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The Economics of Haiti

Introduction

On the Western half of the Caribbean Island known as Hispaniola exists the nation known today as Haiti. Ever since Haiti became a sovereign nation in 1804, it has been plagued with numerous problems ranging from shortsighted economic policies, political instability, and devastating natural disasters. The downfall of the Haitian economy cannot be attributed to just one period or law and requires a broader view of the land's entire history to understand. However, there are certain laws and events that significantly contribute to the economic plight. In particular, the revolution of the Haitian people against the European colonizers mixed with the shortsighted economic policies that followed thrusted the Haitian GDP per capita into a state of stagnation for a century. This period of stagnation was accompanied by a steady increase in the population. This combination of variables can be compared to the Malthusian economic theory since Haiti is predominantly an agricultural society that never underwent an industrial revolution. The following century becomes an even worse situation in Haiti as the GDP per capita ceases to stagnate and instead falls into a steady decrease. This is in sharp contrast to the rest of the Caribbean countries and is ultimately the cause of the after-effects of the 19th century economic policies and the amplification of corruption within the government. A historical view of the Haitian economy reveals that the abrupt absence of European rule and the land reforms of 1809 are a major factor of the Malthusian stagnation period in the 19th century, and the lack of economic recovery in the 20th century and steady decline in GDP per capita in the latter half of the century is due to the combination of natural disasters and corrupt politicians with a kleptocratic view towards economic policy.

Early History

The island of Hispaniola was discovered in 1492 by Christopher Columbus and was subsequently colonized by the Spanish. In the following century, the native population was completely wiped out from disease, and the Spanish also extracted a large portion of the island's gold. This rapid decline in the population created a vacuum for labor, which caused the colonizers to begin using African slave labor on the island. These slaves would eventually make up the peasant class that would remain the majority class for the rest of Haiti's existence. By 1640, the Spanish withdrew from the island and the French became the new major European force on the Western side of the island by 1697. In the following century, they would transform the colony into a plantation society and continue the in-flow of African slave labor. By the end of the 18th century, the total population of Africans on the island reached 450,000, all of which made up the slave class that would export large shipments of sugar, coffee, cotton, and indigo to strengthen the French economy. However, the slave population was growing restless of European rule and would eventually cause a revolt that would cause a significant negative shock to the economy.

Haitian Revolution

From 1791 to 1804, a Revolution which was an essentially a slave uprising occurred against the French colonials. Despite the slaves' victory in the war, the long and brutal process completely undermined the plantation system that was set up by the French. The two factors of production: capital and labor, were harmed severely by the war. On the capital side, the destruction of capital stock on the plantations contributed to the immediate and sharp decline of exports. Several of their most important crops were being exported at a significantly lower rate mostly due to the lack of leadership, destroyed capital stock, and unrest amongst the newly freed men. Lundahl explains in his book about poverty in Haiti that "in 1795, sugar exports were down to 1.2 percent of their 1789 level, coffee exports to 2.8 percent, and exports of cotton and indigo had all been wiped out at 0.7 and 0.5 percent, respectively, of their previous levels" (Lundahl 6). Two of their most important exports were coffee and sugar, and figures 1 and 2 show how each of those exports experienced a massive decrease from before and after the war.

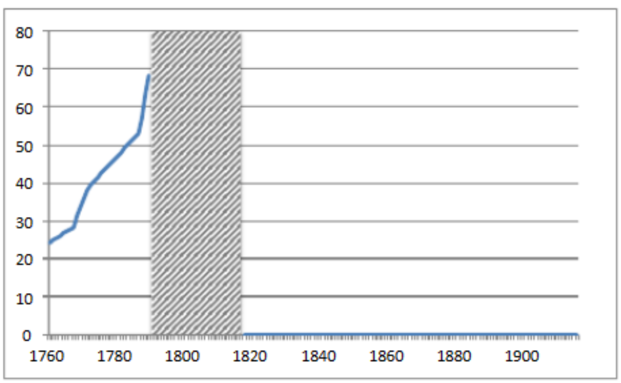

Figure 1: Sugar Exports Before and After the War in Millions of Pounds

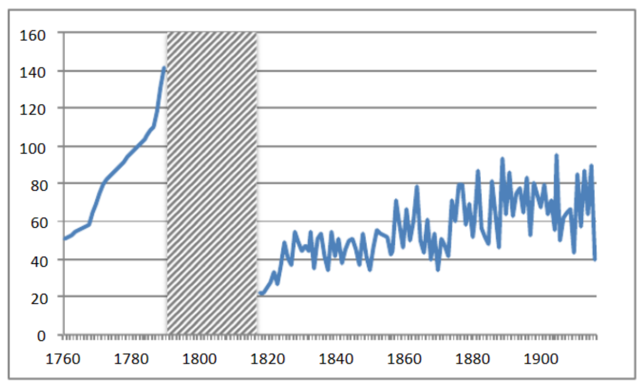

Figure 2: Coffee Exports Before and After the War in Millions of Pounds

As for labor, the population decreased from 520,000 to 380,000 within this period, which is over a 20% loss of the labor force. Furthermore, the slaves who won developed a sense of freedom and refused to return to the plantations. As a result, the introduction of a new ruling class known as the mulatto *affranchis*, which were freed slaves of half European ancestry, attempted to reinstate the plantation system by force to save the economy. This would ultimately result in a failure which would give rise to a new form of society that would stagnate the GDP per capita for the next century.

Land Reform and Malthusian Stagnation

When this new ruling class took over, they enacted several laws to attempt to return the economy back to how it was before the war. However, the plantation economy was impossible to return to due to the destruction of capital and restless freed men who just fought a war for their freedom. By 1809, Alexandre Petion decided to abandon the plantation system and divide the estates among the now freed population. However, this law also included the sub-dividing of the estates for the offspring of the landowner. This led to a perpetual dividing of land among the population which created a peasant class that got poorer with each subsequent generation. Not only did this reform destroy the soil of the Haitian farmland, but it also led to a rise in corrupt politicians that plundered its own citizens with devastating taxes since there was no longer a reliable source of large plantations to create exports.

Haiti is an interesting case to study under a Malthusian lens since it never had an industrial revolution. After the war, the 19th century saw a total stagnation in the GDP per capita and a steady rise in the population. One of the principles of Malthus' theory is that a society stuck inside a Malthusian trap will see a steady increase in population while the GDP per capita remains stagnant. In figures 3 and 4, it can be seen that this is exactly the case in Haiti during the 19th century. To escape from a Malthusian trap, the productivity growth of a society must increase at a very fast rate, so that the income per person increases at the same rate of the population growth. This can be achieved during times of innovation and rapid advancements in technology.

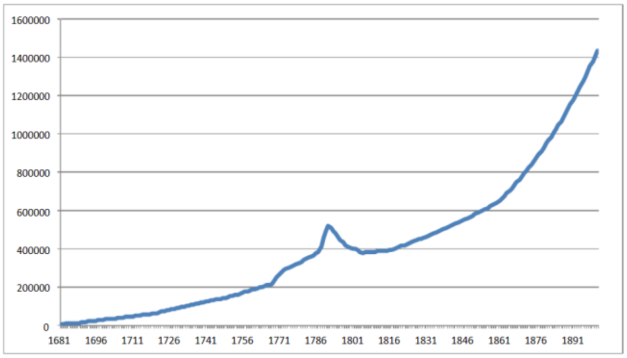

Figure 3: Population of Haiti 1681-1891

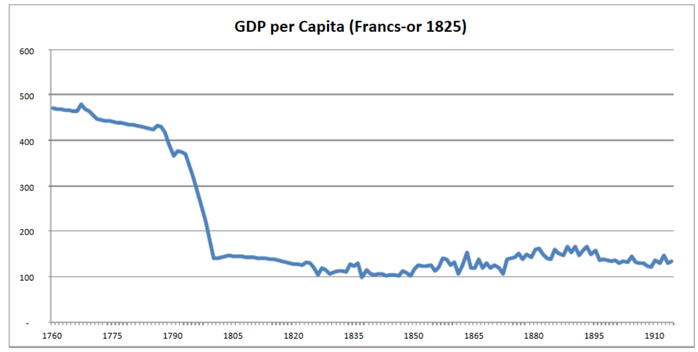

Figure 4: GDP per Capita of Haiti (Francs-or 1825) during 1760-1915

For many developed nations, the event that allowed them to break out of the Malthusian trap was the industrial revolution. To achieve an industrial revolution, there needs to be a certain level of education within a society which means that there must be families that expect that it would be beneficial to send a child to school. However, agriculturally based societies with a high concentration of landowners whose incomes rely entirely on their own ability to farm crops "had a strong incentive to thwart investments in public education in order to prevent the migration of workers to urban areas where educated labor was in higher demand" (Galor), as Oded Galor explains in his book, *The Journey of Humanity.* The opportunity cost of sending a family member to school was too great for the Haitian peasants as they needed all members of the family to work on the farm to ensure their survival. Galor explains in his Unified Growth Theory that "the implied slow rate of technological progress does not provide an incentive to invest in the education of children" (Galor) and that there is a "stable steady-state equilibrium… where education is zero and the rate of technological progress is slow" (Galor). While this theory is presumed under a small population, the core of it can apply to Haiti's stagnation in its literacy rate during the first half of the 20th century. Figure 5 shows a literacy rate that stagnates around 9% during this 50-year period. Another small difference from Galor's claim is that the growth of education would not be zero, but a small rate. This is because the growth rate in education must offset the growing population which keeps the literacy rate as a straight line.

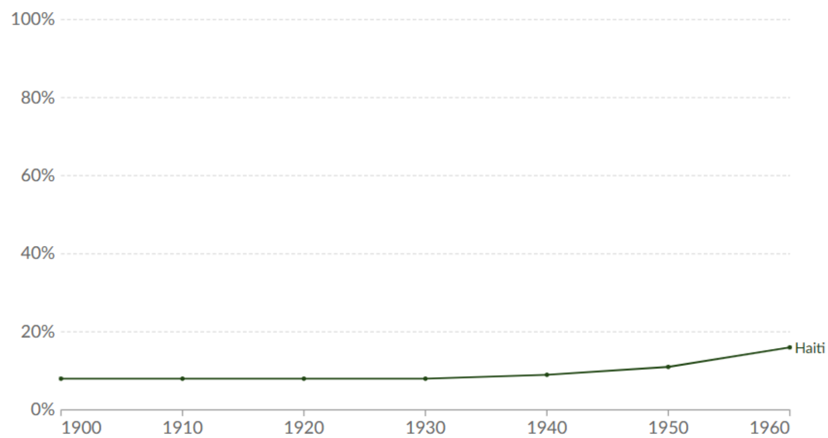

Figure 5: Haiti's Literacy Rate from 1900-1960

Furthermore, schooling was already a weak institution at the time in the country and was ignored by the governments who were more focused on establishing control over tax collection, the paying off of external debt, and fortifying the domestic military force to ensure compliance among the population. The government underwent around 22 coups in the century after the war and was too unstable to set up its country for success from an educational perspective. Figure 6 shows Haiti's GDP per capita compared to nations who had industrial revolutions and were able to escape from the Malthusian trap. It is also worth noting in this figure that Haiti's GDP per capita was higher than that of all of the nations in the graph, which signifies that it was a rather wealthy country before the Revolution.

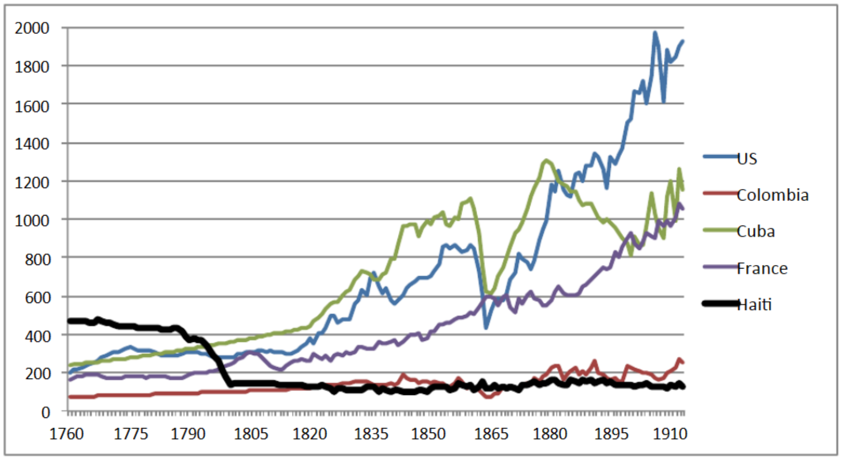

Figure 6: GDP per Capita for US, France, Cuba, Colombia, and Haiti (Francs-or 1825) during 1760-1915

The most long-lasting effect that the land reforms of 1809 had on the country was its destruction of the soil. Soil erosion is a phenomenon that decreases the fertility of soil over time which harms crop yields. It can occur when special precautions are not taken to protect the top layer of soil from floods, winds, and other natural events. However, soil erosion happens at a very slow rate which can go unnoticed to farmers, and especially peasants who do not have access to advanced agricultural technology. This therefore sets up each subsequent generations of Haitian peasants with more damaged soil, and smaller land to grow crops on, which is doubly affected by erosion and the subdivision of land due to the land reform law.

American Occupation

In 1915, the United States moved their military into Haiti and occupied it until 1934. This was primarily a political move by President Woodrow Wilson but had a secondary purpose which was to force Haiti to pay off its external debts. It is worth noting during this period that

Haiti had accumulated a massive external debt to various countries. They had taken out loans near the end of the 19th century and failed to pay them off, leaving them with undesirable credit for the future. The Americans helped Haiti pay off these loans by improving infrastructure and providing more quality education. The occupation saw some successes and many failures. One success was that the external debt was paid off by 1947. However, the new infrastructure and education system was not maintained after the United States withdrew from the country, and Haiti was once again in stagnation.

An Analysis of GDP per Capita: 1960s-Present

Figures 7 and 8 below were created in Python with the data from the Penn World Tables. Figure 7 shows Haiti's GDP per capita (measured in millions of 2017 US dollars) from 1960 to the present. Figure 8 compares the GDP per capita (measured in millions of 2017 US dollars) of several Caribbean countries including Dominican Republic, Trinidad and Tobago, Dominica, Grenada, St. Vincent and the Grenadines, and the Bahamas during the same time period.

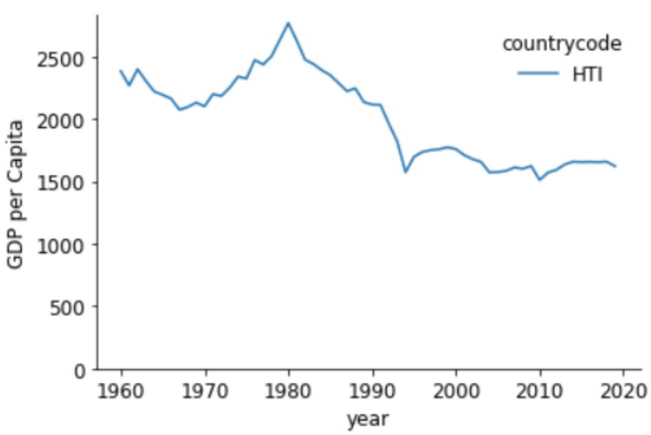

Figure 7: GDP per Capita in Haiti (mil. 2017 USD) during 1960-2020

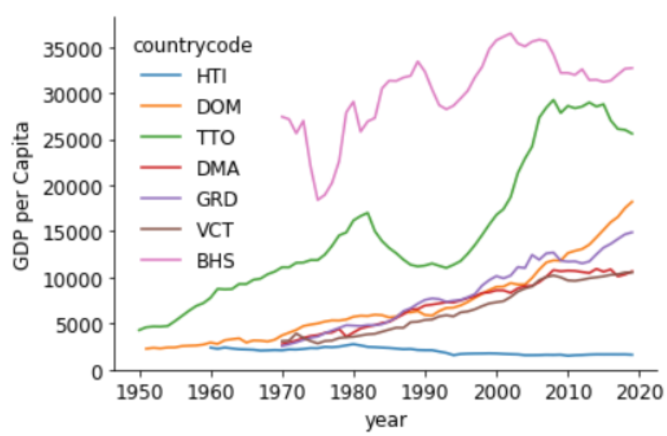

Figure 8: GDP per Capita for Caribbean Countries (mil. 2017 USD) during 1950-2020

The first impression of figure 8 is striking as it shows Haiti as the only country with a downward trend in GDP per capita. It is apparent that there must be economic factors that contribute to this difference between Haiti and the rest of the countries since they are all relatively in the same geographical location. Figure 7 gives a more detailed look at the GDP per capita since 1960 for Haiti. There is a small peak around 1980, but then a steady decrease with small moments of volatility until 2020.

From 1957 to 1986, the Duvalier dynasty which consisted of two leaders who were father and son, was in power of Haiti. Despite their poor performance in bringing Haiti out of poverty, it was the first time in many years since there were stable rulers who ruled for more than a decade each. However, this was mostly attributed to the manipulation of the peasant class into worshipping the cult of personality that they created, and the heightened police state where the Duvalier's replaced military and law enforcement officials with loyal and personal allies. And while figure 7 shows that there was a slight increase in GDP per capita during this time, figure 8 shows the broader picture that Haiti should have started to experience a steady growth in their GDP per capita as did the other Caribbean countries. However, this did not happen for several reasons involving the Duvalier's economic policies.

A common theme throughout the history of Haiti's economic leadership has been the rampant kleptocracy that many of the leaders created. The Duvalier's are the worst offenders of this in the country's history and could be one of the potential reasons why Haiti's GDP per capita did not grow at the same time as everyone else's. For example, the GDP of Haiti in 1971 was 362.8 million US dollars and Francois Duvalier's personal wealth was 150 million which means 41.3% of the nation's wealth went to him. By the end of his son's rule in 1986, the dynasty was suspected of claiming 68.9% of the GDP for personal wealth.

The explanation for the small increase in GDP per capita from 1970 to 1980 was the introduction of the small-scale assembly industry. This industry experienced significant growth and became a major contributor to the Haitian GDP for 30 years. However, in 1991, trade sanctions were placed on the country after Aristide, a politician backed by the UN, was thrown out of government by another predatory military political faction. This industry never recovered from these sanctions and is a major reason why there is a sharp decline of the GDP per capita in 1991 according to figure 7.

The continuous decline in the GDP per capita from 1981 to the present can be attributed to both contemporary problems and old lingering problems. Firstly, the lack of political stability following the Duvalier dynasty posed a major problem for setting the Haitian economy back on track. Secondly, one of the main contemporary problems is the economic fallout of the earthquake in 2010 that devastated the population and added to more financial problems than already existed. The earthquake's epicenter occurred in a major city which destroyed a huge amount of infrastructure. Furthermore, the earthquake was able to cause so much destruction because the infrastructure was poor and not designed to withstand earthquakes, especially ones that are rated 7.0 on the Richter scale. After the earthquake, billions of dollars in aid were sent to Haiti and a new plan for improving their economic situation was released. When Haiti recovers from the aftereffects of this natural disaster, there could potentially be an increase in the GDP per capita. However, the country's economy is still feeling the fallout of the disaster, and is a major reason as to why the GDP per capita continues to stagnate after the sharp decline in the early 90's. The Inter-American Development Bank explains that a "full decade after such a major disaster as the one that just took place in Haiti the growth in GDP may be 30 percent lower than what it would otherwise been, even in the presence of major aid inflows" (Lundahl 243).

Finally, the old lingering problem that has plagued the nation since its beginning is the consequences of the land reform of 1809. These consequences, as stated earlier, include worsening soil erosion with each subsequent generation and an ever-decreasing ratio of hectares of land per person. Haiti has the worst soil erosion problem in the entire Western hemisphere due to this law. Since 1938 to 1985, the amount of arable land in Haiti dropped from 540,000 hectares to 205,000 hectares. This decrease has a direct impact on developing exports which directly affects GDP growth. The Haitian government has failed to subsidize the peasants to deal with the erosion problem since the figures in power are more concerned about amassing personal wealth, as explained earlier.

A Possible Solution and Conclusion

For the entire existence of Haiti as a sovereign nation, the GDP per capita has remained at a dismally low level compared to the rest of the world. After years of corrupt governments, soil erosion, and failed industries, a plan must be made to dig the country out of the perpetuating hole of poverty that it has made for itself. After the fallout of the earthquake is taken care of, the country should focus its efforts in improving certain industries. One of the most important sectors to focus on is agriculture. An agricultural economist named Alain de Janvry crafted a plan for the improvement of this sector. He advocates for short term subsidies to "ease the burden imposed by the mass exodus from the capital and the other affected cities and lower the cost of food production" (Lundahl 252). Janvry stresses the idea of short-term subsidization since he believes that long term subsidies will lead to the rapid increase in soil erosion, which is already a major problem. Soil erosion is the root of the problem of the weakened agricultural sector and it is a problem that only gets worse over time, therefore it should be imperative that all efforts towards the agricultural sector focus on policies that do not increase soil erosion. An opposing viewpoint from Lundahl explains that long term subsidies could work, as long as they are directed at restoring the damage done by soil erosion by subsidizing methods like reforestation and decreasing the pressure on the land by making people leave the already overcrowded sector. Another problem that must be faced is the restructuring of the industrial sector. A solution to this problem is the subsidization of education so that there is an increase in human capital in the long run. A high educational level is needed for a country to advance in the industrial sector. And although this long run process may have consequences involving opportunity cost for families in the short run, it will ultimately benefit the country in the long run. The solutions to Haiti's economic problem must focus on the advancement of the most important sectors and the building of human capital. However, this cannot be done if the historical trend of political incompetency prevails. If Haiti is to break free of its stagnation in GDP per capita, it must employ all of these solutions and decrease corruption within the government. Overall, the history of Haiti's economic system is a tragic example of nations in modern times being stuck inside a Malthusian trap, having crooked politicians, and having economic policies that perpetuate a low standard of living among the people.

Works Cited

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Lundahl, Mats. *Poverty in Haiti: Essays on Underdevelopment and Post Disaster Projects.* Palgrave Macmillan, 2011. Print.

Data Sources

https://ourworldindata.org/literacy

https://www.rug.nl/ggdc/productivity/pwt/?lang=en

Python Code

In [2]:

```
import numpy as np
import pandas as pd
import matplotlib.pyplot as plt
```

In [3]:

```
plt.rcParams['font.size'] = 12
plt.rcParams['legend.frameon'] = False
plt.rcParams['axes.spines.top'] = False
plt.rcParams['axes.spines.right'] = False
```

In [4]:

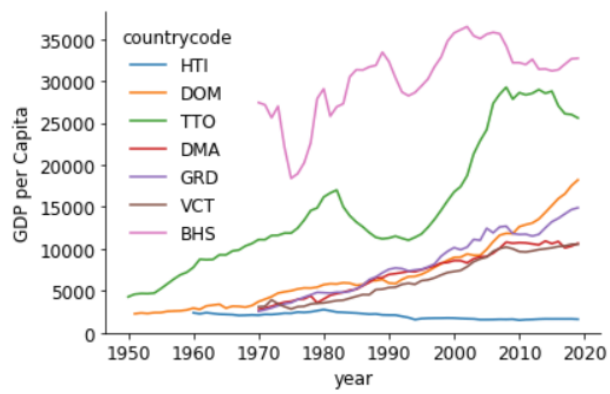
```
pwt0 = pd.read_excel('pwt100.xlsx', sheet_name='Data')
pwt = pwt0.pivot('year', 'countrycode')
```

In [19]:

```
gdp_per = pwt['rgdpna']/pwt['pop']
gdp_per[['HTI','DOM','TTO','DMA','GRD','VCT','BHS']].plot(ylim=(0, None));
plt.ylabel("GDP per Capita")
```

Out[19]:

```
Text(0, 0.5, 'GDP per Capita')
```



In [17]:

```
gdp_per = pwt['rgdpna']/pwt['pop']
gdp_per[['HTI']].plot(ylim=(0, None));
plt.ylabel("GDP per Capita")
```

Out[17]:

```
Text(0, 0.5, 'GDP per Capita')
```