Rebuilding Haiti: Lessons from Post-Conflict Experiences

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Abstract

The earthquake that struck Haiti in January 2010 tipped the country into a state of socioeconomic despair from which it will be difficult to escape without a fresh start, made not only by its own political and economic elites, but also by the international community. Making a fresh start will require an honest assessment of Haiti's predicament and a bold vision of its future prospects. By this, lessons can usefully be drawn from the experiences of countries emerging from a period of conflict. From this perspective, Haiti needs to move beyond the neoliberal consensus which has dominated policy since the overthrow of the Duvalier regime and adopt a more integrated policy approach to creating jobs, boosting economic security, diversifying economic activity and repairing a dangerously frayed social contract. Such an approach critically depends on establishing a developmental state with an inclusive national agenda that can move Haiti out of an initial and unavoidable state of aid dependence to effective mobilization of domestic resources. For the international community, the Marshall Plan offers useful lessons in forging a more effective development partnership to support such a state-building exercise and the efforts at recovery and rebuilding.

Policy Implications

- State building is an integral part of development policy in countries adjusting to large external shocks.
- It is a mistake to privilege a set of predetermined policy instruments to be used to manage the adjustment to external shocks, regardless of actual circumstances.
- Mobilizing domestic resources is key to sustainable long-term growth and development, including in countries recovering from crisis.
- Distributional issues are an integral part of successful strategies to improve domestic resource mobilization.
- Avoiding dual public sectors is essential for effective state building in countries receiving large aid inflows.
- The Marshall Plan continues to hold lessons for how the international community should behave towards countries recovering from large shocks and crises.

Even in the best of times, Haiti has been a country whose 'open veins' and kleptocratic mismanagement have led to the squandering of local resources and a persistent vulnerability to economic shocks, which have triggered vicious cycles of decline, indebtedness and extreme deprivation. The earthquake in January 2010 was, however, of a different order of magnitude from previous shocks. Coming on top of three decades of regressive development, during which incomes stagnated and more than a million Haitians left their homeland, the shock tipped Haiti into a state of socioeconomic despair from which it will be difficult to escape without a fresh start, made not only by its own political and economic elites, but also by the international community.

The earthquake has, notably in the Action Plan for Haiti presented at the United Nations in March 2010, been seen as an opportunity to break with the past. While other crises have also been described in similar terms, the sheer magnitude of the catastrophe, the exposure of past policy failures and the scale of resources needed to rebuild the country suggest that

this time Haiti could strike out in a different direction. However, over a year since the earthquake there are few signs that this is happening.

In this article, we argue that making a fresh start requires an honest assessment of Haiti's predicament and a bold vision of its future prospects. On both counts, useful lessons can be drawn from the experiences of countries emerging from a period of conflict. From this perspective, Haiti needs to move beyond the neoliberal consensus that has dominated policy since the overthrow of the Duvalier regime and adopt a more integrated approach to creating jobs, boosting economic security, diversifying economic activity and repairing a dangerously frayed social contract. Such an approach depends critically on establishing a developmental state with an inclusive national agenda that can move Haiti from aid dependence to effective mobilization of domestic resources. Finally, we argue that the international community can still look to the Marshall Plan for useful lessons in effective partnership to support state building and a more inclusive development agenda.

1. Recovering from massive shocks: priorities on the agenda

The official estimate of damages and losses caused by the earthquake has been put at $8 billion (Haiti PDNA, 2010), equivalent to more than 120 per cent of Haiti's GDP in 2010.[1] Around 1.5 million people, or close to 15 per cent of the total population, have been directly affected, including over half a million dead or injured. Finally, more than 100,000 homes were destroyed and 200,000 damaged, leaving well over a million people in temporary shelter. Moreover, the earthquake struck the capital, home to almost a third of the total population, where two-thirds of the country's income is generated, and 85 per cent of taxes collected. The resulting disruption to Port-au-Prince has crippled both economic and political life across the country with public administration coming to a virtual standstill.

For these reasons it is difficult to see the earthquake simply as a natural disaster. Comparisons with other episodes in the region, whether the succession of storms in Haiti in 2008, or the devastation caused by Hurricane Mitch in Central America in 1998, are of only limited value.[2] Rather, and although Haiti was not a country in conflict prior to the earthquake, for all practical purposes it should be regarded as a post-conflict state. This is the case because the local government is lacking both the capacity to provide the basic functions needed to safeguard the security and civil rights of the population, and the legitimacy that only a broad social consensus (or a social contract) among the different parts of Haitian society could confer on its actions.[3] Reaching a broad national recovery consensus in the case of Haiti in the current situation has therefore strong parallels with reaching a national reconciliation in a post-conflict society.

The most immediate demands in Haiti centre on providing essential humanitarian and emergency relief to a devastated society along with the creation of an effective and professional police presence to rebuild and maintain basic levels of order and physical security. Ceding key health and security matters to international forces, while understandable given the political and judicial vacuum created by the earthquake, is unlikely to bring social stability over the medium and long term. This in turn depends on well-ordered and effectual legislative and judicial systems; but more fundamentally, laws and rules stand only when they are self-enforcing, that is, when the majority of those subject to them agree to observe them voluntarily because it is in their interest to do so, and not because of the threat of being sanctioned for breaking them. That will happen only with the creation of an impartial, well-trained judiciary and police force which enjoys the trust and respect of the whole community, as well as mechanisms for civilian control and oversight of those forces. This takes time and will depend not only on an ongoing process of rebuilding domestic civil authority, but on one that, from a fairly early date, will also include an agenda for returning to a more normal pattern of economic activity.

Given that the socioeconomic cleavages in Haiti are particularly deep, and will take longer to overcome than some of the legal and social barriers to expanded opportunity, lasting economic security will depend on establishing and sustaining a development path that can generate fast and more inclusive growth.

Markets cannot be expected to manage this process. Indeed, the absence of the requisite framework of incentives, rules and regulations needed for markets to work effectively and to make their operation compatible with social stability and cohesion means that they will likely play a subordinate role in the immediate recovery from a large shock, and the more so the bigger the shock. Rather, the centralization and coordination of economic activity that are essential under such circumstances will require a strengthened role for the state (see Kindleberger, 1996, p. 220; Panić, 2011). The obvious difficulty when a large-scale shock hits an already fragile state is that the government often lacks the capacity to deliver public goods and to undertake productive investments that under more normal circumstances would be the remit of the private sector.

Even before the earthquake, confidence in government institutions in Haiti was low and any recovery agenda must be designed with this legitimacy deficit in mind. How that is done will depend not only on ensuring constitutional accountability, but on the willingness and ability to carry out the required institution building and reform for the benefit of the whole community, as

well as on the priorities the state sets for itself and its citizens and whether or not these are fulfilled within a reasonable time frame.

The Action Plan, conceived by the Government of Haiti in March 2010, and approved by the international community at the International Donors' Conference in New York on 31 March 2010, is the key document intended to steer short-term reconstruction towards longer-term development of the country (Government of Haiti, 2010). The goals, as set out in the document, are laudable: a fair, just, united and friendly society living in harmony with its environment, and operating under the rule of law and with freedom of association and expression (p. 8). This ambitious set of goals contrasts sharply with the proposed actions to achieve them. The call is for a diversified, strong, dynamic, competitive, open and inclusive economy under the supervision of a responsible, unitary state. But the economic strategy and institutional changes required to support structural transformation are lacking in detail and evolution. The chapter on economic rebuilding, for example, states that it will be based 'on the close collaboration between the private sector, which will be the engine of wealth, and the State, which will take all the necessary measures to provide Haiti with the regulatory framework that can meet the requirements of a modern country open to investments' (p. 22). This is very much the language of the adjustment programs to which Haiti has been subject over the past 25 years. The document does place a strong emphasis on agricultural production but gives little indication of how to link this to employment creation in the urban centers where half the Haitian population were already living prior to the earthquake. Equally absent is any discussion of the industrial policies needed actually to develop competitiveness and to diversify the economy. Again the picture is one of a return to the 'business as usual' policies that failed to deliver inclusive development.

The chapter on institutional rebuilding suffers from similar deficiencies. One problem stems from its focus (p. 40) on the rebuilding and restaffing of Haitian institutions rather than the wider institutional hiatus and how it can be filled. The issue of confidence and trust in government institutions, their ability to provide public services and, more generally, advance public, rather than private interests, is not addressed at all. In addition, the need for a new social contract, given the dysfunctional state of the economic and political affairs in the country, is completely ignored. In contrast, the vision of the private sector, presented in the Private Sector Economic Forum document entitled 'Vision and Roadmap for Haiti' of March 2010, contains a more honest assessment of past mistakes, including inefficient governance, corruption and, importantly, fiscal evasion. It also recognizes the need for a new social compact that would include government, civil society and the private sector.

2. State building and economic reconstruction: the challenges

In a country emerging from a massive shock, the process of economic recovery begins with efforts to consolidate the gains achieved in the early phase of emergency relief and progresses through the gradual rehabilitation and reconstruction of the economy and supporting institutions. It continues until the country establishes a development path determined largely by its own priorities and resources. This is the challenge facing Haiti.

The enormity of the challenge stems from the fact that moving back to trend occurs simultaneously with efforts to repair trust in public institutions, and to re-establish a wider institutional framework of customs and laws, not just to enforce contracts and protect private property, but to fashion a shared view of national interest. Failure to address the grievances deeply rooted in society may quickly lead to renewed social and political unrest and, in some cases, a reversion to conflict. This has been the experience of many countries that remain trapped in vicious cycles of conflict, deprivation, despair and persistent insecurity. This has also been the experience of Haiti. Despite the presence of a United Nations peacekeeping mission (MINUSTAH), which ensured baseline stability after the paramilitary rebellion that led to the forced removal of President Aristide from office in 2004, political and criminal violence has continued to hold Haitian development hostage.

A central idea that emerges from successful efforts at state building and economic recovery in post-conflict situations is that of 'adaptive efficiency', the capacity to develop institutions that provide a stable framework for economic activity but at the same time are flexible enough to provide maximum leeway for policy choices at any given time and in any given situation in response to specific challenges. This idea rules out the privileging of a set of predetermined policy instruments (be they rapid trade liberalization and privatization, on the one hand, or high tariff protection and nationalization, on the other) to be employed regardless of actual circumstances.

When, as in Haiti, the institutional hiatus is wide, insistence on a correct 'sequencing' of reforms runs the risk of substituting political choices shaped by local values and conditions with general technocratic solutions.[4] What is needed is a period of policy experimentation and 'democratic gradualism' during which a mixture of political and economic mechanisms can be developed to forge a broad national agenda and to establish a tradition of conflict management and peaceful dispute resolution[5] while at the same time overcoming the main challenges faced by the country in the aftermath of the earthquake: the unequal distribution of resources, the insufficient fiscal capacity and the need to implement

the right industrial and trade policies, learning from past mistakes.

Unequal distribution of resources

Pervasive social exclusion and inequality are among the main sources of instability in Haiti, where less than 1 per cent of the population owns 75 per cent of the wealth. Scarce resources are also unequally distributed between regions and localities (UN ECLAC, 2005), with the richest part of the population concentrated in the mountain suburb of Pétionville. The resulting inability to satisfy basic human needs for a large proportion of the population, along with rapid population growth and heavy migration to the slums of Port au Prince, is helping perpetuate social tensions.

Recent literature suggests that a society with a balanced distribution of social and economic resources is generally better able to manage the trade-offs and tensions that accompany economic development than a society characterized by extremes of wealth and poverty (Rodrik, 1999). And a good deal of post-conflict research has suggested that violent conflicts are often linked to the existence of strong horizontal identities, based on race, language, religion, tribal affiliation or regional differences (Stewart, 2002; Stewart and Brown, 2007). When unequal access to (and competition for) economic and political resources reinforces such differences, and individuals, households and communities are compelled by social pressure or threats to give up normal multiple identities and 'take sides', the danger grows that the political spaces in which normal bargaining and negotiations take place will be eroded. In this regard, researchers have suggested that conflict is often driven by *polarization* rather than inequality per se (Montvalo and Reynol-Querol, 2005). Capital flight, both human and financial, and the shortening of investment horizons in the face of growing political insecurity are likely to intensify the struggle for economic and political resources, creating a vicious cycle of conflict in which countries can become trapped. Once conflict has started, the negative impacts on health, nutritional levels and education, particularly among children, further erode human and social capital and deepen the structural vulnerabilities that can perpetuate the violence (United Nations, 2008, ch. 4).

In the absence of an effective central authority to manage interregional transfer of resources, therefore, the disparities that characterize Haitian society could do more than just make it virtually impossible to create a feeling of national unity and purpose; they would sooner or later trigger renewed conflicts.[6] Two sets of distributional issues are particularly relevant to post-conflict and post-disaster expenditure decisions. The first is how to incorporate equity concerns into spending decisions and particularly how to put people back to work quickly in the aftermath of the shock. The lessons from post-disaster and post-conflict situations suggest that work-for-cash and work-for-food programs and other tools such as vouchers, direct food and housing support have an important role to play. Indeed, there is growing evidence that, in the medium term, cash transfers to affected households may be preferable to in-kind support, at least once the local capacity for providing basic goods and services has been restored, because they allow households to determine their most urgent needs, can offer a faster, more transparent and less expensive way of delivering support and are better able to sustain recovery.[7]

The second distributional issue is how to allocate expenditures across the political landscape so as to bolster incentives for the implementation of programs and the consolidation of a stable central authority. Impact assessments could be one means to address the distributional issues that have emerged from the quake in Haiti. Such assessments are akin to environmental impact assessments, first introduced in the 1970s, with the difference that here the concern is the social and political environment rather than the natural environment. Information on vertical inequality – the distribution of benefits across the poor-to-rich spectrum – is sometimes collected and sometimes used as an input into policy making. In many cases, however, even such basic data are not available.

Distributional impacts also need to be considered on the revenue side of fiscal policy in post-conflict and post-disaster countries. The primary revenue goal of government authorities, and of the international agencies that seek to assist them, has been to increase the volume of collections; the secondary goal has been to do so as 'efficiently' as possible. Neglect of the distributional impacts of taxation, however, can subvert both of these goals.

In choosing the mix of revenue instruments – the balance among tariffs, value-added taxes and income taxes, for example – their distributional incidence must be considered alongside their revenue potential, administrative feasibility and efficiency effects. The latest complete fiscal data available for Haiti (the fiscal year 2007–08) show that indirect taxes are the most important, accounting for over 35 per cent of the total tax revenue. Taxes on international trade (tariffs and value-added taxes on imports) are the second most important source at a little under 30 per cent. Direct taxes (personal and on enterprises) amount to less than 20 per cent. This stands in sharp contrast to other Latin American and Caribbean countries where direct taxes on average represent over 30 per cent of the total.

One option that should receive much more attention, once revenue is seen through the distributional lens, is luxury taxation. Taxes on items such as private

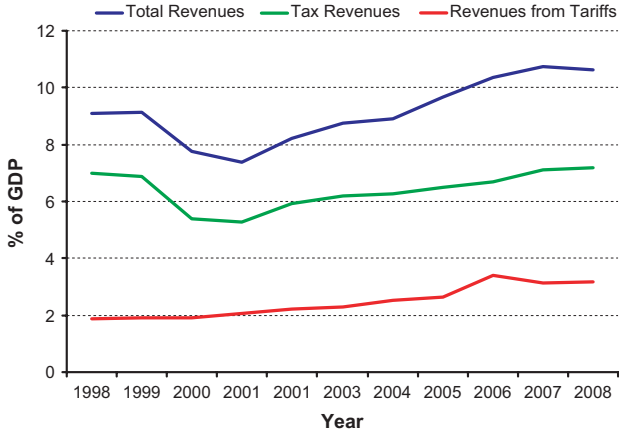
automobiles and private aircraft can combine the attractions of ease of administration, distributional progressivity and substantial revenue. Perhaps the most important, however, is the demonstration effect. In societies with high inequality there is a widespread sense that the rich do not pay their fair share of taxes. This gives a pretext to the rest of the society, most notably the middle class, to avoid paying taxes. Thus, in many developing countries the state is underfunded and unable to fulfill its role. If, on the contrary, a more progressive tax structure could be introduced in Haiti, it would go a long way towards building a more effective culture of tax compilance.

Developing fiscal capacity

The speed and sustainability of recovery in Haiti will also depend critically on the availability of resources needed to fund recovery and rehabilitation activities. The size of government revenue relative to gross domestic product (GDP) in war-torn societies is typically far below the average for other countries with similar per capita income. In this respect, as can be seen from Figure 1, Haiti looked like a war-torn economy even before the earthquake, with fiscal revenues rarely advancing above 10 per cent of GDP.

As discussed in detail by Boyce (2007) and Boyce and O'Donnell (2007), a crucial step taken during successful postwar transitions has been the building of state capacities to raise revenue to provide sustainable funding for new democratic institutions and for expenditures to improve human well-being, strengthen public security and ease social tensions. Filling the financing gap comes, in part, through external support, and depending on the overall cost of the conflict, reconstruction at the early stages of economic development will be a responsibility shared between the receiving country and its donors.

Figure 1. Government revenues 1998–2008.



Source: Banque de la République Haïtienne.

Estimates for Haiti's reconstruction put the financing figure at several billion dollars a year for the next few years (Sachs, 2010), several times higher than existing revenue flows. Inflows on such a scale can pose a range of technical and institutional challenges for policy makers, including, inter alia, the divergence between commitments and disbursements, the volatility of aid flows, the costs of tied aid, the lack of donor coordination, etc. (United Nations, 2005, 2006). Traditionally, donors have preferred to finance specific projects linked to the provision of various public goods. In this respect, routing the major portion of external assistance outside the government gives rise to a 'dual public sector': an internal public sector that is funded and managed by the government, and an external (or international) public sector that is funded and managed by the donors. In sheer monetary terms, the latter frequently dwarfs the former. This has several adverse consequences. Most evident is the opportunity cost of failing to tap these resources for the purpose of building state capacities to allocate and manage public expenditure.

Less obvious, but no less serious, is the 'crowding out' effect as professionals are recruited into the external public sector, often at salaries that the government cannot match. This was already apparent even before the earthquake in Haiti, resulting on some accounts in a parallel international public sector (Stewart, 2007).

The fact that the 'external' public sector is managed by numerous agencies, each with its own priorities, also poses enormous coordination problems. This leads to the waste of scarce administrative resources, as government ministries cope with the different reporting systems of multiple funding sources. There are no institutional mechanisms, however, that can make donor agencies accountable to the local citizenry.

The problem of the dual public sector could be reduced if donors were to channel a greater share of their resources through the state's budget allocation process instead of bypassing it. Key stumbling blocks in the pursuit of this 'budget support' approach are the problems of combating corruption and the need to ensure fiduciary responsibility. Double signature systems designed to approve all spending decisions (one from the government side and the other from an external monitoring agency) have been found to be effective in addressing both the corruption and the accountability concerns. Dual-signature systems have been implemented in the Governance and Economic Management Assistance Program (GEMAP) in post-conflict Liberia (Dwan and Bailey, 2006) and the Afghanistan Reconstruction Trust Fund, a World Bank-administered account through which donors help to fund the government's recurrent budget (Scanteam, 2005).

Experience has also shown that aid can 'crowd out' domestic revenue mobilization, reducing the incentive

for the government to tax its own populace. If, instead, aid is to 'crowd in' domestic revenue in Haiti, conscious efforts will need to be made to this end. The international community can support government efforts to mobilize domestic resources in several ways: by linking some of its aid to progress in domestic revenue performance, by helping to curb extra-legal revenue exactions and by providing technical assistance, especially to help strengthen tax administration.

On the expenditure side of fiscal policy, it is not unusual for donors to require 'counterpart funding' by the government as a condition for the disbursement of aid to specific projects, a strategy intended to ensure domestic 'buy-in' and to counteract fungibility (whereby aid merely frees government money for other uses). On the revenue side, however, conditionality of this type has been rare. It would be a straightforward matter to link certain types of aid – notably budget support – to progress in meeting domestic revenue targets. Such a policy is akin to the provision of 'matching grants' by private foundations. In both cases, the aim is to strengthen incentives for aid recipients to seek further resources.

In the case of Haiti, it would be a good idea to start from a lower estimate of taxes as percentage of GDP than was the case in 2009. The reason is that the ability of the state to tax in 2010, and most likely in the next few years, will not recover to the pre-earthquake level. Hence, taxes could at the moment take in 7 or 8 per cent per cent of GDP. In addition, there should be realism about the possible speed at which tax revenues could increase in Haiti. This will critically depend on the development of the country's productive capacities. With widespread poverty, the tax base is currently too small for a significant increase of tax revenue, even if corruption, tax evasion and tax avoidance are reduced to a minimum. Instead, a more vibrant economy, with more people in the formal sector, would eventually result in higher consumer spending and a broader middle class, and would, therefore, broaden the tax base of the country. In other words, a process of building productive capacities in a direction of a more diversified economy is the best chance for enhancement of domestic resource mobilization for Haiti.

Curbing extra-legal revenue exactions is a task located on the cusp between public finance and security. When profits from the exploitation of nominally public resources flow into private pockets, this not only deprives the state of revenues but also often finances quasi-autonomous armed groups that threaten the peace (Le Billon, 2000). When local warlords levy 'taxes' on trade, sometimes including trade in narcotics, as in Afghanistan, they undermine the state's monopoly not only over revenue collection but also over the legitimate exercise of force. Curtailing such activities may require substantial international assistance, but it will also often require a much more careful assessment of the links between strategic objectives of political stabilization and long-term development goals (for further discussion, see Sedra and Middlebrook, 2005; Ahmad, 2006).

Getting the policies right

Haiti has long suffered from the absence of a clear development strategy. This is the result of institutional failure due to a mixture of predatory and ineffectual government. But it also reflects policy failures, including that linked to development assistance (Buss and Gardner, 2008; ICF, 2004). The country adopted a National Growth and Poverty Reduction Strategy Paper, reached High Indebted Poor Country status (HIPC) in 2001, and also benefited from debt cancellation through the Multilateral Debt Relief Initiative, but all these initiatives have largely failed to establish a strong, and inclusive, development path. The combined effect of the rise of fuel and especially food prices in 2008 caused widespread protest and resulted in the resignation of the prime minister. That same year, four storms caused damages and losses estimated officially at 15 per cent of GDP. Comparing indicators at the end of the 2000s with those attained three decades earlier, the picture is one of decades of lost development. Real per capita income had been increasing up to 1981 when it reached $438, but was just $248 in 2008, a reduction of more than 40 per cent. The decline started during the 'lost decade' of the 1980s, dropping to $361 in 1991, declining further until 2004 when it stabilized around $250 per capita. Other economic indicators in Haiti are equally meager (see Table 1).

During the 1960s and 1970s Haiti had implemented industrial and trade policies based on import substitution and protection of local industries similar to other Latin American and Caribbean countries. In the late 1970s measures were implemented to attract foreign firms to low-wage export industries producing garments, baseballs, electrical switches and other light manufactures. The change of development model was reinforced in 1987 with a first wave of liberalization, especially in trade and privatization measures, followed by another starting in the early 1990s (WTO, 2003). Economic policy making in that period and until now has been informed by conventional economic orthodoxy under the surveillance of the International Monetary Fund (IMF) and the World Bank.

Excessive loan conditionality has been widely criticized for pushing premature liberalization policies in many developing countries (UNCTAD, 2009). This has certainly been the case in Haiti. In 1986, after the Duvalier dictatorship ended, the IMF made a conditional loan to Haiti which required the new government to open

Table 1. Haiti: selected economic indicators, yearly averages, 1986–2008

Indicator/Year	1986–90	1991–95	1996–2000	2001–05	2006–08
GDP (rate of change in %)	−0.6	−2.2	2.5	−0.5	2.3
Gross fixed investment/GDP	27.12	13.8	21.9	23.4	29.5
C. Government expenditure/GDP	12.9	8.6	10.4	11.3	12.4
Exports (USD million)	288.4	209.6	445.4	490.4	767
Manufacturing/GDP	n.a.	n.a.	7.6	7.7	7.6

Source: ECLAC, based on the official statistics from the Banque de la Republique d'Haiti.

up its markets to foreign competition, reducing tariff protections for rice and other agricultural products. With the tariff on rice cut from 50 per cent to the IMF-decreed 3 per cent, local production quickly lost competitiveness and the country – previously self-sufficient in the crop – was flooded with subsidized American grain, and rice imports rose from just 7,000 tonnes in 1985 to 220,000 tonnes in 2002. Similar measures undermined the poultry and sugar sectors. As a result migration from the countryside picked up pace, mainly to Port au Prince, aggravating the problems of the overcrowded capital at a time when Haiti's small but vibrant manufacturing base, which contributed around 20 per cent of GDP in 1994, was also declining sharply because of the lack of capital investment and because of being prematurely exposed to foreign competition, dropping to just 7.5 per cent in 2008. Only the textile industry has survived this premature deindustrialization, while the rest of the manufacturing sector has mostly disappeared (IMF, 2005). The dominant trends that emerged from this policy shift were dwindling public sector support, with the revenues derived from international trade dropping from 35 per cent of GDP in 1984 to an estimated 22 per cent of GDP in 1989, rising indebtedness and a rapid exposure of substantial parts of national production to international competition. The effect has been particularly devastating in agriculture: a food deficit in 1980 of $17 million had grown to $400 million in 2008 as imports surged to 40 per cent of food needs and exports declined throughout the period. The resulting levels of international debt in turn restricted the policy and fiscal space needed to trigger economic expansion and diversification.

This history has an important bearing on the choice of economic policies designed to start and sustain the recovery process. Attempts to build a durable peace often require policies, including macroeconomic measures, which may well challenge conventional wisdom. For example, the IMF, in its pursuit of the objective of macroeconomic stabilization, often requires the borrower government to cut its budget deficit to target levels before successive installments of an IMF loan can be disbursed. Whatever the wisdom of these deficit-reduction targets – themselves often a matter of debate – in regions emerging from internal conflict, their feasibility and desirability must be viewed through the distinctive lens of the requirements of establishing a stable and inclusive development path. To the extent that the usual macroeconomic prescriptions of the IMF clash with the aim of building a sustainable and inclusive recovery, there is a compelling case for rethinking those prescriptions.

Designing an appropriate integrated policy response has to take account of immediate local circumstances and capacities. In the case of Haiti, such a strategy will likely focus, as Collier (2009) has suggested, around building economic security with the potential for both an immediate payoff in terms of job creation as well as the possibility of sustainable long-term growth; the reconstruction of infrastructure, improved productivity on small farms, support for low-skilled manufacturing and the provision of basic services could offer the kind of linkages and synergies around which a more virtuous development cycle could be established.

More strategic trade and industrial policies will need to be part of any long-term strategy to diversify the economy and raise productivity levels in support of a more measured opening to the global economy. For example, Haiti has a simple average applied most-favored nation rate of only 2.8 per cent and the simple average bound rate[8] is 18.7 per cent. As a first step, the international community could allow Haiti to protect small businesses from foreign competition by increasing tariffs to their bound levels on several products that have historically been produced in the country. This would be especially pertinent in the case of small farmers to reverse or at least mitigate the trend of rural–urban migration due to the neglect of agriculture and opening up during the last three decades. More generally, Haiti should be granted a possibility to roll back the commitments taken within the World Trade Organization (WTO) framework and regional agreements, including the recent ACP–EU economic partnership agreement. Such action would help expand the space available to policy makers to experiment with trade, macroeconomic, industrial and other policies to find the appropriate mix of measures needed by the country to develop its productive capacities.

3. Aid effectiveness: lessons for Haiti from the Marshall Plan

As was made clear in the previous section, particularly in the immediate aftermath of the shock, external assistance is crucial to trigger economic recovery. Still, such foreign aid will do little to build sustainable recovery without the presence of an institutional framework with the responsibility and capacity to reduce inequalities to the levels that are generally regarded as legitimate and fair. Attempts to transplant that framework from one environment to another are unlikely to be successful if they ignore local conditions and strangle the process of trial and error that is the hallmark of successful recovery episodes. As the establishment of stable institutions and of a vibrant economic environment are the most important goals that foreign aid can help Haiti to achieve, the effectiveness of all forms of external assistance has to be judged by how far they contribute towards achieving those overriding objectives.

A problem with bilateral assistance is its use in support of special interests in either receiving or donor countries. Bilateral aid needs, therefore, to be monitored carefully by independent assessors. In the case of Haiti, the US is by far the largest single donor, providing around 30 per cent of the total net Official Development Assistance (ODA) to the country. According to Organisation for Economic Cooperation and Development (OECD) statistics, in 2008 the US government channeled $259 million of aid to Haiti against $9 million provided by the World Bank and $11 million from the Inter-American Development Bank.

The advantage of multilateral aid, apart from avoiding multiplication of effort and the waste that it causes, is that it is better positioned to induce collective action among donors. Nevertheless, given that influence across the donor community is unevenly distributed, the effectiveness of multilateral aid remains an issue. Recognizing the need for a framework of organizing principles intended to ensure that aid is used more effectively and to encourage policy makers to forge a new kind of social contract, many observers continue to see the Marshall Plan as a model that can be employed by the international community.[9] Already a number of prominent figures, including the head of the IMF, have alluded to this model in discussing the reconstruction of Haiti.[10]

The provision of financial assistance to deal with long-term imbalances is usually seen by international financial institutions as offering evidence of a weak commitment to reform and as encouraging a slackening of discipline by postponing necessary adjustment. This was not the view of the Marshall Planners, who regarded such assistance as an investment in social cohesion and structural change and as providing governments with the breathing space required to bring difficult and often painful policies to fruition. When such policies threatened to cause social upheaval on a scale that might upset the adjustment process, as was the case in postwar Italy at one point, Marshall Aid was available to cushion the social costs through support to the government budget.

There are several virtues of the Marshall Plan that remain particularly useful in ensuring that the aid flowing to Haiti, both for immediate humanitarian relief and for economic reconstruction, supports a more ambitious long-run development plan. First, Marshall made it clear that there was to be an end to piecemeal assistance which had suffered from a lack of coordination and had less impact than expected in stimulating economic recovery. A key requirement, therefore, was that each state recipient of aid had to produce a four-year outline plan for recovery, setting out targets for the main economic variables and providing an account of how the government intended to achieve its objectives. Second, Marshall insisted that these plans, together with estimates of the need for assistance, had to be drawn up by the western Europeans themselves. Marshall acknowledged the existence of national sensibilities, admitted that the recipient countries were better informed about the facts of their situation than outsiders, and generally showed a deference towards European traditions and preferences that has subsequently been conspicuously absent from the attitudes of rich countries and international institutions towards the rest of the world.

A third feature of Marshall Aid was its release in tranches that depended on the countries' intermediate targets being met. The removal of the recovery program from the Bretton Woods framework did not therefore imply an escape from conditionality, but only that the Marshall Plan conditions were different and more flexible and were to be met over a longer period than would be allowed by IMF rules.[11] Fourth, the Marshall Plan acknowledged that the damage to European productive capacities and the great disparity in economic strength between the United States and Europe meant that rapid liberalization of trade and payments would quickly lead to European payments-related crises. It was accepted that Europe would gradually dismantle a wide range of direct and indirect controls on its trade between 1950 and 1958 according to an agreed timetable within the framework of the European Payments Union. This gradual liberalization of trade provided European producers with protection against competition from the United States and gave them time for, and encouragement to, the reconstruction of enterprises capable of producing competitive substitutes for dollar imports. At the same time, the United States agreed to a more rapid improvement in access to its own market for European exports, a policy of asymmetric liberalization that stands in marked contrast to the present approach of the EU and the United States, which insists on a rapid opening of developing countries'

markets and which fostered the premature liberalization in Haiti discussed in the previous section.[12]

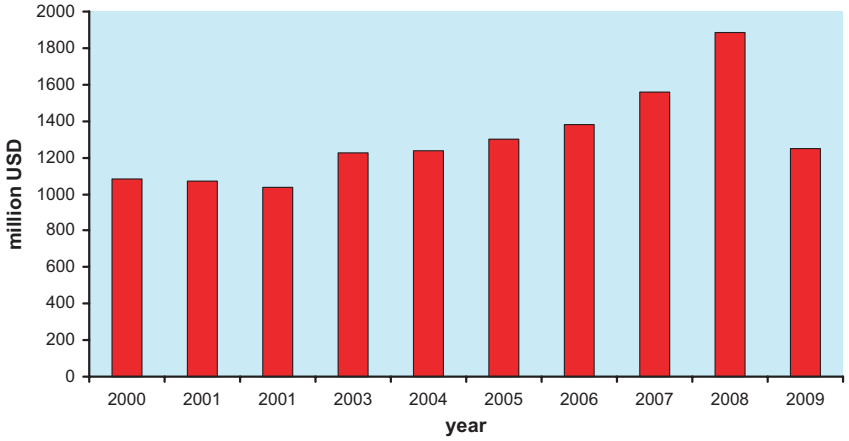
Fifth, effective leadership requires generosity. Marshall Aid consisted largely of grants and the small proportion of loans contained a large element of grant: they were usually offered for 35 years at 2.5 per cent interest with repayments starting in 1953. It is worth emphasizing this structuring of financial help at a time when the terms 'aid' and 'assistance' are used loosely to cover everything from gifts to loans at market rates of interest. The wisdom of adding to the debts of already heavily indebted economies is highly questionable – all the more so when they are grappling with economic restructuring and institution building. This is obviously true of Haiti, where a significant portion of its outstanding debt was acquired during decades of dictatorships and subsequently augmented by recurrent large-scale natural disasters.[13]

The challenge facing Haiti, in light of its existing development deficits, is of an order of magnitude greater than that facing European countries in 1947; however, the case for international support should be made along the lines outlined by Marshall. A starting point would be the cancellation of Haiti's crippling external debt (UNCTAD, 2010). Despite having recently benefited from debt relief of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), at the time the earthquake struck, Haiti still owed foreigners a total of US$1.25 billion (around 15 per cent of its GDP), as shown in Figure 2, and was already classified as being at high risk of debt distress prior to the earthquake, thanks in large part to the numerous and successive external shocks that hit the country. Considering the large direct cost of the earthquake (official estimate puts this cost at 120 per cent of GDP), in the absence of further action a new debt crisis is all but assured.

Focusing on these principles can help to provide a coherent framework for coordinating economic recovery and development plans with international assistance. Without the provision of an articulate account of a government's macroeconomic objectives and their relation to detailed programs for infrastructure investment, education, health, housing, etc., it is difficult to see how limited supplies of foreign assistance, financial and technical, could be really effective. Official assistance is essentially a form of intervention designed to ease shortages, bottlenecks and other constraints on growth and structural change, but it is difficult to target aid towards the areas where it will be most effective without some idea of priorities and the potential marginal effect of, say, removing one bottleneck before another. Such programs would also make it easier to provide general, non-project assistance to government budgets or the balance of payments, as was done for a number of European countries under Marshall Aid. Development (even more than reconstruction) programs essentially deal with deep-rooted structural problems and both fiscal and current-account deficits are usually unavoidable if constructive long-run adjustment is to be achieved.

The creation of a 'new Marshall Plan' for Haiti could thus provide a concrete operational basis for such concepts as 'ownership' and 'partnership', which otherwise risk degenerating into empty slogans. It could also provide sustainable funding for new democratic institutions and for expenditures to improve welfare and sustain development. For this to happen, however, it is also necessary to reinvent Haitian society itself and build up a more inclusive and dynamic society, starting by overcoming the main challenges described in this article. Ultimate success or failure in rebuilding the country will

Figure 2. Haiti external debt 2000–09.



Source: Roodman, 2010.

be determined, therefore, by how the local authorities and the international community will each discharge their part of the shared responsibility.

Notes

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1. By way of a comparison, the damage from Hurricane Katrina has been estimated at just 1.3 per cent of US GDP and that caused by the recent earthquake and tsunami in Japan at 7–10 per cent of GDP.
2. On the kind of international response needed in Haiti after the storms that hit the island in 2008, see Kozul-Wright and Paddison (2008) and United Nations (2008).
3. See OECD (2007, 2010) for detailed discussion on the definition of state fragility in relation to state building.
4. This, of course, holds true for countries that are implementing large-scale reforms even if they have not experienced a prior period of civil conflict (see Rodrik, 2004).
5. On the idea of 'democratic gradualism', see Kozul-Wright and Rayment (1997).
6. On the failure of democratic institutions in a context of widespread inequality, see Cervellati et al. (2007, 2008).
7. See Barrett et al., 2004; Department for International Development, 2005; Standing, 2007.
8. Bound rate is the maximum tariff rate that a country had agreed with the World Trade Organization. Except in exceptional circumstances, no member of the WTO should apply higher rates on imports of other members than the bounded rate.
9. On the lessons from the Marshall Plan, see Kozul-Wright and Rayment (2007, ch. 7).
10. See www.imf.org/external/pubs/ft/survey/so/2010/NEW012010A.htm
11. Conditionality was important not simply to ensure that the aid was being used effectively but also to gain, and sustain, the support of the United States taxpayers.
12. Another, largely forgotten aspect of American restraint towards the relative economic weakness of Europe in 1947 was a moratorium on foreign investment in Germany until monetary equilibrium had been more or less achieved (Kindleberger, 1996).
13. It is worth recalling that George Marshall was concerned with a vicious cycle of indebtedness and stagnation gripping postwar Europe when he was designing his reconstruction measures. In 1947 Marshall recognized 'that Europe's requirements for the next three or four years of foreign food and other essential products – principally from America – are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character. The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole' (Speech delivered by General George Marshall at Harvard University, 5 June 1947).

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