

MEMORANDUM

To: President Jovenel Moïse
From: Matthew Samach
Subject: Poor Economics and Policy Suggestions
Date: December 11, 2018

Abstract

This memo is organized into three sections. The first section will analyze, based on the book *Poor Economics*, the behavior of poor populations with regards to food, health, education, and government programs. The second section is an overview of demographic and economic data in Haiti as well as the unique challenges it faces. Finally, the third section will recommend two policies to combat poverty in Haiti – an unconditional cash transfer to rural communities and a healthcare training program based on community ownership and local employment.

Behavioral Economics of Poor Populations

Food and Nutrition

The idea of a nutritional poverty trap states that those in extreme poverty lack access to enough nutrition to be able to do enough labor to grow their economic output.¹ Because they aren't able to provide enough labor to grow their income, they are not able to afford higher levels of nutrition, and this vicious cycle perpetrates itself. While this theory sounds sensible at first glance, empirical research finds it lacking. Most people living on less than 0.99 USD per day do not consume as if they were starving.²

Assuming strict economic rationalism from poor people, one could assume they would consume as many calories as possible in order to maximize their output of labor. However, based on the eighteen-country data set found in *Poor Economics*, food represents only about 45-77 percent of consumption among the rural extremely poor and 52-74 percent for their urban counterparts. In India, as incomes at all levels have risen, the share of budget allocated to food has actually decreased, indicating that the poor do not see increasing their food intake as an economic imperative.³

Health

Experts in the field of public health agree that there exists many “low hanging fruit” to be picked when it comes to public health in poverty-stricken areas. For instance, by piping chlorinated water to poor households, it's estimated that diarrhea in could be reduced by 95 percent.⁴ Despite these opportunities, many public health policy interventions have been

ineffective. In one program, Indian NGO Seva Mandir brought highly advertised, dependable, free immunization camps directly to poor rural Indian villages. Even with immunizations right at their doorstep, immunization rates increased only from 6 to 17 percent.⁵

Poor people often have difficulty in identifying an initiatives' utility. For example, immunization does not *cure* disease, it *prevents* it. People can't always draw connections between a treatment and *not* contracting a disease. Additionally, if children contract diseases other than the ones they were immunized for, parents may still conclude that the immunizations were worthless.⁶ Another behavioral issue with utilizing healthcare is the propensity to defer costs to the future and lack of long-term planning.⁷ To fight these tendencies, *Poor Economics* recommends offering short-term incentives for using services, building community ownership of programs, and increasing convenience of services as much as possible.⁸

Education

For many parents who live in poverty, education in their children is seen as both an investment and a hope for the future.⁹ However, much fallacious thinking occurs around the subject of education. One such fallacy is the idea that marginal returns on education increase the higher a child goes on the educational ladder. This misconception leads many parents who have limited resources to put all of their hopes in one child's education at the expense of their other children's.¹⁰ In reality, each extra year of education increases expected lifetime earnings roughly proportionally.¹¹ Education at all levels is equally important for life outcomes.

Another form of unproductive thinking occurs when teachers and students bring social prejudices into the classroom. For instance, teachers in India tend to assign lower grades to lower caste students for the same quality of work.¹² Stereotype internalization exists as well – low caste children compete well with high caste children unless they are reminded of their low status before exams.¹³ Unfortunately, oppressive social hierarchies can replicate themselves in the classroom, dooming the disadvantaged to a cycle of lower achievement.

Importantly, research indicates that families spending on education is very elastic with income. Surprisingly, families who receive cash transfers conditioned on sending their children to school and ones who receive unconditional cash transfers actually increased schooling by the same amounts.¹⁴ This result tells us that with some financial assistance, parents will have their kids educated without more aggressive intervention.

How do governments share blame for the behavior of the poor?

For poverty policy to be effective, it's important that the poor have a baseline level of trust in the government or NGOs operating there. This trust can be broken either through ineffective interventions or even malicious histories. For example, in the Indian city of Udaipur, government health centers are closed 56 percent of the time they're meant to be open.¹⁵ In some cases, healthcare professionals can even do more harm than good, like when doctors fail to sterilize needles.¹⁶ Regarding malice, from 1976-1977, 21 percent of Indian couples were forcibly sterilized.¹⁷ These failures all create skepticism or even hostility to government health programs that could otherwise improve the lives of the Indian poor.

Governments who wish to devise effective and reliable poverty programs should note that small changes to implementation can have great effects on participation. For instance, in one World Bank project wherein Indonesian villages were given money to improve their infrastructure, decisions on spending were made at village meetings. When meetings were simply advertised in the village, few showed up and a select few elites voiced their opinions. When villagers were sent invitations by mail, attendance increased by over 20 percent and more participants felt comfortable providing input.¹⁸ When it comes to policy, the details matter.

Poverty in Haiti

Demographic, economic, and poverty overview

Haiti is the poorest country in the Americas, with over 6 million of 10.4 million residents living below the national poverty line of 2.41 USD per day.¹⁹ Even worse, more than 2.5 million residents fall below the national extreme poverty line of 1.23 USD per day.²⁰ Haiti is one of the most unequal countries in the world with an income Gini coefficient of 0.61.²¹ Haiti is an extremely youthful nation – 6 out of 10 Haitians are under 25 years old.²²

Due to its geography, Haiti is extremely vulnerable to natural disasters – 90 percent of the population is at risk. Infamously, Haiti was ravaged by a magnitude 7.0 earthquake in 2010 and Hurricane Matthew in 2016.²³ These devastating events make governance, economic growth, and poverty reduction uniquely difficult challenges.

Economically, Haiti has a GDP of 19.97 billion USD.²⁴ Agriculture is Haiti's most important sector – it accounts for 22.1 percent of GDP and 38.1 percent of employment. Unemployment in Haiti is very high, with an unemployment rate of 40.6 percent.²⁵

Poverty reduction programs in Haiti

Haiti is sometimes colloquially and perhaps derisively called a “republic of NGOs” because of the many international organizations operating within Haiti’s borders.²⁶ The most important program taking place in Haiti at the moment is the agreement between the World Bank and the Haitian government signed in 2015.²⁷ Its three main areas of support are as follows:

1. **Generating better economic opportunities outside of the capital, Port-au-Prince.** In these peripheral locations, the World Bank plans to help increase access to energy and develop renewable energy, to increase access to finance, and to support a more competitive private sector through infrastructure projects in energy and ports.
2. **Strengthen human capital and access to services** by improving primary schools, maternal and child health services, and access to water and sanitation in the 16 communes most affected by cholera. Health prevention and treatment programs to tackle waterborne diseases in the country are being implemented too.
3. **Enhanced climate resilience** through improved disaster response capacity and investment in climate resilient infrastructure.

Poverty policy recommendations for Haiti

Humanitarian interventions by NGOs have a problematic history in Haiti. Many international operations have been largely about “keeping people alive”, but don’t improve lives or stability in the long run.²⁸ These short-term cash-for-work projects leave some beneficiaries worse off. For example, NGOs that provide healthcare services free-of-charge put local healthcare providers into unemployment. Once the NGOs pack up and leave, the local healthcare economy is worse off than when they arrived.²⁹

Another unique complication is the destabilization that occurs in Haiti periodically due to natural disasters. Planning effective poverty alleviation policy is difficult by itself – the disruption of multiple potential environmental disasters per decade only magnifies the difficulty. This points to the need for flexible, dynamic policies that aren’t easily disrupted and can help alleviate unpredictable future issues.

In order to combat poverty, meet these conditions, and complement the World Bank development program, this memo suggests two policies: an unconditional cash transfer (UCT)

program to families in communities outside of Port-Au-Prince and an incentive-based healthcare program focused on community ownership and local employment.

Policy 1 – Unconditional Cash Transfers to communities outside of Port-Au-Prince. As reflected in the World Bank's priorities, access to economic opportunities and resources in rural Haitian communities pales when compared to the capital, Port-Au-Prince. A UCT program is one with negligible overhead, the dynamism to help people under changing circumstances, and one that doesn't crowd out locals, damage regional economies.

First, some misconceptions about UCTs should be addressed. As mentioned before, families who received UCTs and CCTs both increased education spending by the same margins – the money is spent productively. Studies suggest the following surprising effects of UCTs: spending on drugs/alcohol decreases and most recipients work the same amount (besides women, who can focus more on their families and children, who can focus more on school).^{30 31}

The benefits of a UCT program are substantial. One experiment being run in Kenya has found that it has created a sense of hope where there previously wasn't one, something rural Haiti sorely needs.³² Research also indicates recipients' mental health related stress decreases and they are better able to plan ahead for their and their children's futures.³³

The UCT is a uniquely promising policy for Haiti because it is, by its nature, responsive to the changing demands of an unstable area and it will not crowd out local workers. Local residents do not have to depend on NGOs who might provide unwanted services – they themselves are given the resources to choose how to improve their lives. Additionally, no economic role is being crowded out by cash transfers, therefore jobs won't be destroyed.

Policy 2 – An incentive-based healthcare training program based on community ownership and local employment. The World Bank's partnership with Haiti is already focusing on two important public health areas – access to clean water and child/prenatal health. However, there are blind spots that a new program could help cover.

First, this program would be focused on providing high quality training to local residents to avoid crowding out effects. Rural communities in Haiti already have a strong collectivist orientation – neighbors take care of one another, make decisions together, and take collective action.³⁴ Finding volunteers for high quality healthcare training would not be difficult. There is evidence to support the idea that giving local communities control of policy programs yields better results than outsider control. Indian educational NGO Pratham ran a program of going

from village to village, training local volunteers to be educators, and leaving town. Not only did they receive plentiful community input, the results were very positive.³⁵

This program should incentivize families to participate in check-ups, vaccinations, and deworming for children by offering rewards for partaking. *Poor Economics* found that this approach substantially increased participation.³⁶ Agricultural inputs like fertilizer or seeds could be given as a reward, increasing economic output while encouraging healthy practices.

Finally, healthcare work often provides employment opportunities for women who might otherwise be fully domestic. Not only is this a worthy goal in itself, research indicates that giving financial support to women often benefits children, creating more opportunities in the future.³⁷

Conclusion

The behavioral economics of poor populations are at once unintuitive and perfectly sensible. They do not behave as purely rational economic units – none of us do. Lowering barriers of use, getting community input, and crafting data-based policy is the best approach to poverty. Haiti, with its extreme poverty, inequality, and instability due to natural disasters presents unique challenges to poverty alienation. An unconditional cash transfer program and a community-based healthcare training program would be big steps in defeating poverty in Haiti.

¹ Banerjee, Abhijit V., and Esther Duflo. *Poor Economics - A Radical Rethinking of the Way to Fight Global Poverty*. New York: PublicAffairs, 2012, 22

² IBID, 22

³ IBID, 25

⁴ IBID, 46

⁵ IBID, 56

⁶ IBID, 60

⁷ IBID, 65

⁸ IBID, 69

⁹ IBID, 87

¹⁰ IBID, 88

¹¹ IBID, 88

¹² IBID, 91

¹³ IBID, 93

¹⁴ IBID, 80

¹⁵ IBID, 54

¹⁶ IBID, 53

¹⁷ IBID, 104

¹⁸ IBID, 249

¹⁹ "Haiti Overview." World Bank. <http://www.worldbank.org/en/country/haiti/overview>.

²⁰ IBID

²¹ IBID

²² IBID

²³ IBID

²⁴ "The World Factbook: Haiti." Central Intelligence Agency. February 01, 2018.
<https://www.cia.gov/library/publications/the-world-factbook/geos/ha.html>.

²⁵ IBID

²⁶ Pyles, Loretta, Juliana Svistova, and Josué André. Disaster Recovery in Post - Earthquake Rural Haiti: Research Findings and Recommendations for Participatory , Sustainable Recovery. Report. School of Social Welfare, State University of New York at Albany. Albany, NY, 2015.

²⁷ "Haiti Overview." World Bank. <http://www.worldbank.org/en/country/haiti/overview>.

²⁸ Pyles, Loretta, Juliana Svistova, and Josué André. Disaster Recovery in Post - Earthquake Rural Haiti: Research Findings and Recommendations for Participatory , Sustainable Recovery. Report. School of Social Welfare, State University of New York at Albany. Albany, NY, 2015.

²⁹ IBID

³⁰ Chris Weller, "A Village in Kenya is Quietly Disproving the Biggest Myth About Basic Income," Business Insider, December 30, 2017, <https://www.businessinsider.com/kenya-village-disproving-biggest-myth-about-basic-income-2017-12>

³¹ Zi-Ann Lum, "A Canadian City Once Eliminated Poverty and Nearly Everyone Forgot About It," Huffington Post, December 23, 2014, https://www.huffingtonpost.ca/2014/12/23/mincome-in-dauphin-manitoba_n_6335682.html

³² Chris Weller, "A Village in Kenya is Quietly Disproving the Biggest Myth About Basic Income," Business Insider, December 30, 2017, <https://www.businessinsider.com/kenya-village-disproving-biggest-myth-about-basic-income-2017-12>

³³ ³³ Zi-Ann Lum, "A Canadian City Once Eliminated Poverty and Nearly Everyone Forgot About It," Huffington Post, December 23, 2014, https://www.huffingtonpost.ca/2014/12/23/mincome-in-dauphin-manitoba_n_6335682.html

³⁴ Pyles, Loretta, Juliana Svistova, and Josué André. Disaster Recovery in Post - Earthquake Rural Haiti: Research Findings and Recommendations for Participatory , Sustainable Recovery. Report. School of Social Welfare, State University of New York at Albany. Albany, NY, 2015.

³⁵ Banerjee, Abhijit V., and Esther Duflo. Poor Economics - A Radical Rethinking of the Way to Fight Global Poverty. New York: PublicAffairs, 2012, 85

³⁶ IBID, 63

³⁷ IBID, 127