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What now?

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To people who have been paying attention to the few success stories of poor nations attaining at least some level of prosperity, the requirements for Haiti to come out of the horrors surrounding the recent earthquake with some hope for the future are easy to understand but difficult to implement.

Foreign aid has not made poor countries prosperous (though it has made some dictators personally wealthy). As outlined persuasively in the recent book from the Oakland-based Independent Institute, "Making Poor Nations Rich," the most important driver of economic growth is the entrepreneur. But entrepreneurs can prosper in a market economy only when property rights are recognized and protected, a certain degree of economic freedom is permitted, and trade is not only permitted, but celebrated.

The outpouring of aid for Haiti, both from governments and private citizens, has been heartwarming and, despite numerous problems in delivering aid (hampered by the almost complete lack of infrastructure in Haiti), it should provide some immediate help. Unfortunately, most of the international governmental and nongovernmental organizations providing the bulk of aid to Haiti have not yet absorbed the lesson that economic freedom, protection of property rights and a business-friendly environment are the keys to successful economic development.

As Ian Vasquez, director of the Cato Institute's Center for Global Liberty and Prosperity, told me, "they are wedded to a top-down approach to economic development. A market is not a top-down institution."

Several institutions, including the Cato Institute and the Heritage Foundation, have compiled indexes of economic freedom over the past several decades. Those countries that have allowed more economic freedom – China, India, Ireland, Botswana – have seen prosperity grow, while those that have reduced economic freedom – Venezuela, Zimbabwe – are poorer now than they were a generation ago.

According to Heritage's 2008 Index of Economic Freedom, Haiti ranked 138th of 157 countries in economic freedom, and its status had declined since 2007. Starting a business takes 202 days, compared with a worldwide average of 43 days (and six days in the U.S.). Tariffs are relatively low (9 percent) but the customs regime is notoriously corrupt. Foreign ownership of land is restricted, and the judiciary is corrupt and far from independent, so outcomes are often purchased. (Haiti ranked last among 163 countries in Transparency International's Corruptions Perceptions Index in 2006.) Property rights, though formally recognized by law, are virtually nonexistent, especially for people with no political connections or money to bribe judges.

Because Haiti's government for years has been essentially nonfunctional and does not effectively protect property rights, what there is of a formal economy is small and riddled with corruption. Because only the politically connected can operate in the formal economy, as Mr. Vasquez, who studied and visited Haiti in 2003, told me, about 80 percent of the economic activity takes place in what economists call the informal economy.

As Peruvian economist Hernando De Soto explained in several books beginning in the 1980s, an informal economy usually arises in a country dominated by kleptocapitalists and authoritarian governments as a way of hanging onto at least a subsistence level of existence. People squat on land, or work small plots of earth that, in Haiti, may have been in a family for generations but whose ownership has never been formally recognized. Stores, subsistence-level farming and small-scale manufacturing may develop, but an informal economy can seldom grow beyond subsistence level.

Since ownership is not recognized by law in an informal economy, people cannot use property as collateral to obtain loans for growing a business or buying seeds to plant. Other people in the informal economy may recognize property rights de facto, but they are eternally insecure and vulnerable to being seized by the wealthy or powerful. An informal economy can allow people to survive, just barely, but not much more.

Former colony

Haiti's lack of decent governance has emerged from its sad history, a history in which the United States has seldom played a constructive role. In the late 1700s Haiti was one of France's most prosperous colonies, producing sugar and coffee on plantations worked by slaves imported from Africa and treated brutally. Black slaves made up some 90 percent of the population. The rest of the population was divided almost evenly between whites, who owned the plantations, and mulattos (or "yellows") who served as overseers, agents, shop clerks, craftsmen and the like. Color was class.

The impetus for revolution initially came from the yellows, who were nominally free but had no rights. Following the French Revolution in 1789 they agitated for reform from the new government and were granted citizenship status in 1791, a development the whites resisted. Following a period of agitation the blacks revolted in 1792. The result was a race war, brutal and deadly on all sides. Pierre Dominique Toussaint l'Ouverture, said to be the son of an African chief, united the black armies and proclaimed himself governor. The French, with plenty of problems at home, recognized him as the French governor. When he proclaimed himself governor-for-life, however, the French invaded in 1802. While they didn't subdue the rebellion, they did capture Toussaint and take him in irons to France, where he shortly died of pneumonia.

Toussaint was succeeded by Jean-Jacques Dessalines, who drove out the French in 1804 and proclaimed independence, then embarked on a campaign to kill every French man, woman and child, with the exception of a handful of clergy and doctors. However, the French threatened invasion if the new Haitian government didn't pay reparations, which it did. These payments drained the country economically. Other Western Hemisphere countries refused to recognize a country ruled by black former slaves, and Haiti became increasingly isolated and impoverished.

U.S. invasion

The United States invaded Haiti in 1915 and occupied it until 1934. The Americans built some roads and bridges, improved communications and provided a modicum of stability. But even a benevolent occupation – and the U.S. occupation was not entirely benevolent, being used sometimes to secure footholds for U.S. businessmen – engenders resistance. The U.S. departure came two years earlier than planned and was preceded by popular hostility.

Coup and countercoup followed until Francois "Papa Doc" Duvalier won election in 1957, emasculated the army and surrounded himself with the brutal *tonton macoutes*, who terrorized the population and kept him in power until he died. His son, Jean-Claude "Baby Doc," was driven from power in 1986.

The most significant figure since then was Jean-Bertrand Aristide, who may have started with good intentions but made no secret of hating capitalism and business, which didn't do much for the economic climate. His presidency was interrupted by several coups, the last in 2003 (perhaps/probably aided by the U.S.). The current president, Rene Preval, is widely viewed as ineffectual – he virtually disappeared from sight following the earthquake – and the government was almost nonexistent before the earthquake destroyed so many of its buildings. For the past several years what governance there has been has come from United Nations troops and civilian aid workers.

Haiti 'reimagined'

One might theorize that a disaster as extensive as the earthquake, which effectively destroyed what government existed in Haiti, might offer something like a clean slate. Indeed, Steven Van Zandt, guitarist in Bruce Springsteen's band, wrote a piece for Politico saying Haiti should not be rebuilt but "reimagined." Van Zandt called on Warren Buffett, Bill Gates and other high-tech gurus, Oprah, Brad Pitt, Wyclef Jean, George Lucas, James Cameron and other wealthy and good-hearted luminaries to come together and "design a new Haiti. Let's make it the high-tech capital of the world."

It's a pipe-dream, of course, even in the unlikely event all those people did come together and agree on a plan. Even though many of those Van Zandt names are entrepreneurs, there's little evidence that they have a

grounded appreciation of the conditions necessary for entrepreneurs to thrive, or that they could impose it on Haiti from the outside if they did.

Ian Vasquez told me that plenty of Haitians, despite poverty and illiteracy, have the entrepreneurial spirit, but so long as they are confined to an informal economy they can't secure their property, build financial institutions and create wealth. If recovery is to come to Haiti it must come from the Haitian people themselves beginning to realize, despite their tragic history, that their best hope lies in creating the conditions in which enterprise can flourish. Unfortunately, few at the top have either the understanding or the inclination, and those likely to dominate recovery efforts lack the understanding.

I'd love to be more optimistic, but the more one knows, the more difficult it is.

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