

Emily C. Skarbek

# Coordinating the Reconstruction of Haiti

An economic analysis of making the recovery work



Coordination required. Picture: Sophia Paris/U.N.

ON January 12, 2010, Haitians experienced one of the worst natural disasters of the century. An initial earthquake of 7.0 and 52 subsequent aftershocks ravaged the city of Port-au-Prince, leaving rubble and debris in its wake. The U.S. Geological Survey estimates that 222,570 people lost their lives and more than 300,000 were injured. The magnitude of devastation was immense, with 97,294 houses destroyed, another 188,383 damaged and approximately 1.3 million people displaced from their residence.

The monumental tragedy experienced by the poorest nation in the Western Hemisphere elicited state interventions by numerous foreign governments. Government efforts in the post-disaster context have two primary goals: administering emergency aid to the suffering and restoring or creating stability of core political institutions. Despite virtually unconstrained access to resources and talent, state officials do not possess the knowledge and capabilities to ensure they meet either goal.

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The failures of government may appear at first to be an issue of lacking good governance. According to a U.S. Senate report issued in June 2010, reconstruction efforts in Haiti have made little progress due to “an absence of leadership and general disorganization.” Findings such as these imply that if better leaders were in charge, more resources available, or better efforts in place to coordinate the activities of governments, then the poor outcomes of publicly-directed reconstruction might be avoided. The assumption behind this reasoning is that the government coordination of relief efforts is a sufficient mechanism for successful reconstruction. History and economics suggest that while coordination is necessary, it alone is insufficient to generate a successful reconstruction.

To understand why governments and public officials often fail at relief and reconstruction efforts, we have to understand why it is that the efforts of private firms and organizations often succeed. Markets coordinate the actions of otherwise autonomous groups by aligning the incentives of suppliers of goods and services with those who demand such goods. Natural disasters destroy resources and capital, and as a result, the prices for those resources rise. Freely fluctuating

prices do two things. First, they communicate to entrepreneurs what is needed, the magnitude of those needs, and where those goods are required. Prices transmit knowledge of the increasing scarcity of specific goods to participants who possess very specific knowledge of how to deliver those goods. Equally important, rising prices provide suppliers (and potential suppliers) with an incentive to deliver those goods to people in need.

Governments, on the other hand, necessarily operate outside the price system, excluding them from tapping into the types of knowledge generated in markets. Without relative prices to direct activities, Christopher J. Coyne argues that coordination must occur around rules: both indigenous institutions and a set of beliefs, opinions and expectations present in the county undergoing reconstruction.[1] This type of coordination can occur around productive (or “good”) equilibriums or destructive (or “bad”) equilibriums. Good equilibriums are bundles of rules, both formal and informal, that are conducive to sustaining a liberal democratic order, whereas bad equilibriums involve beliefs and expectations that detract from a self-sustaining liberal order. These equilibria, both good and bad,

► 26

## ◀ 25 | Coordinating the Reconstruction of Haiti | Emily C. Skarbek

are self-reinforcing: as more people adopt dovetailing expectations and beliefs about the rules in society, they become a more salient focal point for each individual.

The U.S. government has conducted state building missions in Haiti for the past 100 years with no evidence of sustained positive results. In 1915, the United States began a military occupation of Haiti intended to establish peace and order during transitioning political powers. Despite these efforts, a dictatorship emerged and remained in power until the U.S. withdrawal nearly thirty years later. In the 1960s, President Kennedy provided aid to construct democratic institutions under the Alliance for Progress program, with no lasting success. Finally, with the most recent military occupation of Haiti in 1996, the country's democracy shows no improvement, nor do measures of the country's political institutions reflect any progress following U.S. intervention.

Elections in Haiti's 2006 presidential election were characterized by allegations of vote manipulation, fraud and corruption. In the most recent report on U.S. reconstruction efforts in Haiti, it is clear that the legislature has all but dissolved after the earthquake inhibited the February elections. Haitian elections are not supported by underlying beliefs and expectations required to ensure they serve as a productive focal point of reconstruction coordination. Yet despite the obvious signposts that the coordinated equilibrium is an unproductive one, the self-reinforcing pattern persists. The June 2010 report identifies agreement from both U.S. Democrats and Republicans on the importance of November elections, regardless of having lost the electoral commission's headquarters and records in the earthquake. The report states that failing to hold the elections on time could jeopardize "Haiti's fragile democracy."

Recognizing that political coordination must operate outside of the market sphere helps to clarify what would otherwise seem like a perverse prioritization of Haitian elections. When coordination lacks the mechanism of market prices, government planners adopt other observable measures to assess success and failure. Political pressures demand that representatives use measurements that are transparent to interest groups, even if those measures are less productive

than smaller, incremental steps toward reconstruction.

In terms of humanitarian aid, since 1990 the United States has spent over \$4 billion on Haiti, with little to show for the effort. After the earthquake capsized Port-au-Prince, governments immediately attempted to suspend commercial activity and rely on bureaucracy rather than markets to coordinate human affairs. Very little aid pledged by other nations and even less received in government-to-government transfers actually reaches the people in the recipient country. Other forms of emergency aid, such as debt-relief programs, suffer from similar limitations. With regard to the recent U.S. to Haiti transfers, after more than six months only 1-2 percent of the \$5.3 billion in near-term aid pledges have actually been delivered. Repeated failures in state building and aid operations suggest a limit to feasible and effective reconstruction policy.

When considering the efficacy of government emergency aid efforts, it is wise to remember the recent experience of Hurricane Katrina. The dismal response of the Federal Emergency Management Agency was only the most visible failures of government emergency management. Even before the storm, special interests and political favoritism were largely to blame for the poor government infrastructure of levees and canals that exacerbated the effects of the disaster. The graft, mismanagement and waste of millions of dollars in aid, as well as the bureaucratic red tape of subsidized rebuilding projects like the Road Home Program evidence the inherent difficulty of government-run disaster assistance programs.

The lessons of Hurricane Katrina are important because the administration of relief and aid took place under relatively favorable conditions for government management. New Orleans is a port city accessible from land, sea and air, in a country with stable property rights institutions, relatively high levels of wealth, free immigration between the states — and forewarning of the disaster was public knowledge. In this context, the failures of government relief efforts inspire serious skepticism about the ability of the federal government to accomplish similar efforts in Haiti, where they are at a severe disadvantage given the distance, the failed political institutions prior to the disaster, and that the majority of the population lives in abject poverty.

As was the case after Hurricane Katrina, the overwhelming successes of all relief and aid efforts in Haiti are coming from the private sector. Shipping giants DHL and FedEx have been responsible for moving in the bulk of supplies to Haitians, coordinating supply chain logistics and coping with serious security concerns. Similarly, Salvation Army and Red Cross have proved more effective at humanitarian relief efforts. With over 50 years experience in Haiti, the Salvation Army has successfully utilized knowledge of Haitian culture and institutions to cope effectively with the array of post-disaster complications in aid management. Finally, during Katrina firms like Wal-Mart and Home Depot delivered life saving goods with speed and effectiveness, often in spite of government mandates and regulations to prevent such commerce.

Aiding Haiti effectively requires a withdrawal of U.S. military and aid, and a push for unilaterally open borders and free trade. Increased trade flows have a natural advantage in sustainable relief. The immediate benefits have already been touched on, mainly ensuring that specific goods reach those with specific needs on the ground. Private organizations have the experience and local knowledge to accomplish these concrete goals better than government bureaus.

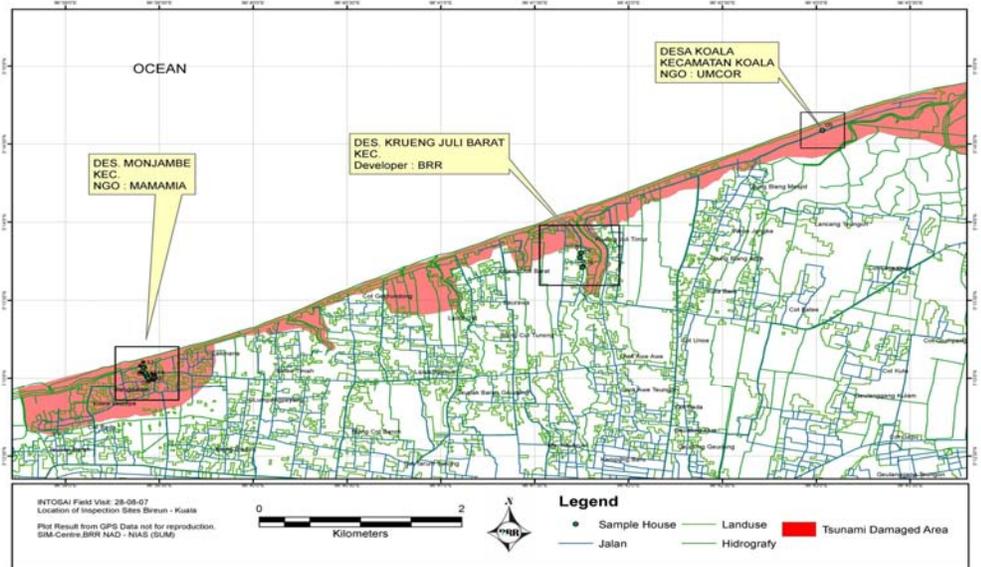
The secondary effect of reducing trade barriers addresses the more difficult and lasting problem of shifting Haitian institutions in the direction of a "good" equilibrium. When people are free to engage in voluntary trade, three things occur that are less than obvious. First, trade is mutually advantageous and generates wealth for both parties in any given transaction. This process of wealth creation increases the costs associated with plunder and increases the benefits of productive exchange. Shifting the costs associated with beliefs and practices that undermine liberal democratic institutions promotes a path towards improving indigenous institutions. In addition, the Haitian people — consumers and producers — and their preferences, not the preferences of either domestic or foreign governments, dictate the path of reconstruction and development. Lastly, when people exchange goods they also exchange cultural practices, beliefs and norms — a second mechanism for enabling Haiti to reinforce a productive equilibrium.

◀ 27 | Mapping Effective Reconstruction | Karen Richardson

the Netherlands Court of Audit can track where money has gone and measure the success of policy measures. INTOSAI is now urging nations and agencies to use GIS and geospatial information for transparency and accountability as aid flows to Haiti and Chile for the earthquake recovery effort. In the Netherlands alone, about 100 million euros were collected for Haiti, with about 43 million euros coming from the Netherlands government. The Netherlands Court of Audit intends to use its GIS knowledge and expertise to advise the Dutch Ministry of Foreign Affairs and a group of major NGOs on how to enhance transparency and accountability for tracking aid monies for Haiti.

Examples of effective use of GIS in aid abound. The World Food Programme uses satellite images and GIS to locate refugees and plan the distribution of food; the International Criminal Court uses satellite images to locate refugee camps and gather evidence on human rights violations such as the destruction of villages; the European Commission's Directorate-General for Agriculture has used GIS successfully over several decades in its Monitoring Agriculture through Remote Sensing project.

Ultimately, GIS benefits all stages of an audit. GIS can analyze the geographic spread of projects that are behind schedule, the use of certain contractors in a region and the geographic spread of funds allocated. Remotely sensed data can be used to quickly verify information in databases with information from the field — for example, whether houses registered as finished actually appear to be on current imagery. GIS can then be used to focus on projects behind schedule to audit



Picture: ESRI

contract management risks, or focus on projects on schedule to audit performance, such as the quality of the houses and the occupation rates. Field visits by the auditors can be planned more effectively by establishing the locations to which teams need to be sent, as opposed to the locations for which the auditors can rely on remotely-sensed data.

By combining geographic data from GPS and satellite-based maps with audit field data, the data can be analyzed immediately. This can help determine at the outset whether houses or infrastructure have been constructed at the correct location. The data can then be used throughout the project. Analyzing large quantities of data is possible and understandable with GIS. For example, when looking at settlements in Aceh Province that were affected by the tsunami, data

on the loss of school buildings, surviving children and location-specific information, such as elevation and the location of the destroyed buildings, helped auditors better measure whether schools had been built in areas where they were needed.

GIS provides a visual means of communicating what is immediately understood by the audience. Locations of projects are easily determined and explained, and information can be synthesized onto a map to describe what is happening.

Using GIS can lead to more efficient and effective audits of disaster-related aid since it is geographic in context: aid is intended for a specific location, whether it is to be used to reconstruct and rehabilitate infrastructure, buildings and farmlands, or assist the people who live there. ■

◀ 26 | Coordinating the Reconstruction of Haiti | Emily C. Skarbek

With regard to immediate aid, allowing Haitians to migrate freely to the United States is a direct and non-interventionist method of humanitarian relief. Removing U.S. immigration quotas for Haitians also pressures the Haitian government to improve performance or risk increasing emigration flows. As for the impact on the United States, despite popular rhetoric, the effect of immigration on the domestic labor market is small. There is no evidence of economically significant reductions in native employment as a result of immigration. Most empirical studies (such as those by Rachel M. Friedberg and Jennifer Hunt) of the United

States and other countries find that a 10 percent increase in the fraction of immigrants in the population reduces native wages by at most 1 percent.[2] Even those natives who should be the closest substitutes with immigrant labor have not been found to suffer significantly as a result of increased immigration.

The failures of the United States government to engage in disaster management broadly, and reconstruction of Haiti more specifically, should inform future policy measures directed at these aims. Policy makers and the aid community alike

have the best intentions for the recovery of Haiti from the ruinous destruction wrought by the earthquake. With these goals in mind, a fundamental shift away from military occupation and aid is in order. ■

Endnotes

1. Coyne, Christopher J. (2008) *After War: The Political Economy of Exporting Democracy*. Stanford University Press. Stanford, California.
2. Friedberg, Rachel M. and Jennifer Hunt. (1995) "The Impact of Immigrants on Host Country Wages, Employment and Growth." *The Journal of Economic Perspectives* 9 (2) pp. 23-44.