



The 2012 Dominican Tax Reform in
Historical and Regional Context
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Introduction

In November 2012, publicly worried about a large fiscal deficit, the new government of President Danilo Medina passed a tax reform. The move was preceded by technical discussions with the International Monetary Fund (IMF), consultations with various social and economic interests, and the convocation, for just over two weeks, of the new Economic and Social Council. Many factors pointed to the success of a major reform. The President's party, the Dominican Liberation Party (Partido de la Liberación Dominicana, PLD), enjoyed an overwhelming majority in the Senate, and (along with its allies) a clear majority in the House of Representatives. The 2030 National Development Strategy, publicly discussed at length during the period 2010-11 and signed into law on the first day of 2012 by the previous government, also of the PLD, had set fiscal revenue levels above those recorded in 2011-12. However, despite the obvious need, the international support, the fresh mandate of the President, and the undisputed control of almost all the formal seats of power in the country, the reform was rightly called "half of a reform," or even "a missed opportunity." Why? Is another large reform possible in the coming years?

This paper attempts to answer these questions through an analysis of the political economy of the tax reforms, with reference to Dominican history as well as to the regional context. Finally, the paper focuses on the relationship between the executive and the interests of the private sector, and its possible mediation through the political parties and, as was done too hastily in October 2012, civil society forums such as the CES.

The first part outlines the major tax reforms that took place in the Dominican Republic between its democratic opening in 1978 and the 2012 efforts, along with the political and economic conditions in each case, with a special focus on the 1992 reform. Next, the document describes the rigidities that accumulated during that period, which were the legacy of crisis, international commitments, and the goals of the ambitious tax revenue goals of the National Development Strategy.

The second and longest section describes the regional debate on tax policy and redistribution, while showing how the DR is situated in this scenario, with statistics on the fiscal performance of the DR and other Caribbean and Central American countries. From there, with the ground prepared, the paper narrates the process of the 2012 reform and investigates the question posed above by comparing different episodes of fiscal reform. Finally, the paper discusses the challenges and possibilities for future reforms, from narrow technical ones to those that would involve a broad and reciprocal process, with a focus on the role that could be played by fiscal pacts.