
Basic Needs in the Competitive Economy

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The issue of how to meet basic needs has become a central concern in view of the frequent failure of economic growth to do this. This paper proposes to consider the mechanisms through which the competitive economy generates problems with respect to basic needs and to show that under conditions of excess labour supply it will tend to create such difficulties in the course of its 'normal' operation. The paper will hence suggest that there is a need to examine critically the now common propositions; that a primary concern with basic needs represents misplaced welfarism; that the problem of basic needs afflicts only those not yet fortunate enough to be incorporated in the 'modern' economy; and that wage reductions and the abolition of minimum wages are paradoxically an important means of solving the problem of basic needs.

Before proceeding to these issues two points should be made. First, the problems identified in this paper do not in themselves establish non-market economies as preferable alternatives. Although there is evidence to suggest that socialist economies meet basic needs more effectively at given levels of productivity, no conclusions can be reached until one has considered fully the nature of this 'alternative' as it appears in practice in a developing economy. Second, the approach of this paper eschews the debate in terms of static 'definitions' of basic needs—i.e. do people need 2,300 calories, or can they make do with 2,200—as essentially a futile exercise. The present concern is with the process of growth and change, and it accepts the historical and cultural relativity of any possible set of static limits.

As for the legitimacy of the concern about basic needs, this concern is without doubt the most readily defensible reason for any concern with development and change. It is also a 'democratic' concern in that it would, almost by definition, be legitimised by popular choice. In other words the concern itself is not under discussion. What is at issue, is the way in which the basic needs of the population in general, can best be met. Some of the problems pertaining to that debate will be raised in this note.

In essence this paper seeks to draw attention to two features of the market economy: the potential divorce between the price paid for labour and its productivity, whenever labour power must be sold in a labour market; and the critical

importance of full employment in such a system. Thus, under conditions of excess labour supply, there is a powerful tendency to depress the level of wages, and this pressure acknowledges no lower limits bearing any relation to basic needs. Furthermore it asserts that the effects of this pressure are also conveyed to other incomes which can be earned by labour through petty production or peasant activities, as well as to the scope for raising the social wage in any particular economy.

The necessary empirical basis for this discussion is the massive, and mounting, problem of global unemployment. While this has always been recognised as an endemic problem for the developing countries, the past decade has seen it re-emerge in the industrialised economies on a large scale and in a relatively intractable form. As a result, large-scale global unemployment is treated as a fact for the foreseeable future.

The theoretical bases of the views expressed here, are the formulations of the classical economists because they were concerned explicitly with the consequences of an excess labour supply. Their consideration of these issues suggested that the downward pressures on labour's wages was essentially without limit, apart from the Malthusian limits imposed by increased mortality and lowered fertility. Although it is true that Marx appeared to provide a limit in the form of "the cost of reproduction of labour", this turns out to be merely a definition of what the long-run limit must be, and leaves open the possibility that actual levels may fall well below this while an excess supply of labour persists.

More recently, Arthur Lewis seemed to have provided a lower limit to this downward pressure on wages, in the form of the subsistence income obtainable from peasant production, although such a limit may, of course, still raise problems of basic needs. Its existence is, in any event, due to the fact that it is a special case dependent on the existence of free and continuing access to the means of production in the traditional sector of the economy. While this possibility will be briefly considered below, at this stage the Lewis argument may be taken to confirm the point that without such an alternative an endogenous limit to the wage does not exist.

At this point the reader may well feel that the argument has proven too much. If global unemployment is massive, and if under conditions of excess labour supply the downward pressure on

wages is fierce and without limit, then one may have explained the persistence of basic needs difficulties, but one must now account for the fact that a very substantial proportion of all wage earners have met considerably more than their basic needs.

Broadly speaking there are three factors involved in such 'aberrations': an endogenous lower limit to wages which one might term the efficiency wage; a disappearance of the over-supply of labour in particular labour markets; or the application of social or political power to raise wage levels, or at least to establish lower limits to their reduction.

The notion of the efficiency wage arises the moment labour is no longer treated as being perfectly homogenous and hence infinitely replaceable (as in some migrant labour based 'ticket' systems). Once labourers are employed permanently then their energy and strength is ultimately related to their wage, so that a limit will be reached below which productivity losses offset the gains to capital from the low wage. In some technologically advanced industries, where the reliability of labour becomes relatively important, this efficiency wage may rise considerably. The theoretical importance of this possibility stems from the fact that where this is the mechanism determining the wage, further reductions of wages do not contribute to increased surplus, growth or employment.

Apart from the efficiency wage, the other cases of wages exempt from the general downward pressure all relate to an objective or artificial segmentation of the labour market. This may be based on existing (skill or other) differentials (objective), or on the pure political power to restrict entry to a trade (artificial), although in general the two go very much together in that 'artificial' restrictions are generally based on 'objective' differences, at least in the first instance.

In considering the favourable positions thus gained by sections of labour, it is impossible to avoid the conclusion that all such gains are subject to erosion over time. Hence positions based on skill differentials for example are eroded on one hand through developments in education and training, and on the other hand, through technical change, while analogous mechanisms operate in other instances.

A special mention is due here to the segmentation of the global labour market which is based on national distinctions. The major divide in this respect is, of course, between those countries identified within GATT as the Group I countries—colloquially known as "the high wage countries"

—and the rest. It is clear that labour in the Group I countries has been able to use a degree of political power, albeit in a favourable economic climate, in order to obtain rising real wages and to widen the gulf between itself and labour elsewhere. This has also involved the provision of substantial social wages in the form of public facilities, and social security benefits. In part this has been due to objective differentials in skill, education or productivity, in part it has been due to their ability to use trade restrictions selectively in their favour.

There are indications that the foundations of the position of the workers in the central economies may be being undermined, in accordance with the proposition that in the global context of this discussion, all such sectional gains are subject to erosion. This is especially true if the compass of the competitive market extends beyond the limits of the political entity on the basis of which the existing conditions had been won. Hence just as the restrictions of local unions were destroyed by national markets, so international markets will tend to undermine the gains of national unions, or indeed of governments. Hence when minimum wage legislation is swept away by the pressures of international competition, one is merely witnessing one facet of a very general process. One must add, however, that although this process has become more active in the last decade, the emergence of protectionist sentiments indicate that opposition will clearly continue to be mounted against such developments. At this stage the outcome is by no means clear.

In short the downward pressures on wages which one would anticipate in the context of an excess supply of labour appear to be real enough on a global scale. They are tending to undermine the positions of those sections of the labour force which have to date secured more favourable conditions. The fact that this is a very slow process, and that at any time many sections of labour will be differentiated from the great pool of labour which is in excess supply, merely indicates why the system can at one and the same time sustain substantial sections of the labour force at wages well above a level necessary to satisfy basic needs, while still tending constantly to reproduce problems with regards to the meeting of basic needs for the rest.

Thus far, the option of reducing wages to solve the problem of basic needs has been excluded by the assumption of persistent large-scale unemployment for the foreseeable future. Essentially the wage reduction argument depends on the proposition that such (potentially unlimited) reductions

will eventually lead to full employment which will then begin to push wages up. As a general, unqualified proposition this has little plausibility in the current international context, and in the absence of a prospect of full employment, amounts essentially to proposing the cutting of wages, ultimately to starvation levels—so that others may get work at these same starvation rates.

Yet, in a qualified form, such proposals may have some validity so long as one is not dealing with efficiency wages. Hence it is conceivable that some reductions in the highest wages and salaries might be legitimately proposed so long as this argument did not deny the need to establish a lower limit to this process. In any case, such proposals would need to ensure that: the differential is not a scarcity rent for an objectively defined skill, and that factor substitutability is significant and the wage cost effect substantial enough to induce factor substitution. Otherwise a wage reduction would not, in fact, benefit other workers.

Equally, the crude and simple argument that lower wages, mean lower consumption, mean more investment and hence more growth must be qualified in relation to the nature of the investment function. In short, if there is a continuing inducement and opportunity to invest, such an argument may be true. If those conditions are not met it becomes perverse. Furthermore, even if it is true, it may not lead to full employment for a very long time, in which case the validity of the argument for labour in general is still most dubious.

The final point to consider in this general context concerns the question of non-wage income alternatives, based on some limited access to productive resources. Without going into the detailed possibilities, it is possible to identify two cases for the purposes of this discussion. One case where such income opportunities conflict with wage levels, and another, in which they do not conflict.

The former case is one in which such income opportunities are plentiful and remunerative. They would hence tend to establish a floor to wages in the Arthur Lewis sense. However, the maintenance of such a floor would depend on the absence of competitive pressures to break through such limits. If there were such competitive pressures, for example through the pursuit of a manufactured export promotion strategy, curbs would have to be put on these domestic activities either through devaluation, or through more direct restrictive policies under the general heading of the deflation of the domestic economy.

If there is no conflict, in that the non-wage incomes are restricted in scope and below the level even of low wages, then the two may co-exist quite happily. In both cases the non-wage income may of course provide a secondary source of family income, and may thus play some role in allowing wages to be depressed even further by reducing labour's resistance to such reductions.

In conclusion one may note that efforts to solve the problem of basic needs must take account of the processes within which it is generated. In the context of a more competitive international economy it becomes increasingly difficult to envisage the possibility of damping the pressures of competition either through attempting to fix minimum wage levels, or through seeking to provide social benefits. In such a context it is also of doubtful validity to begin talking of massive international transfers of funds to bring basic needs up to some arbitrary standard everywhere. The inevitable failure of such highly hypothetical and unlikely resources to arrive at their proposed destinations, will not in the event be properly understood by reference to the usual scapegoats of corruption or inefficiency (though these would undoubtedly play their part). Rather such failure must be seen in terms of the sheer economic necessity of maintaining a competitive position and ensuring a labour supply at the wage rates dictated by that struggle. In other words hypothetical transfers of this kind must be assessed in relation to the processes discussed here. They cannot be considered as if they were transfers to some unfortunates excluded from, and unrelated to, these processes. When transfer payments of this kind exceed the income levels required for 'successful' production their consequences for that production process become paramount.

In the final analysis the competitive economy can solve this problem in general, only when it reaches full employment. In the meantime we will have to endure the spectacle of comfortable experts who advocate the removal of all lower limits to wages on the grounds that this may contribute to the generation of full employment some time in the future. The suffering thus countenanced is unfortunately real and certain, while the supposed benefits for the mass of the population are distant and highly uncertain. The fact that many are nonetheless advocating this policy is partly due to the fact that the benefits to capital (and capitalism) tend also to be more immediate and certain. In any case it seems that those who advocate the policy rarely do the suffering, while those who do the suffering rarely espouse the policy.