

## Theory and Reality: A Disjuncture in the Developing World

Taimoon Stewart

Associate Senior Fellow

The University of the West Indies

Good morning colleagues, friends, ladies and gentlemen. My paper seeks to describe and explain conditions in the developing world and to question why market systems fail to flourish in most of our countries. This presentation is intended to complement the one that follows by Professor Fox, but the views expressed here are entirely mine.

Let me first acknowledge that the developing world is not a homogenous whole, but a grouping of countries with varying levels of political, social, and economic organization, stability, and distributional justice. There are some that have “graduated” to a level of economic development whereby horizontal and vertical linkages across industries and firms provide sustainable, internally propelled growth. This feature of the economies, together with an acceptable level of distributional justice, ensures social stability. There are others, however, which lack the internal dynamism needed to generate sustainable growth, largely because the economies were transformed to supply the needs of international capital, and remain tied to externally propelled growth with disjointed production systems. Institutions have broken down and markets have largely failed, leading to exponential growth in the informal sector as the poor pursue survival strategies. The result is impoverishment of the many and wealth accumulation to the few. The CUTS on-line forum discussion on growth and equity sought to address the means by which to bring about more equitable distribution of the gains from growth under the market system, and more specifically, whether there could be ways of including equity considerations when enforcing competition law.

In this exchange of views, Albert Foer and Peter Behrens acknowledged that there are winners and losers in the market system, and asserted that the market system cannot, on its own, deliver equity, and that state intervention is required to provide a social safety net for the losers, including welfare for the unemployed, training and re-training of the work force, and delivery of goods and services to meet basic needs, such as food, shelter, health care, security, justice, and infrastructure, all financed by a well-functioning taxation system that is progressive, with the wealthiest paying most taxes. This is the near-perfect world within which the market system would flourish, and many developed countries have many features of this template, with some, such as Germany and the Scandinavian countries achieving more than others. By contrast, there is an absence of many of these features in poorer developing countries. My task here is to briefly explore why this is so, and what are the conditions faced by the poor in these countries.

I argue here that the condition of economies and societies in the developing world cannot be understood outside of the evolving and unfolding structural and systemic order of the world economy

and the nature of insertion of developing economies into the world-economy. Further, I understand the world-economy to be an integrated whole that operates as a system with an expansionist, capitalist logic that seeks to maximize capital accumulation world-wide to the benefit of the wealthiest in the wealthiest countries, with some crumbs shared with the elites in the developing world who are coopted to facilitate the needs of their counterparts in the north. This complicity on the part of local elites in developing countries is often accompanied by draconian rules and military suppression of the masses to keep them controlled, making it safe for the wealthy to accumulate. In the on-line debate, Tounaki Khalifa of Tunisia pointed out that resentment swelled at the injustice and unfairness of the accumulation of wealth away from the poor and in favour of the rich, in the name of the so-called market economy, leading to revolt. He warned that Tunisia is paying a very high price for not having built a society based on principles of social justice, responsibility, transparency, efficiency, and competitive capacities. Internal sources of imperialism are alive and present in developing countries.

The market system is underpinned by a knowledge construct of individualism, secularism, liberalism, all Eurocentric philosophical understandings of social organization. I posit in this paper that the conditions under which these philosophical understandings developed are culturally specific and spatially and temporally located, and theories and policies derived from this epistemological source are out of sync with the reality in the developing world, particularly the poorer countries. Developing countries are known to be producers at the lower end of the global value chain, indebted to international financial institutions and banks in the industrialized countries, and also through bi-lateral loans provided by these countries. There is a lack of resources to invest in social welfare and infrastructure, and a breakdown of institutions, infrastructure, social mores and norms, lack of rule of law, and control by the elite politically and economically, supported by cronyism. Why is this so?

Why are developing countries unable to provide the social safety net to support losers in the market system? They do not have the financial capacity to do so, and even when they could carve into their budget some social support and provision of essential services such as health care, they have largely been prevented from doing so by the IMF and World Bank structural adjustment programmes that have been imposed on these countries since the 1980s, to ensure that revenues are directed to external debt servicing. One result was an increased burden on poor women as care providers in extended family households, and as income earners to supplement the inadequate household disposable income.

Why did these countries become so indebted to the international financial institutions and rich countries? Banks in the industrial countries were awash with excess capital and with little opportunities for investment in those economies in the 1970s when technologies were obsolete and there was downturn in the industrial economies. They pressured governments in developing countries to borrow, and the capital was spent on non-productive ventures, or where productive, with outmoded technologies that offered no markets for the products. But, much of the money lent found its way back to the developed countries to meet demand for goods and services to implement projects financed by the loans, thereby generating growth in the creditor countries. And so debtors were unable to generate the revenues to service debt, which increased exponentially as usurious interest was charged on the loans. And, yes, corruption and mismanagement of the loans in debtor countries contributed to the debt accumulation, but this was the side show rather than the main event. I acknowledging here that

the oil crisis contributed to the excessive capital which only accelerated the process that had already started but which also resulted in more monies accumulating in northern banks as the elites of the developing countries, including the oil rich countries, syphoned off monies and deposited in northern banks; capital flight is another contributor to the lack of resources in developing countries.

It is noteworthy to point here to the fact that debt crises in the periphery of the world-economy have occurred four times in the last two centuries (1820; 1872; 1932; 1982), as a result of inherent systemic, cyclical capitalist processes, and that structural adjustment programmes are just the more refined version of enforced collection of debt servicing. In prior debt crises, creditors occupied the custom houses and Finance Ministries of debtor countries and collected the revenues, or, in the case of the US, backed up collection of customs revenues with their gun boats anchored off Venezuela in 1862<sup>1</sup>. In this crisis, the IMF and World Bank have replaced gunboats and creditors occupying customs houses and finance ministries.<sup>2</sup>

Why are developing countries producing at the lower levels of value-added, now increasingly through outsourcing by transnational corporations (TNCs), be it cheap unskilled or skilled labour. The international division of labour in the world-economy ensures this outcome by reserving the highest value-added components of the product chain for the powerful corporations in the industrialized countries through their control of technological innovation. Less than a fraction of 1 per cent of world patents are owned by citizens of the poorer developing countries, and more than 95 per cent belongs to citizens of the industrialized north. It is a game of leap frogging on the pond, with the leaf being moved each time developing countries try to “catch up”. As technology changes, so do the value added components in the product chain, so this is not a static situation; rather, it changes with changes in the techno-economic paradigm, and the maturing of the world-economy. In this regard, the hype about developing countries progressing to become manufacturers does not take into account that the value-added has shifted to the inputs to manufacturing provided by the knowledge industry, largely controlled by the North, and internalized within TNCs and their subsidiaries.

Developing countries are caught up in a web of convertible versus non-convertible currencies, and are forced to trade with the North on their terms to get hard currency with which to purchase essential goods and services. And, many of these countries rely on TNC dominated single commodity production as the largest contributor to their national coffers, the prices of which are subject to manipulation in the international financial markets, making earnings subject to wide and unpredictable fluctuations and rendering these economies very vulnerable. Moreover, returns to the national economies are minimal and labour is paid very little, while the TNCs reap bountiful rewards.

---

<sup>1</sup> Taimoon Stewart. 1993. Debt Crises in the Periphery of the World-Economy as Manifestations of the Continuity of Imperialism. PhD Thesis. University of the West Indies;

Taimoon Stewart. 2003. Debt and Resurrection: Prognosis for the Periphery in the 21st. Century. In *Emerging Issues in the 21st. Century World-System: New Theoretical Directions for the 21<sup>st</sup>. Century World-System*. Ed. Wilma Dunaway. Pgs. 91-108).

<sup>2</sup> Interestingly, the current crises in the world-economy manifests many similar debt accumulation processes, except that this crisis occurred within developed countries, with the peripheral peoples being the target of excessive lending, and manipulation of financial instruments among banks that imploded, leading to a financial crisis.

In the on-line forum debate, Thulasoni Kaira referred to the small scale contract farmers in sugar, tobacco, and cotton industries in Zambia, who were being exploited by TNCs which flourished exponentially while the farmers continued to be in the poverty bracket for decades. In each of these, growth increased, but equity was reduced. Another example provided by Kaira was the case of East Asian women (and children) who labour for prosperous and notable brands while they that labour on the ground never seem to move to the next social ladder.

Developing countries have become increasingly reliant on import of goods and services from the industrialized countries because, over historical time, they have been more and more deeply integrated into the world-economy, with their production systems shaped to serve the needs of the largest capital holders, the TNC, in a given technological paradigm. Thus self-sufficient food production systems were destroyed and replaced by commodity agriculture for export, and subject to demand and price fluctuation. Yet, having become reliant on import of food, and therefore dependent on earnings of hard currency to buy food, income from which are unreliable and fluctuating, food security is lost. Interestingly, the OECD recommendations for best practices to reduce poverty include the increase of agriculture, food security and nutrition, among others. But, food security has been destroyed by commodification of agriculture, and what food production has survived has been threatened and in some cases, wiped out in many countries by the invasion of subsidized agricultural goods from Europe and the US. Yet, it is a struggle to protect one's agriculture and sustain employment and food security, and also abide by WTO rules. Belize is a good example of a country that is still largely self-sufficient in food, employ about 80 percent of the population in this sector, but whose struggle to keep out subsidized foods is an on-going one.

Political and economic hegemony by the industrialized countries is reinforced by control of international institutions, and ideational dominance, that is, the diffusion of neo-liberalism as the natural order of things to be obeyed, and which reinforces the market ideology and the international division of labour. And technocrats, political elites, and the business sector buy into this ideology and are largely blind to the outcomes re winners and losers. Academics sustain the ideology by passing it on to those who would become the technocrats and business persons. We have been told by Foer and Behrens that the market system needs an enabling environment in which to flourish, with equity being ensured through provision of social safety nets, including welfare to the unemployed, minimum services for health, safety, security, justice, and economic opportunities. Yet, the very system that promotes the market system in developing countries also deprives these countries of the means by which to ensure that market gains to a few can be balanced by government intervention to provide the social welfare and institutions that would deliver equity.

According to Samir Amin,

Pauperization is inseparable from polarization on a world scale, an inherent result of the expansion of really-existing capitalism, which is imperialist by nature. Pauperization of the urban popular classes is closely linked to developments of which the peasant societies of the Third World are victims. The subjection of the latter to the requirements of the expansion of capitalist markets maintains new forms of social polarization which exclude a growing proportion of the peasantry from the land. These recently poor or landless peasants fuel the migration towards shantytowns, more than nay demographic growth.

All these phenomena are going to worsen as long as the liberal dogmas are not called into question and any corrective policy, in this context, would not be able to stop the trend.

*(The Liberal Virus: Permanent War and the Americanization of the World, 2004. pp. 40-41)*

Let us look at some empirical evidence to back this statement. Fifty-two per cent of the population of Jamaica lives in the urban areas (Statistical Institute of Jamaica 2007). The existence of large and volatile urban slums in Jamaica particularly in the Kingston area, is a direct result of the economic development strategy pursued in that country during colonial times, and continued in post-colonial development strategies, all conditioned by Jamaica's economically dependent status in the world-economy.

In a seminal work, Beckford (*Persistent Poverty: Underdevelopment in Plantation Economies in the Third World, 1972*) traced the migration of peasants from the rural areas of Jamaica, leading to exponential growth of the urban slum in Kingston from the 1950s onwards and the overseas migration of significant numbers of Jamaicans to Great Britain in particular. He linked these movements directly to the displacement of the Jamaican peasantry by foreign direct investors in the bauxite extractive industry. Bauxite had become a very important raw material during the Second World War, used in producing war instruments, particularly airplanes. It was used to produce motor cars and appliances, for which consumer demand was taking off, all of which is a result of the invention of the combustion engine, and the displacement of coal by oil as the major industrial fuel (the new techno-economic paradigm of the time).

It is important to note here that at this time, Jamaica was a colony of Britain. The colonial government sought to exploit this new mode of capital accumulation by inviting the large Bauxite and Aluminum Transnational companies (BATs) to invest. According to Beckford, the very places to which the peasants retreated after the abolition of slavery were precisely where deposits of bauxite were located. In order to extract the bauxite from the ground, it was necessary to displace the peasantry that had subsisted on the land. Further, the colonial government made it mandatory that the companies must own the land from which they would extract bauxite.

Under very unequal conditions of negotiations, the BATs bought out land from the peasant farmers. The money they received sufficed to pay the passage to England for some, seeking jobs and a new life; others used it to build or purchase a modest house; yet others simply subsisted on it. In most cases, the money was used to subsist in a new environment until it ran out. Their means of survival (farming), their community network and social ties, their lives were torn apart. The displaced population migrated to Kingston in search of jobs, putting unsustainable pressure on the infrastructure in the city. The demand for jobs far outstripped opportunities, leading to high unemployment, very poor housing, and survival strategies being adopted by the dispossessed migrating population.

The poverty in Jamaica widened and deepened with the Structural Adjustment Programmes imposed by the IMF and World Bank from the late 1970s and 80s, in order to ensure that income was directed to servicing the massive external debt that had built up during the 1960s and 70s. Social spending was severely cut, and the economy contracted sharply, leading to a significant increase in unemployment

and underemployment and the shrinking of the middle and professional classes. The subsistence informal sector became entrenched as the refuge for the expanding poor underclass, particularly in Kingston.

Let us look at another extreme case of the reality of such breakdown of social systems in Sierra Leone, encapsulated in the condition of the premier public referral hospital in Freetown, Sierra Leone. The clip from the video which you are about to see was done to demonstrate a working partnership between King's Hospital in London and Connaught Hospital in Sierra Leone, in which King's Hospital offers technical assistance to Connaught Hospital to improve delivery of medical services. While the clip shows only a very brief view of the larger video, it captures the essence of the dire conditions at the hospital.

### Play video clip

The following information was provided informally by a staff member of King's Hospital who has worked in the partnership program with Connaught Hospital. Some key indicators of lack of human resource in this hospital are the vacancy rates in a sampling of departments, as follows:

1. Radiographers: 16 required; none in posts.
2. Physiotherapists: 13 required; one in posts.
3. Medical and electronic engineer: 96 required; 17 in posts
4. Cleaners: 1320 required; 64 in posts.
5. Medical laboratory: 685 required; 183 in posts.
6. Medical specialists: 73 required; 41 in posts.

The scarcity of skilled personnel can be explained by lack of opportunities for training, and brain drain as skilled personnel seek better paying jobs abroad. A big part of the King's partnership is with the medical school in Freetown. Kings was given a UK Department for International Development grant of £100,000 to develop a curriculum and empower teachers locally to deliver quality teaching in the medical school. Key challenges are very high drop out rate of students due to lack of funding, low student satisfaction as the teachers are of poor quality, no formal curriculum, lack of any IT infrastructure for learning and access to any teaching materials. Some doctors do go abroad and come back to Sierra Leone. Not many have been solely trained in Sierra Leone as there is very limited accredited post-graduate medical training, so it is therefore difficult to gain the necessary senior skills in-country. The bright young doctors generally go abroad due to lack of in- country jobs that are satisfying and well paid.

Staff, including doctors, is paid directly through the Ministry of Health and Sanitation and salaries are insufficient to meet living expenses. This underpayment has fueled a huge amount of corruption (informal handover of money from patients) and therefore the majority of revenue does not go into the hospital account. It was estimated that around 80-90% of income paid by patients was not be accounted for within the hospital. Therefore, part of the work being done by King's Hospital was to review the financial statements at Connaught Hospital, work out whom money was being passed through (nurses, revenue collectors, doctors) and work out how to ensure more transparent flows of money.

As a result of the findings of this work, the Ministry of Health decided to replace the 2 finance officers in the hospital, which was a great first step to changing the culture and system. One notable challenge is that cutting of the informal channels of money within the hospital could have negative consequences that are not fully understood. For example, on the wards the Matron revealed that part of the patient fees paid were used every month to give nurses incentive money to top up their salaries. Doctors went on strike a couple of weeks ago (October 2013), around the changes to having formal structures of financial management in place, as it was common practice for them to receive part-additional payment when they conducted a surgical operation, a valuable supplement to their low income.

There are private hospitals in Freetown but they are much more expensive, and therefore inaccessible to the poor, and they are not even of much high quality. For surgery or complications, the advice would be to fly out of the country. There is one free emergency care hospital run by an Italian NGO, which has a good reputation, and is well-funded but they are very strict with discharging patients from care once the acute, emergency episode is over. Longer term care is not available. There is free care for children under 5 and women who are lactating. There is a drive on behalf of NGOs and other healthcare advocates to get free emergency drugs for all.

There is variation in prices between hospitals. The hospital featured in the video is a public hospital, which means the Doctors/staff are civil service employees but all care is paid for by the patients. There are no free drugs, consumables or any tests; all costs are met by the patients, thereby rendering the service semi-private and unaffordable for most. A key issue in Connaught Hospital is around the transparency of the pricing system so in the majority of cases, patients feel confused of how much the costs are for a bed per day, test, drugs etc. Considering the high levels of deprivation and poverty, it all remains very unaffordable and patient's families are left in significant distress when a family member is in hospital. In addition, the clinical care received for the money spent is not necessarily of high-quality and therefore, the outcomes and longer term health consequences of the disease (e.g. TB) is not always tackled. Long term, chronic disease is a big issue.

There may be several issues in the hospital system in Freetown that may merit investigation by a competition authority, such as:

1. Are there exclusive contracts between hospitals and hospital-based physicians?
2. Are there horizontal price-fixing agreements among Providers?
3. Are there exchanges of pricing information among hospitals?

Yet, in the circumstances, these questions seem superfluous when contextualized in the reality of the situation: doctors having to bring their own supplies of equipment, including gloves. The breakdown in the institution and the society is so severe that one has to first and foremost address attainment of minimum standards and poverty alleviation through all possible means, including putting consumer surplus before producer surplus where a choice is possible, as argued by Russell Pitman in the on-line debate, and including ways to arrive at principles that favours the poor above the monopolist, as Eleanor argued.

Do the premises of liberal theory apply here? I refer to Popper, *The Open Society and its Enemies* (1945), in which he argues that the principle, “maximize pleasure” be replaced by “minimize pain”. He critiqued the utilitarian formula that invokes maximization of pleasure as the goal of individuals and society, because it assumes a continuous pleasure-pain scale which allows the treatment of degrees of pain as negative degrees of pleasure. But from a moral point of view, pain cannot be outweighed by pleasure and especially not one man’s pain by another man’s pleasure. He asserts that, **instead of the greatest happiness for the greatest number, one should demand, more modestly, the least amount of suffering for all.**

Theories are not value free and objective. They are constructed from an understanding of reality in the socio-economic environment experienced by the theorist. They are spatially and contextually specific. Societies differ across cultures, economic systems, and social stratification. It is therefore obvious that theories are not universally applicable and relevant, but rather, specific to the systems in which they were developed. In this regard, let us be clear that neo-liberal theories serve the interests of the industrialized countries, and more specifically, the wealthy in these countries, and even more specifically, the powerful transnational corporations that are predominantly located in the United States, Europe, Japan, and followed by other industrialized countries. Blindly applying neo-liberal theories and derived policies in developing countries results in a disjuncture between policy and the market in which it is applied, and creates a hybrid system that is inappropriately grafted and dysfunctional. The result is increasing impoverishment of the masses, breakdown of social systems, deplorable conditions of living and health care, a breakdown of infrastructure, and social pathologies, particularly the increasing violence and crime. There is an urgent need to reconcile theory with reality before developing policies to address dysfunctional markets and social disintegration in many developing countries. As Ken Davidson advocated in the on-line forum, factual circumstance upon which unequal distribution is based needs to be examined to ensure equitable distribution, rather than applying the theory to all circumstances, (or as Souty warned, it should not be applied as mantra or sutra).

The third world problematique is complex and multi-faceted. I have here limited my examination to issues at a world-system structural level, but acknowledge that many other dimensions could be addressed, but not in this paper. I now hand over to Eleanor to tackle the technical issues arising from the application of the efficiency alone doctrine to competition law enforcement in developing countries, given the dire circumstances that prevail there.