technologies are often too specialized to be transmitted to the traditional or small scale industries. Myint argues that the denial of credits to small firms will tend to impede the introduction of those myriads of simple improvements that do not require large amounts of investment. Moreover it is these very innovations which appear to be of crucial importance for the development of the manufacturing sector.

RENT-SEEKING

In the political-economic setting that characterized the conditions for industrialization in the Dominican Republic, rent-seeking and DUP activities tend to arise.³⁷ Rent-seeking is a concept that has emerged in economic theory during the 1970s in connection with the increasing role of the government in the allocation of economic resources in Western countries. The traditional behavioural assumption in economic theory is that individuals seek to maximize their income streams. In this sense, rent-seeking or profit-seeking is present in *all* societies. While profit-seeking in an idealized model of market order will produce a desired social outcome (Adam Smith's invisible hand), in another setting it will produce economic waste. The term rent-seeking has thus come to describe behaviour in institutional settings of the latter kind. James Buchanan states that "The term *rent-seeking* is designed to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus."³⁸ In this type of institutional setting, characterized by considerable government intervention, rent-seeking may be of considerable importance. "As institutions have moved away from ordered markets toward the near chaos of direct political allocation, rent-seeking has emerged as a significant social phenomenon."³⁹

The concept of economic rent refers to the situation where an owner of a resource is paid more than the opportunity cost of this resource. In competitive markets, this rent will be eroded through the entry of other persons into the activity which gives the rent. If a producer succeeds in obtaining a monopoly right from the government, potential entrants will be kept out and the rent will accrue to the owner of the monopoly right. Potential entrants will now engage actively in rent-seeking. They will attempt to influence the authorities to make changes which further *their* cause. These are activities that do not produce a value for society. Jagdish Bhagwati uses the term "directly unproductive profit-seeking activities" (DUP) to describe activities that "... yield pecuniary rents but do not produce goods or services that enter a utility function directly or indirectly via increased production or availability of goods that enter a utility function."⁴⁰ Trujillo's interventions in the economic sphere had indeed implied that institutions had moved away from ordered markets toward political allocation in the Dominican Republic.⁴¹ The institutional setting that characterized the country in the 1960s maintained an important role for the state in economic affairs. Under Balaguer's rule the state continued to be a strategic factor in the allocation of resources and the industrialization policy was certainly no exception. The classification system, the rationing of official credit, the factors which concerned the running of business, involved decisions by the authorities. It is logical in such a system that private interests engage in lobbying to obtain favours. Effort, time and other productive resources will be invested by producers in order to capture the rents created by the system. As the section on barriers to entry shows, a firm that obtains classification will be in a favourable position to capture the rents that arise as a result of the obstacles to entry for potential competitors. Non-classified firms will try hard to obtain classification while those who are already in that privileged position will invest resources in order to try to prevent the classification of potential entrants. Consequently substantial resources are wasted in rent-seeking activities. Under ordered market conditions, these resources would have been put into rent-creating activities, such as efforts to improve products or to lower costs.

In this context, it is worth noting that not only producers have been involved in "wasteful" activities. Politicians and bureaucrats are also involved in this kind of activity. They expect to be compensated for complying with formalities or for providing exemptions and different kinds of privileges to firms. State-owned enterprises⁴² are used to favour political supporters and relatives/friends. Part of the companies' proceeds may well end up directly in the pockets of politicians and the like.

INDUSTRIALIZATION STRATEGY AND GROWTH

While the static effects of the industrialization strategy appear to be rather clear cut, an analysis of the "dynamic" effects encounters more serious difficulties. The Bhagwati approach is to first try to establish a link between trade regime and, say, functional (regional, sectoral) distribution of income and then to find a link between functional (regional etc.) distribution and savings/capital formation. However, the results from this analysis do not allow Bhagwati to draw any clear conclusion on whether restrictionist regimes are more or less dynamically efficient than liberal regimes.⁴³ We will not carry out a similar analysis for the Dominican Republic. Data are simply not available. Instead we will present a less formal discussion of the development of the economy after the implementation of Balaguer's policy. We will thus look at overall growth, growth of agricultural output and exports and try to relate performance to the policies pursued. The effects on employment and income distribution are then briefly discussed.

Growth rates were on average substantially higher after 1968 than during 1960 to 1968, as shown in Table 2.

Table 2
Annual Growth Rates. GDP Per Capita.

1960-68	1969	1970	1971	1972	1973	1974
0.9	7.6	7.6	7.4	9.2	8.8	3.4
1975	1976	1977	1978	1979	1980	1968-78
2.5	3.3	2.5	-0.5	2.0	2.7	5.3

Source: United Nations (1982), p. 301.

At first sight, it would appear that the industrialization policy had been successful in promoting overall growth. However, underlying the high average figure for the 1968 to 1978 period are a few exceptional years, 1969 to 1973. The high growth rates during these years could only in part be attributable to the import substitution industrialization policy. Three other factors must be taken into account. Firstly, it must be emphasized that in the second half of the 1960s the country was emerging from a period of social unrest which had culminated in the civil war of 1965. The fact that Balaguer, an ex-Trujillo man, came into power, probably reassured the business community of a period of stability. Balaguer's policy was very anti-labour which must have given industrialists confidence about the future. In addition, his austerity law guaranteed employers that the authorities would hinder the activities of labour unions and that wages accordingly would be kept at a low level.

Secondly, Balaguer undertook a heavy program of public investment in building activity which stimulated other sectors. Annual growth rates of construction activity between 1970 and 1973 are shown in Table 3.

Table 3
Annual Growth of Construction Activity

1969	1970	1971	1972	1973	1974	1975	1976
6.6	20.5	42.1	9.1	22.0	2.5	8.2	0.4

Source: United Nations (1982), p. 301.

Third, the prices of the country's main exports exhibited an extraordinary increase during these years. The price of sugar rose from an index of 16 in 1969 to 146 in 1974, while the price of cocoa doubled during the same period.⁴⁴ The price of coffee increased by two-thirds. When prices and construction activities fell to more "average" levels, so did growth of GDP.

AGRICULTURAL PRODUCTION

One of the drawbacks of import substitution policies is the discrimination imposed on the agricultural sector. Little, Scitovsky and Scott point out that countries pursuing such a strategy have experienced low agricultural growth. The Dominican Republic conforms with this general picture. The growth of agricultural output since the end of the 1960s has barely sufficed to keep per capita production constant.

The internal terms of trade, those of agriculture vs industry, fell from an index of 100 in 1969 to one of 63 in 1979.⁴⁵ This may be one factor behind the slow rural growth. However the impact of the import substitution policy is very difficult to determine. The growth of agricultural output before 1968 was just as low. Other factors, for instance the extremely skewed distribution of land, obstruct the development of the rural sector. It can also be argued that the evidence from other countries shows that the consequences of import substitution industrialization for the agricultural sector are not unambiguous. For instance in the 1950s Taiwan pursued an accentuated import substitution policy but nevertheless revealed extraordinary rates of growth of agricultural output.⁴⁶

STAGNATING EXPORTS

The consequences for exports appear far less ambiguous. Import substitution policies clearly discriminate against exports, through for instance the overvaluation of the

exchange rate. There is ample evidence that exports in developing countries are responsive to exchange rate incentives/disincentives.⁴⁷ As mentioned above, a dual exchange rate system has been in operation in the Dominican Republic since 1967. Until the late 1970s, exporters had to convert all their export earnings at the official on to one rate. On the parallel market, the price of the US\$ constantly increased, as shown in Table 4.

Table 4
Price of the US\$ on the Paralell Market

1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
1.12	1.13	1.14	1.18	1.19	1.22	1.25	1.22	1.26	1.29	1.46	160

Source: Figures from Banco Central

The parallel rate cannot simply be interpreted as the rate which would obtain if the exchange rate was free to adjust. Exchange rate theory does not provide us with a simple tool with which to estimate the rate that would give external equilibrium. Purchasing power parities (PPP) are often seen as the best, albeit rough, indicator of the long run equilibrium of exchange rates.⁴⁸ A calculation of PPP, Dominican pesos per US\$, based on consumer prices, yields "relative" PPP not too far removed from the parallel rate.⁴⁹ The volume of Dominican exports appear to have suffered substantially from the policies pursued. As shown in Table 5, the volume of exports in the early 1980s did not exceed the volume recorded in 1960.

Table 5
Volume Index of Dominican Exports, 1980:100

1955	60	67	70	71	72	73	74	75	76	77	78	79	80	81	82
82	106	92	109	127	139	141	145	124	134	139	119	139	100	114	102

Source: International Monetary Fund (1983), pp. 196-197.

EMPLOYMENT AND INCOME DISTRIBUTION

Little, Scitovsky and Scott affirm that industrialization based on import substitution has aggravated the problem of unemployment in developing countries which in turn has contributed to make the distribution of income more unequal.⁵⁰ One of the causes of this outcome, put forward by the authors, is that high capital intensity has been encouraged through the import of manufacturing equipment at an overvalued exchange rate and credit policies that aim to keep interest rates on industrial loans at a very low level. As argued above, these are also features of Dominican industrializa-

tion policy and the outcome is analogous. Statistics indicate that unemployment has remained unchanged, or increased slightly depending on the source.⁵¹

While Little, Scitovsky and Scott contend that import substitution policies have aggravated inequalities in the distribution of income, the study carried out by the National Bureau of Economic Research is less affirmative. In his discussion of the relationship between trade regimes, on the one hand, and the functional and size distribution of income, on the other, Bhagwati maintains that there is little in the study that is conclusive in this respect.⁵²

The impact of import substitution policies on the distribution of income in the Dominican Republic is also difficult to determine with any degree of certainty. However, different data do appear to indicate that it has become more unequal from the end of the 1960s. If we first look at the *functional* distribution of income, it appears that the share of labour decreased during the 1970s. According to the Oficina Nacional de Planificación, real wages in industry fell by 24 percent between 1969 and 1973 and from an index of 100 in 1970 to 81 in 1981.⁵³ From the figures presented above, profits in the protected industries may be assumed to have been very high. This leads us to suspect that a redistribution in favour of capital has taken place. As to the *size* distribution, the study by the International Labour Office, showed that the share of national income going to the poorest had decreased between 1969 and 1973.⁵⁴

Now, even if these figures indicate that the distribution of income may have become more unequal during the 1970s, it is difficult to show that this is a consequence of the industrialization strategy as described above. Population growth, highly skewed distribution of land, unequal access to education, public infrastructure etc. are factors which may have increased inequalities. The role of import substitution, which was only a part of the policy package employed by Balaguer, is in this respect subject to even greater uncertainty.

CONCLUSION

It has been shown that measures to promote industry were taken by authoritarian regimes: Trujillo in the 1950s and Balaguer in the second half of the 1960s. Trujillo was actively engaged in industrial production, while the pro-industry bias in policies carried out by the Balaguer administration reflected to a large extent the influence of the business sector. Substantial protection from foreign competition has been given to industry. A feature that has been emphasized is the degree of selectivity in government policy. By discriminating between different producers, competitive conditions have been seriously distorted.

Privileged firms have made very large profits since the classification system has protected them from both foreign and domestic competitors. Entrepreneurial slack and inefficiency have resulted. The system has promoted rent-seeking and DUP activities.

NOTES

1. For figures see Muto (1976), Ch. 2.
2. Ibid.
3. Ibid. pp. 86-92
4. Lewis (1978), pp. 4-13.
5. Ibid.
6. Ibid. pp. 9-10.
7. Ibid. p. 11.
8. Oficina Nacional de Planificación (1968), p. 341.
9. Knight (1928), p. 134.
10. Ibid. p. 33.
11. Oficina Nacional de Planificación (1968), p. 341.
12. Wiarda (1968), p. 83.
13. Cassá (1982), p. 316.
14. Cuentas Nacionales (1966), Table 25.
15. Wiarda (1968), p. 83.
16. Little, Scitovsky and Scott (1970).
17. Ibid., p. 2.
18. Wiarda and Kryzanek (1982), p. 65.
19. The term "*effective*" refers to policies which aim at a fast growth of industrial activities.
20. Olson (1965).
21. This is not to say that peasants were completely unorganized and politically without influence. The argument is that, on balance, the industrial sector was more active and successful in influencing the government.
22. For further details and sources see Vedovato (1986), Chapter 6.
23. Vega (1973), p. 20.
24. According to a calculation made in 1971 the arithmetical average reached 165 percent. See Moya Pons (1983), p. 125.
25. Espinal (1986).
26. See figures from Oficina Nacional de Presupuestos presented in Moya Pons (1982), 31. See also p. 112.
27. Bhagwati (1978), p. 82.
28. Little, Scitovsky and Scott (1970), for instance pp. 8-10.
29. Oficina Nacional de Planificación (1980), p. 12.
30. Little, Scitovsky and Scott (1970), e. g. p. 87.
31. Vega (1973), p. 2.
32. Leibenstein (1978).

33. Oficina Nacional de Planificación (1983), p. 116.
34. Centro de Promoción de Exportaciones (1979), p. 76.
35. Bain (1956), p. 144.
36. Myint (1970).
37. See Buchanan (1980).
38. Ibid., p. 3.
39. Ibid.
40. Bhagwati (1982), p. 989.
41. One could easily argue that "ordered markets" have never existed in the Dominican Republic.
42. Such as the above mentioned CORDE and the huge sugar producer, CEA.
43. Bhagwati (1978), p. 160.
44. International Monetary Fund (1982), p. 171.
45. World Bank (1981), p. 16.
46. Kuo (1983), p. 299.
47. Bhagwati (1978), pp. 184-185.
48. On purchasing power parities see e.g. article by Officer (1976).
49. See Vedovato (1986), Chapter 6.
50. Little, Scitovsky and Scott (1970), p. 8.
51. For instance, according to the Oficina Nacional de Estadística, unemployment in the whole country reached 24.1 percent in 1970. In 1977/78 it reached 24.2 percent in Santo Domingo according to del Rosario (1982). Additional figures are presented in Vedovato (1986).
52. Bhagwati (1978), p. 198.
53. See Oficina Nacional de Planificación (1976), p. 226 and Colegio Dominicano de Economistas (1983), p. 10 for figures.
54. Oficina Internacional del Trabajo (1975).

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