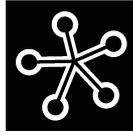


University of Amsterdam



**AMSTERDAM INSTITUTE FOR
ADVANCED LABOUR STUDIES**

THE STATE IN INDUSTRIAL RELATIONS: THE POLITICS OF THE MINIMUM WAGE IN TURKEY AND THE USA

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ABSTRACT

In this article the direct role of the state in industrial relations is scrutinized by focusing on the political basis of decisions regarding the minimum wage. We argue that in order to ensure stability and growth, any state must balance the interests of capital and labour when taking this kind of distributional decisions. This idea operationalized by using O'Connor's concepts of accumulation and legitimation as the basis of an analytical model. Application of this model to Turkey and comparison with the US reveals that in Turkey governments take account of legitimacy concerns in their minimum wage decisions due to large number of workers directly dependent on minimum wage and weak collective bargaining institutions. In the US, despite similar industrial relations conditions, this tendency is not present, probably due to much smaller number of minimum wage earners and their weakness in the political process. However in the US too we observe that there is a difference between political parties and historical periods in the way in which the minimum wage is determined.

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I. INTRODUCTION

In industrial relations research the state has long been absent and the role of the state in industrial relations remains undertheorized. Seminal studies of the historical development of industrial relations, like Webb & Webb (1894 [1920]), Commons et al. (1918) and Kerr et al. 1960, privileged the role of the labour movement as actor and focused primarily on the economic conditions for trade union effectiveness and, ultimately, their integration in democratic capitalism. More recently and led by mainly American scholars, industrial relations research turned to business as the locus of “strategic choice” and variable of interest (Kochan et al. 1986). The erosion of the legal framework for collective bargaining and union representation set by 1935 Wagner Act and the encouragement of the choice against unionism by the Reagan administration did not go unobserved but was not given a prominent place in the story.

Marxist critics of industrial relations like Hyman (1975) devoted an entire chapter to analysis of the class nature of the state, putting the emphasis on the state’s role in preserving the stability of the capitalist economy, mostly by ideological means and, in the British context, “abstention in favour of the domination of capital”. But “(w)here this domination was challenged, (...), intervention was prompt” (Hyman, 1975: 118). Hyman interpreted the rise of incomes policies in the 1960s and 1970s as a sign that the state’s task of furthering capitalist stability and control had become more problematic. This was also the key theme of the “neo-corporatist” school of students of industrial relations and wage setting (cf. the collections in Goldthorpe, 1984; Lehmbruch & Schmitter 1981; Schmitter & Lehmbruch 1979). But as had been noted by Baccaro & Simoni (2003), the “political exchange” (Pizzorno, 1978) between governments and unions was almost exclusively analyzed from the perspective of the organizational, political or economic conditions allowing trade unions to support or endure government policies and the “neo-corporatist” authors had very little to say about the choices of governments.

Another key feature of industrial relations research is its focus on the developed industrialized Western world. There is no equivalent for Crouch’s (1993) study of state traditions in industrial relations in Western Europe for other world regions. Armington’s (1994) systematic comparative study of the different historical trajectories and alternations of repression, toleration and support of trade unions, strike action and collective bargaining is limited to 21 rich OECD member states, without Mexico, South Korea, Turkey or the recent members from Central and Eastern Europe. This is regrettable because it is especially in economically underdeveloped countries and in countries seeking rapid industrialization that the state is most prominent in dominating, defining or restraining

collective bargaining and trade union organisation, even under conditions of democracy, as many examples in Asia (South Korea, Singapore), Africa (Nigeria, Zimbabwe) and Latin America (Argentina, Columbia) can testify (see Adams, 1995; Bellace, 1994; ILO, 1998).

Ours is a case study of Turkey, the place of the Turkish state in industrial relations and, in particular, the prominent political role of the statutory minimum wage in that country. At the end of our analysis and for the sake of external validity we make a brief comparison with the development and politics of the minimum wage in the United States. Our analytical and empirical focus is on the balancing act between control and development which is characteristic of any state. In other words, we intend to study the state's role in minimum wage setting to exemplify the "(t)ension between the underlying reality of the state as guarantor and organizer of social domination on the one hand, and as agent of a general interest which, though particularized and limited, is not fictitious, on the other" (O'Donnell 1979: 290). We think we are able to show that in its politics of the minimum wage the Turkish state attempts to do just that.

In the next paragraph we will develop our theoretical framework based on O'Connor's insight that the state in a capitalist democracy must balance between 'accumulation' and 'legitimacy'. Next we will apply the framework and develop an operational model for studying minimum wage decisions. What follows is the application to industrial relations and minimum wage setting in Turkey since 1970 and an analysis of how Turkish governments drew the balance line in different periods under influence of economic growth, electoral pressures and industrial action. Before reaching our conclusions, we make a comparison with minimum wage setting and the balancing between 'accumulation' and 'legitimacy' in the US.

2. THEORETICAL FRAMEWORK

O'Connor (1973 [2004]) argues that any capitalist state under conditions of democracy must undertake two potentially contradictory tasks: ensuring accumulation of capital while legitimizing this process for those who are not in control. Although it might be possible to sacrifice one of these tasks temporarily for sake of the other, most of the time the state must balance them. However before premising a model on this simple conceptualization a little elaboration is necessary.¹

Although accumulation can always be understood as increasing capital's share in the surplus value generated by the economy, legitimation cannot be reduced to its polar opposite. Besides sporadically enforcing capital to pay more to labour, the state may legitimize accumulation in two other ways. Firstly, the state may promote an ideology that portrays a particular accumulation pattern as inevitable and thus legitimize the system by hegemony without directly influencing the share of capital in the national product. Secondly, by facilitating delegation the state may simultaneously avoid the responsibility of legitimation while indirectly ensuring it. This can be accomplished by creating an institutional structure in which labour and capital collectively undertake the legitimation task by engaging in collective bargaining with minimum state intervention or even without it. Under these conditions the state might be directly held accountable for legitimation only for those who are excluded from the channels of collective representation. Minimum wage setting, as a supplement to collective bargaining, may be one of the state's instruments.

Besides these considerations, it is relevant to note that the state, by enabling the entire economy to function better in the sense of generating more growth, may ensure accumulation and legitimation simultaneously. A particular accumulation pattern can then be legitimized by increasing labour income, shared by a growing number of people, while keeping its relative share constant. Obviously this would be the ideal solution. However, the functioning of economy in its entirety remains elusive and the policy instruments available to the state are not sufficiently precise to generate a predictable outcome immediately (Keech 1995: 22-44). Thus as a basis of a simple model one should adopt two time horizons for the government²: short and long. Accordingly, we assume that the government must balance accumulation and legitimation in a short time horizon, say for the current or next year, while trying to approximate to the ideal solution (i.e. improving the economic performance so as to increase growth and employment) in the long run. In order to model government behaviour, it is necessary to set the former as the stage of the latter. In other words, despite the obvious interdependence between short and long time horizons, we must assume that governments always try to balance legitimation and accumulation in an economic situation about which they cannot do much in short term, partly because of the many external constraints in an economy which is not

autarchic, partly because of the many unknowns involved. The inconsistency between long and short time horizons can also be attributable to the patch-work structure of any state: that is, state agencies focusing on long horizon and short horizon are most of the time neither identical nor perfectly coordinated.³ The economic situation at any given time is therefore taken as an exogenous variable determining the conditions under which the legitimation and accumulation balance has to be attained.

Thus if, for sake of building a parsimonious model, we reduce the entire political economy to a game between three generic actors – ‘capital’, ‘labour’ and ‘government’ – one expects capital to prefer and press for increased state support for accumulation and, labour, unless mobilized for radical change, to demand legitimation. However this simple conceptualization is feasible only if we ignore the impact of hegemonic ideology on legitimation and focus on such circumstances that require the state to take the task of balancing accumulation and legitimation directly in its hand without the possibility of delegating this to unions and employers. Moreover it is necessary to consider the economic situation as a given variable that cannot be changed immediately or in the short run, whereas the balance between accumulation and legitimation requires a quick response.

In order to establish a simple analytical model and taking these complications into account, we propose to use the annual change in GDP as an indicator of economic situation and the main economic piece of information for the three actors. Indeed GDP growth may be perceived as a rough indicator of how well the economy fares in a particular year (with prospects for employment, profits and labour income – divisions that are only known ex post, whereas growth is known or estimated ex ante). Then, reducing the government’s task of balancing accumulation and legitimation into the distribution of growth between capital and labour, then we must choose a variable whose value is determined by the government. For this purpose we will use the percentage change in the minimum wage, which has a direct impact on labour income and on employment. As we will show shortly, in Turkey the state is the *de facto* determiner of the minimum wage and the statutory minimum wage has become the main reference point for the value of labour.

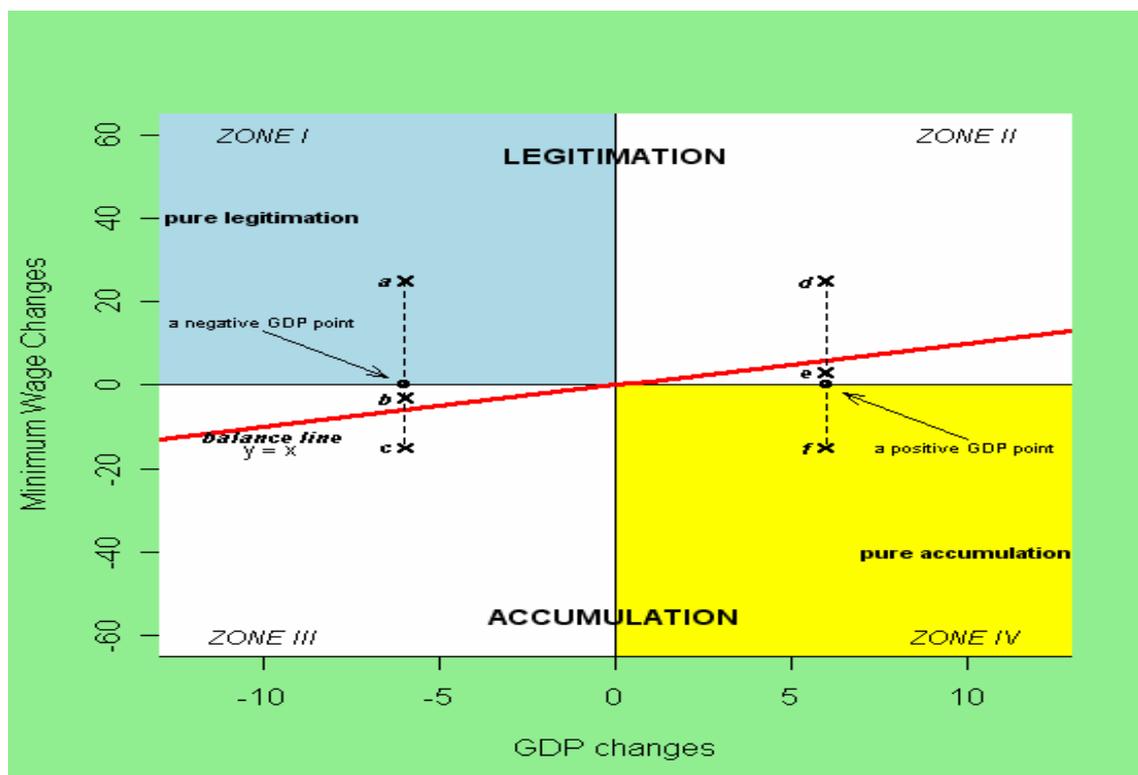
Below, we will create two new variables, *legitimation level*, and *mean actual balance line*, based on the combinations of annual GDP change and annual percentage change in the minimum wage over a particular number of years. These variables can be used to scrutinize the structural and cyclic changes in the way in which the balance between the interests of capital and labour has been maintained by the state. The operational model based on this idea will be explained in the next section.

3. THE OPERATIONAL MODEL

As depicted in figure 1, the idea behind plotting the annual change in the minimum wage against the annual GDP change is as follows: by adjusting the level of minimum wage the government decides to what extent growth should be shared between capital and labour and thereby attains a particular balance between accumulation and legitimation. The change in the minimum wage is determined by the state while the change in the GDP is considered as a stochastic variable, in the sense that it is beyond the absolute and immediate control of the state. While annual change in the GDP can only be influenced in a long time horizon, and is given in the present, the annual change in the minimum wage requires immediate action. More formally, the government has to make a choice on the y-axis (through action or inaction) in response to a given point in the x-axis so as to reach an actual balance point in the space mapped by the x- and y-axes.

For sake of simplicity we argue that the balance between accumulation and legitimation can be attained by choosing a point such that $y=x$, where y is the change in the minimum wage and x represents annual GDP growth. This would mean that the state would use its power to ensure that labour is compensated in proportion to the economic growth indicated by the annual GDP change. We call the line depicted by $y=x$ the *balance line*.

Figure 1: Analytical Model



There are various possibilities (choices on the y -axis) depending on two main contingencies. If the economy contracts the balance point will be either in zone I or zone III. Under such conditions the government can choose between **a**, **b** or **c** (see figure 1). In the case of **a** it means that accumulation is abandoned for the sake of legitimation. Point **a** lies in what we call the *pure legitimation region* (zone I). In the case of **b**, the minimum wage decreases but less than the actual percentage decline in GDP and the point will lie in the small part of zone III which is under $y = 0$ but above $y = x$.⁴ In this ‘loss sharing’ choice, the balance still swings in favour of legitimation. At point **c** labour is burdened with a disproportioned share of the loss and in this case legitimation is partly sacrificed for the sake of accumulation. In the case of GDP growth the balance point will be either in zone II or zone IV. If the government chooses a y -point which is higher than the given x value, like point **d**, the actual balance point is above the $y = x$ line in zone II, meaning that accumulation is partly sacrificed for sake of legitimation. Points **e** and **f**, below the balance line, give the opposite solution, in the case of **f** even with a decline in the actual value of the minimum wage in spite of overall growth. This might also be called pure sacrifice on the part of labour. We call zone IV the *pure accumulation region*.

The balance line $y = x$ thus divides the entire two dimensional space mapped by x and y axis into the upper part or *legitimation region* and the lower part or *accumulation region*. Detailed descriptions of these regions are given in table 1.

Table 1: *Legitimation and Accumulation Regions*

LEGITIMATION REGION	<ul style="list-style-type: none"> • ZONE I (<i>pure legitimation region</i>) • The area between $y = 0$ and $y = x$ in ZONE III • ZONE II except the area between $y = x$ and $y = 0$
ACCUMULATION REGION	<ul style="list-style-type: none"> • ZONE IV (<i>pure accumulation region</i>) • The area between $y = x$ and $y = 0$ in ZONE II • ZONE III except the area between $y = 0$ and $y = x$

This model can be explored in two different ways so as to define the two dependent variables of our paper:

(a) *legitimation level*, defined as the *Euclidian distance* between the actual balance point determined by the state and the corresponding point on the balance line $y=x$ (see the dotted lines in figure 1). If the actual point lies in the legitimation region as defined in table I the legitimation level is positive, else it is negative. The *legitimation level* allows expressing the outcome of the interactions between the state, capital and labour in a single number. There are two reasons why we use this variable rather than the percentage change in the minimum wage as our dependent variable instead. Firstly, because it translates our core theoretical notion of minimum wage decisions that balance legitimation and accumulation, whereas the use of percentage changes does not give any such substantive conceptualization. Secondly, because with more observations falling in the region bounded by $y=0$ and $y=x$, the mathematical behavior of the two variables differs, in fact change their sign.⁵

(b) *mean actual balance*, defined as the slope coefficient Ψ obtained from the equation $y=\Psi x$ for any given number of years. The best estimate for Ψ can be found by using Gaussian least squares.⁶ Obviously $\Psi=1$ for the balance line. If $\Psi < 1$ in a given period then that period had an accumulation bias; if $\Psi > 1$ then there was a legitimation bias. The *mean actual balance* can be used to link institutional and political changes with the political economy and industrial relations.

In the next section we will briefly examine the industrial relations in Turkey in order to show that this operational model can be fruitfully applied to Turkey due to the importance of minimum wage and the role of the state in minimum wage dynamics.

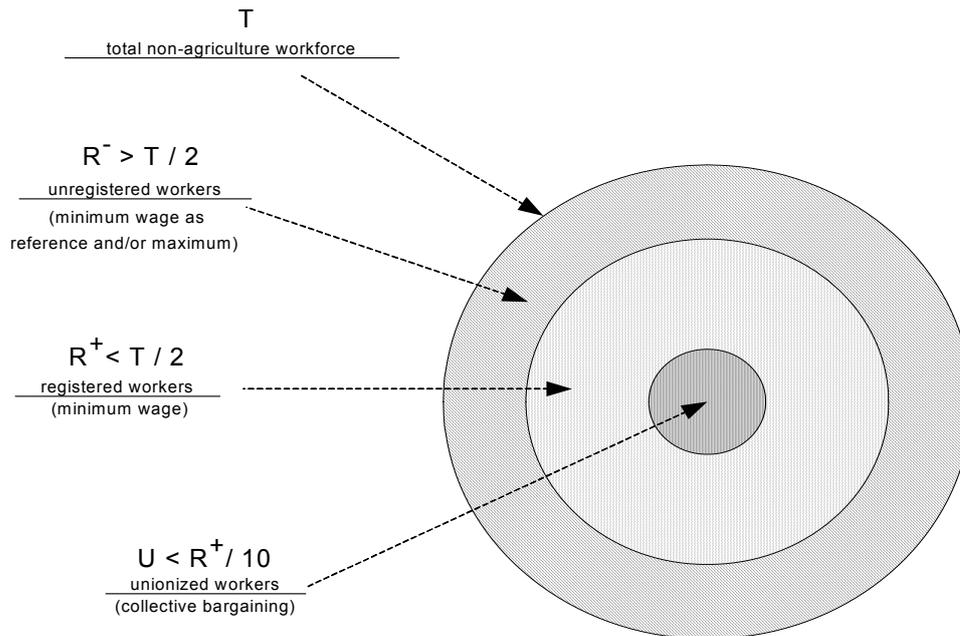
4. INDUSTRIAL RELATIONS AND MINIMUM WAGE SETTING IN TURKEY

In Turkey, collective bargaining was properly legalized in 1963 by the enactment of new industrial relations laws. This permissive legal structure created “a very favourable climate for the development of trade unionism” (Jackson 1971: 72-73). Consequently the total number of unionized workers increased from 295.000 in 1963 to 5.721.000 in 1980 (Tokol 1997: 109) and union density reached 27 percent in 1979 (Cam 2002: 98). However, 1980 was the turning point. The military coup of that year rewrote not only the rules for political representation, but the rules of the game for industrial relations were also changed (Koçer 2007, Sunar & Sayari 1986). The year began with harsh stability measures in order to cope with high inflation and unemployment (Herslag 1988: 38-44). The hitherto prevailing policy of import substitution was replaced by the project of creating an open market economy (Aydın 2005: 43-44). As a part of this shift the industrial relations laws of 1963 were repealed and much more restrictive laws were enacted in order to tame the trade unions (Aydın 2005: 52-56; Boratav 2005: 147-164). Through the 1980's and 1990's the increasing size of informal economy and decreasing size of public employment too were crucial developments that were detrimental for trade unionism. Unsurprisingly in this new legal and economic environment only about 90 of the more than 700 unions of the pre-1980 period survived (Tokol 1997:112-237 and ÇSGB 1994b: 71). By 1997 union density had declined to around 15 percent (Cam 2002:98) and in the 2000s the actual proportion of workers that benefit from collective bargaining has further declined to less than 10 percent of the registered non-agricultural workforce. Therefore, collective bargaining has increasingly become an irrelevant institution for the great majority of workers in Turkey.

Under these conditions the role and importance of minimum wage has gone through a qualitative transformation. From a means of protecting the most vulnerable workers, it became the primary determinant of wages in the entire economy. It does so by influencing two very large groups of workers. The first group is made up by the registered but non-unionized workers, which account for approximately the 90 percent of employment in the formal economy. Most of the workers in this group receive the minimum wage throughout a large part of their employment life. The second group comprises the unregistered workers in the informal economy, comprising more than 50 percent of non-agricultural employment in Turkey (Auer & Popova 2003:11) The minimum wage is considered as either the maximum or at least a reference value for the determination of the wages of these workers. Thus, given that almost 90 percent of the entire non-agricultural workforce can be included in one of these groups, it is possible to argue that for vast majority of workers and employers, the minimum wage appears to be of crucial importance and represents the main

reference for the value of labour in Turkey. Figure 2 visualises the importance of the statutory minimum wage in comparison with collective bargaining between management and unions.

Figure 2: The proportional representation of various segments of the non-agricultural workforce and the relative importance of minimum wage and collective bargaining in Turkey



Given its importance, it is essential to know how the minimum wage is determined. A special authority or minimum wage commission, comprising 15 members, makes final decisions. Of its members, five are government appointees from within the state bureaucracy, five represent the peak employers' organization and five are from the largest trade unions' confederation. The members from within the state bureaucracy actually represent the government and one of these is appointed as chairperson. If the committee fails to agree, the chair's view prevails casts the decisive vote. This means that in reality the minimum wage is *de facto* determined by the government, for worker and employer representatives can never agree and the government either finds some "middle ground" or imposes its own proposal. The government's dominant role is also evident in the rules regulating the summoning of the commission: the commission must meet at least once every two years, but the chair (read: the government) may increase the frequency of these meetings. In fact, during the period of 1980-2000 the minimum wage commission was gathered almost 20 times, which is about once a year, but with a timing decided by the government of the day.

Summarizing, as the collective bargaining system was gradually marginalized due to the anti-union legal environment and the expansion of the informal economy, the value of labour, admittedly a key factor in industrial relations, started to be determined by the state for a substantial part of the workforce, as was revealed in figure 2. Consequently, wage determination ceased to be the exclusive concern of representatives of labour and business (and the state as employer) within the realm of industrial relations, but became much more an issue in the political arena. Next, we apply our model to minimum wage determination in Turkey between 1970 and 2004 and analyse how the politics of minimum wage setting actually played out.

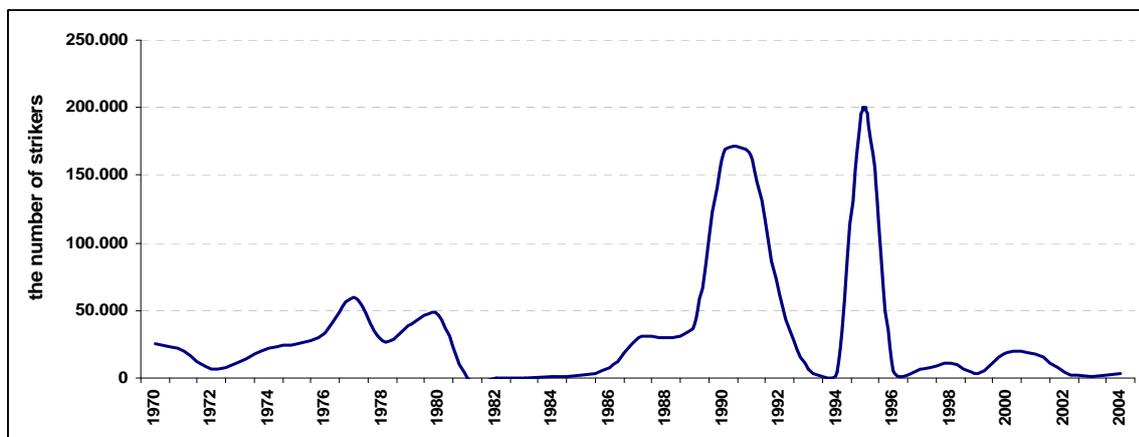
while making the opposite choice only once (see the pure legitimation region). We further note it that during election years (marked with 'E') the choice was made either in favour of legitimation or exactly on the balance line, never below. In other words, regardless of the economic situation, between 1970-2004 Turkish governments never favoured accumulation over legitimation during an election year. To make this point more clearly, we examine the government's choices in crisis years (marked with 'C'). Four of the five crisis years witnessed a preference for accumulation over legitimation, so it appears that to favour accumulation during a crisis would seem the usual choice. There is only one exception: when the crisis coincided with elections, the government preferred to abandon accumulation entirely for sake of legitimation (see figure 3). Finally by focusing on the years which witnessed big strikes and public dissidence (marked with 'S') we can see that all four of these years the choice was in favour of legitimation. This suggests that industrial unrest as well as the need to win elections was inducing Turkish governments to sacrifice accumulation for sake of legitimation. The fact that two of the years of industrial unrest coincided with elections suggests a possible link between the two. Below, we will subject these claims to a stricter test of multivariate analysis.

6. ACTUAL BALANCE IN SUB-PERIODS

The balance between legitimation and accumulation in the long run should be influenced by the underlying institutional structure, economic strategy and motivation of governments. Therefore a periodisation on the basis of deep changes in economic strategy, ideology and institutions of industrial relations, should reflect in shifts in the mean actual balance lines between accumulation and legitimation between such periods.

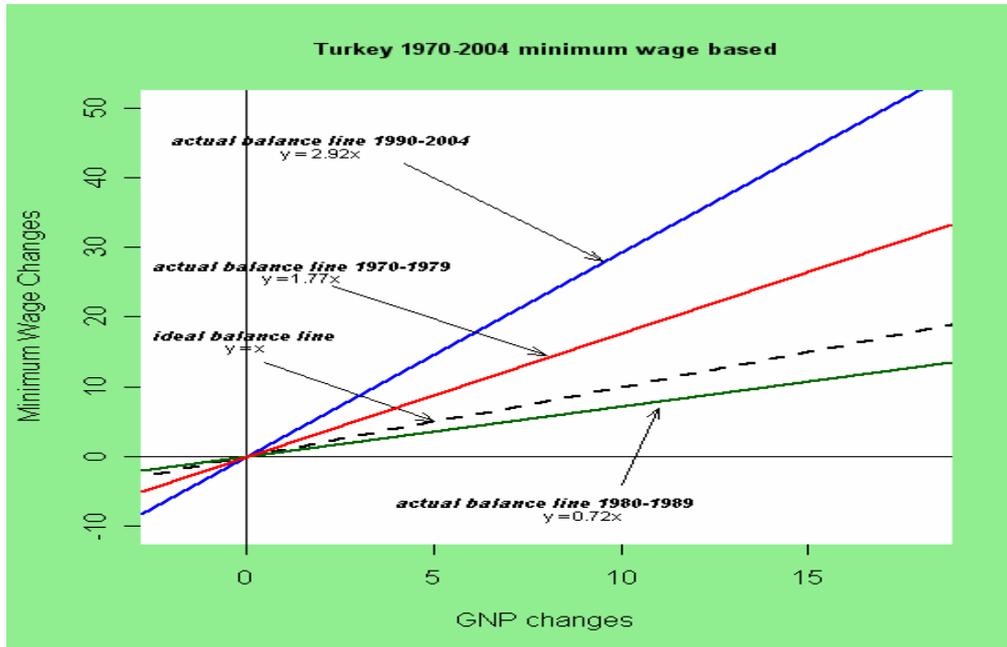
In Turkey since the introduction of minimum wage in 1969 the most important structural change has been the shift from import substitution to an export oriented open market economy approach in 1980. The implication of this was that while in the 1970's maintaining purchasing power of workers was considered as an essential component of a quasi-Keynesian economic policy, during the 1980's the Turkish state, led by Özal's single-party governments, pursued a low wage policy in order to encourage export-oriented industrialization. However, from 1989 onwards public dissidence became massive and was expressed through strikes and demonstrations (see figure 4).

Figure 4: Number of strikers in Turkey 1970-2004



After 1991 the country was governed by unstable coalition governments until the victory of the AK party in November 2002 and there were three major economic recessions in 1994, 1999 and 2001. The size of the informal economy kept growing and coverage of collective bargaining decreased. By drawing on this historical background we distinguish three sub-periods (1970-1979; 1980-1989; 1990-2004), each of which should have distinct mean actual balance lines. Estimations based on this periodization are shown in figure 5.

Figure 5: Mean actual balance in three different periods

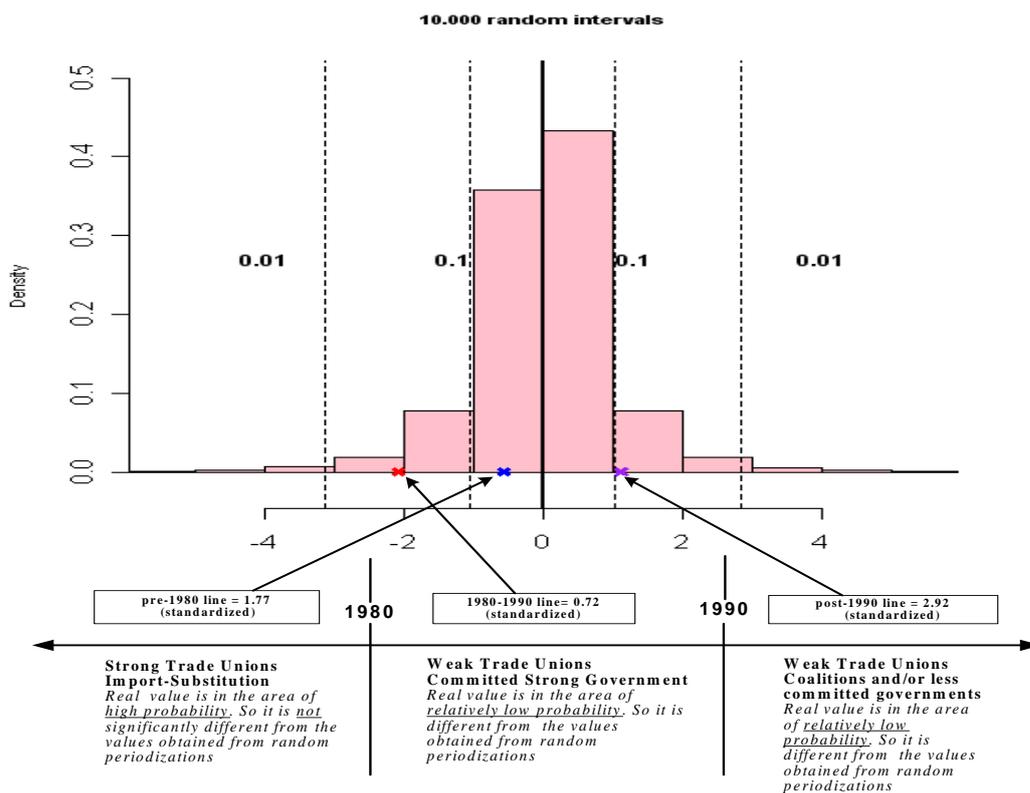


The substantive interpretation of this figure is as follows: Ψ was 1.77 between 1970-1979, meaning that the state had a legitimation bias ($\Psi > 1$), as expected. One might argue that this legitimation bias was part of a long-term economic strategy of increasing the purchasing power of workers so as to provide market for highly protected domestically manufactured consumer goods. In other words, the long-term goal of increasing the surplus generated by the economy presumably required making regular concessions to labour in short term. Then, during the next period (1980-1989) in accordance with the new development strategy, the state wanted to encourage export oriented production. This goal could be pursued by imposing an accumulation bias ($\Psi < 1$) and in fact we find that for these years Ψ was 0.72: low wages and “cheap labour” now become a competitive advantage in international markets. However, due to public dissidence manifested by the rise in public and industrial unrest by the end of the decade, it proved impossible to continue this policy indefinitely. Moreover as collective bargaining had shrunk and the informal economy expanded, the credibility of the new liberal economic approach was low, at least among workers, while the dismantling of the institutional conditions for a wage setting approach based on delegation and the marginalisation of the unions had left none but the state to assume responsibility for finding a sustainable balance between accumulation and legitimation. Moreover, the inability of political parties to establish majority governments (before 2003) rendered the state extremely volatile and sensitive to the sentiments of a large electorate constituted by informal workers and minimum wage earners. Accordingly, the balance between legitimation and accumulation could only be maintained by imposing a relatively strong legitimation bias, as is evidenced by $\Psi = 2.92$. Thus, as the

importance of formal industrial relations declined, due to the post-1980 anti-union legal framework, the rise of the informal economy and further privatizations, it became impossible to delegate the responsibility of balancing accumulation and legitimation to trade unions and employers. Perhaps unintentionally, the state was compelled to fill the void.

Before accepting this interpretation we must evaluate the validity of periodization on which our entire argument rests. In order to provide a statistically sound basis for our periodization it is necessary to compare it with all possible random periodizations. For this purpose we used the following six steps: (1) choosing a random period size S_i between 4 and 35 (we take four years as the minimum length of a meaningful period during which economic or political cycle may occur); (2) choosing S_i random years of variable size from the period of 1970-2004; (3) estimating the mean actual balance Ψ_i for S_i ; (4) repeating these three steps 10.000 times in order to create a set of randomly estimated Ψ_i values for randomly chosen sets of S_i , which due to the central limit theorem should be normally distributed; (5) standardizing the full Ψ -set with 10.000 values so as to create a probability density function; and (6) placing the (standardized) historical values Ψ_1 , Ψ_2 and Ψ_3 , for $S_{1970-1979}$, $S_{1980-1989}$ and $S_{1990-2004}$ respectively on this density distribution and judge the coincidence between their occurrence probability and that of the values obtained from random periodizations. The outcome of this procedure is shown in figure 6.

Figure 6: Periodization test

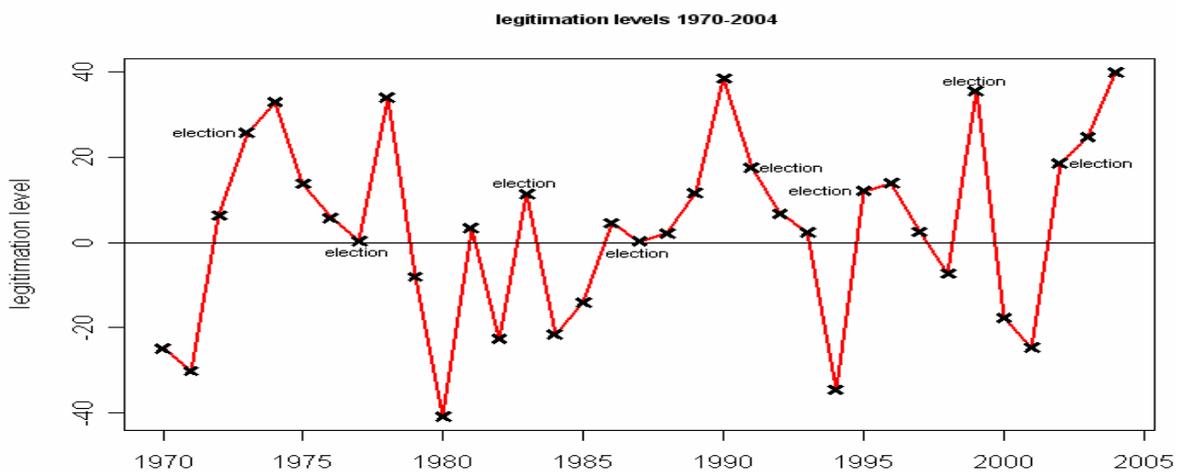


The outcome of the simulation exercise is encouraging: the Ψ value of the first sub-period (1970-1979) falls into the sphere of randomness, the other Ψ values obtained from second and third periods (1980-1989; 1990-2004) appear to be significant. This means that legitimization bias of the pre-1980 may not have been a conscious choice of governments in the presence of still strong trade unions at that time, but both the accumulation bias of 1980-1989 and legitimization bias of 1990-2004 appear to be much less likely the result of chance. Thus one can argue that despite continuing adherence to the idea of establishing an export-oriented economy, there was a shift from accumulation into legitimization occurring around 1989 or 1990, following large-scale industrial actions.

7. EXPLAINING LEGITIMATION LEVELS IN TURKEY

In order to obtain the dependent variable for regression analysis we first derive the legitimation levels for the period 1970-2004 in accordance with the definition mentioned above (i.e., *Euclidian distances* between the actual points and balance points on $x = y$ line). The resulting time series and the years at which it coincides with elections are depicted in *figure 7*.

Figure 7: *Legitimation levels and elections in Turkey between 1970-2004*



The claims emerged during the first phase of the analysis require to include GDP change, strike participation and elections as well as interactions among these variables into the regression equation. We choose the logarithm of the number of strikers as the variable that captures the influence of strikes. The GDP is included in the form of annual change while election years are incorporated as a dummy variable (election = 1 and no election = 0). Note that in order to decrease the level of multicollinearity which inevitably emerges due to inclusion of interaction terms we drop the interaction between $\log(\text{strikers})$ and GDP from the equation. The result is shown in Table 2.

Table 2: A Multivariate test of minimum wage decisions in Turkey 1970-2004

Variables	coefficients	t-values	associated probabilities
Intercept	-16.6472	- 1.831	0.08 *
Elections	41.8905	2.298	0.03 **
log(strikers)	0.6737	0.681	0.50
GDP growth	2.6233	3.133	0.004 ***
Elections * log (strikers)	-1.0256	- 0.502	0.62
Elections* GDP	-4.4121	- 2.431	0.02 **

- **F-statistic = 3.146 (at 5 and 29 degrees of freedom)**
| associated probability= 0.022 **
- **Multiple R-Square = 0.35 | Adjusted R-Square = 0.24**
- **Condition index: | 1 | 7.9 | 19.9 | 21.2 | 49.8 | multicollinearity is possible**
- **Durbin-Watson: 1.36**
- **RUN.TEST and visual diagnostics reveal no autocorrelation**
- **GLEJSER test , SPEARMAN rank-correlation test (undertaken for all variables separately) and visual diagnostics reveal no heteroskedasticity**
- **Elimination of highest cooks' distance entry impose no alteration in the significance structure**

As shown in table 2, the intercept, elections, GDP change, and the interaction of elections with growth, have statistically significant influence on legitimation levels. As implied by the negative intercept value, Turkish governments tended to choose negative legitimation levels when every other variable is zero. However, when there is an election this negative bias is compensated by the higher positive coefficient imposed by elections. In other words whenever there is an election and all other factors are equal to zero, governments tended to favour legitimation over accumulation. Legitimation levels are also themselves positively influenced by GDP growth, as one might expect, since there is more to share. Therefore the intuition that increasing GDP is likely to increase the legitimation level, as manifested in minimum wage decisions, seems to be justified. However, rather surprisingly, the intuition that strikes should be influencing the legitimation level is not substantiated by the model. Neither log(strikers) nor its interaction with elections seem to have a statistically significant influence on the legitimation level.

Detailed analysis of the interactions⁷, however, shows that the elections' influence on legitimation level has been balanced by interaction of GDP growth and log(strikers) so that only on three occasions, in 1973, 1991 and 1999, elections did have a positive influence on the legitimation level. Elections, when interacted with GDP growth nullified the impact of GDP growth on the legitimation level at each and every occasion (i.e. during election years). This means that GDP growth did not

have any direct influence on the legitimation level during the election years but only its interaction effect. We can now summarize our findings as follows:

1. Under usual circumstances, when all factors equal to zero (no elections, no industrial unrest, whatever growth rate), the state is biased in favour of accumulation rather than legitimation (as implied by negative and significant intercept).

2. During election years this tendency is reversed (as implied by positive and significant coefficient of elections), and this is the case

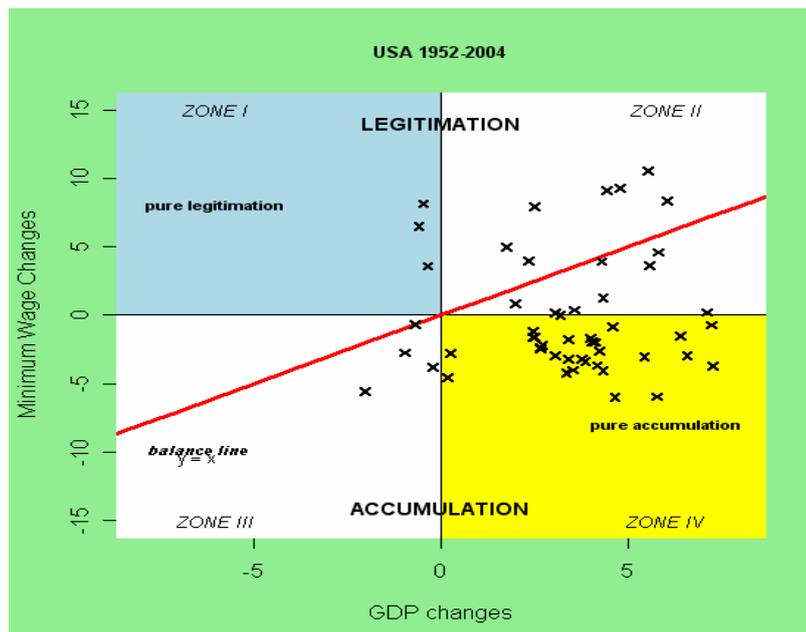
3. irrespective of economic growth, as implied by the interaction (GDP*elections) effect, showing that the impact of GDP growth on legitimation levels is nullified during election years.

8. MINIMUM WAGES IN THE USA AND A COMPARISON WITH TURKEY

In order to add a comparative dimension to our inquiry, we now turn to a brief examination of the legitimation and accumulation dynamics in the USA and make a comparison with Turkey. We are aware of the differences between Turkey and the US in terms of the relative importance of the minimum wage and other important institutional determinants of wage setting, although the two countries share weak and fragmented unions, with a private sector unionization rate in the US below 10 percent and collective bargaining coverage below 13 percent (Visser, 2006), the prevalence of company bargaining, a rather hostile employer attitude and a restricting legal environment for union representation and bargaining (Blanchflower and Freeman 1992; Clawson & Clawson 2003).

Minimum wage legislation in the United States has its origins in the Fair Labour Standards Act of 1938, which allows Congress to set a nation-wide federal minimum wage. Periodically, the administration and Congress raise the nominal minimum wage to adjust for growth in the general level of wages and prices. While the federal minimum wage is binding, individual states may set minimum wages equal or lower than the federal minimum wages for workers not governed by the federal minimum and in some states like California or New Jersey they set minimum standards that exceed the minimum (Card & Krueger 1995; Ehrenberg & Smith 1994). In all cases the final decision is political with a good deal of lobbying by labour and business. Figure 8 visualizes the legitimation and accumulation balance in US during the period of 1952-2004.

Figure 8: Accumulation and Legitimation in the US 1952-2004



The most striking difference is that in the US during the entire period accumulation was favoured over legitimization with exception of only ten years, whereas in Turkey almost the exact opposite is found. Therefore, one can argue that, unlike Turkey, US governments were not led by considerations of legitimacy when making their adjustment decisions regarding the minimum wage. This conclusion is further strengthened by our finding that elections played no role or, if they did, they lowered rather than increased legitimacy levels, as one can see from the results of our multivariate model in table 3.

Table 3: A Multivariate test ⁸ of minimum wage decisions in the US, 1952-2004

Variables	coefficients	t-values	associated probabilities
Intercept	-3.2304	-0.347	0.73
Elections	-44.9140	-1.981	0.054 *
log(strikers)	0.2437	0.349	0.73
GDP growth	-1.0240	-3.354	0.0017 ***
Elections * log (strikers)	3.8357	2.080	0.043 **
Elections* GDP	-1.0685	-0.819	0.42

- **F-statistic = 4.387 (at 5 and 43 degrees of freedom)**
| associated probability= 0.0074 ***
- **Multiple R-Square = 0.30 | Adjusted R-Square = 0.22**
- **Condition index: | 15.1 | 67.5 | 183.4 | 467.7 | multicollinearity is possible**
- **Durbin-Watson: 1.59**
- **RUN.TEST and visual diagnostics reveal no autocorrelation**
- **GLEJSER test, SPEARMAN rank-correlation test (undertaken for all variables separately) and visual diagnostics reveal no heteroskedasticity**
- **The model is stabilized further after the elimination of high cooks'distance entries (of years 1952,1956,1960 and 1980)**

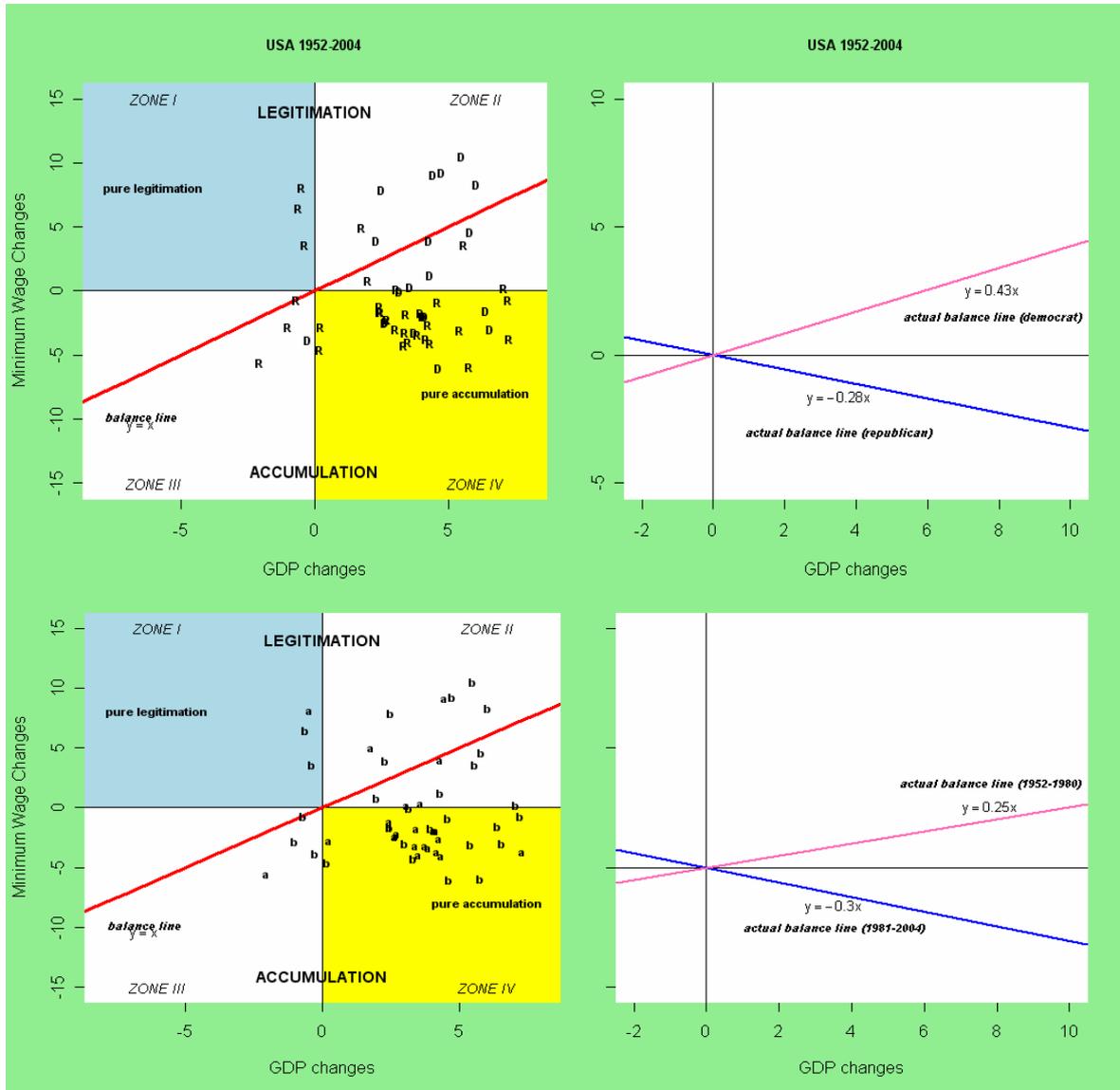
The fact that election years in the US seem to have a depressing effect on the legitimization levels may seem puzzling at first, certainly if looked upon from a Turkish perspective. However, it may simply reflect the unimportance of minimum wage issues in most US election contests, the relative small size and political weakness of the constituency of workers and their families directly affected by it, or the weakness of the union lobby compared to business and middle class voters. This would also explain the negative relationship between GDP growth and legitimization levels, suggesting that over time the low wage constituency has been losing political clout. Only when elections coincided with a rise in industrial militancy such tendencies were reversed, as shown in the interaction term of our model.

Summarising, legitimation concerns seem to play no role in minimum wage decisions in the US, or at best a very small one if brought to the fore by industrial militancy. Whether that conclusion holds for the USA only and testifies to the extraordinary strength, politically, ideologically and economically of its model of advanced capitalism, or indeed may be generalised to all or most advanced capitalist democracies in which minimum wage decisions affect a small minority of workers only, is a question that cannot be answered here but would seem worthy of further research, especially in the European context. Surely, the Turkish case of a developing economy in a society in which the liberal political and ideological connotations of capitalist development cannot be taken for granted and the institutions to delegate distributional decisions to societal interest groups are lacking or eroded, suggests that minimum wage decisions cannot be treated lightly.

We can deepen our comparison of Turkey-US by focusing on possible breaks in periodization and corresponding actual balance lines in the US. Here we have two expectations. Firstly, there will be difference between Democratic and Republican administrations as to how they have balanced accumulation and legitimation. Secondly, starting from the first presidency of Reagan and the opening up of the American economy in the 1980s, we expect to find a shift in the actual mean balance line. So we expect 1981-2004 period to be different from the 1952-1980 years.

In order to examine these expectations we distinguish Democrat and Republican administrations by depicting their choices with “D” and “R” respectively in the upper left part of figure 9. The upper right part reveals the corresponding mean actual balance lines. Similarly we distinguish pre-1981 and post-1981 periods by depicting the former years with “b” and the latter years with “a” respectively in the lower left part of figure 9. The lower right part reveals the corresponding mean actual balance lines.

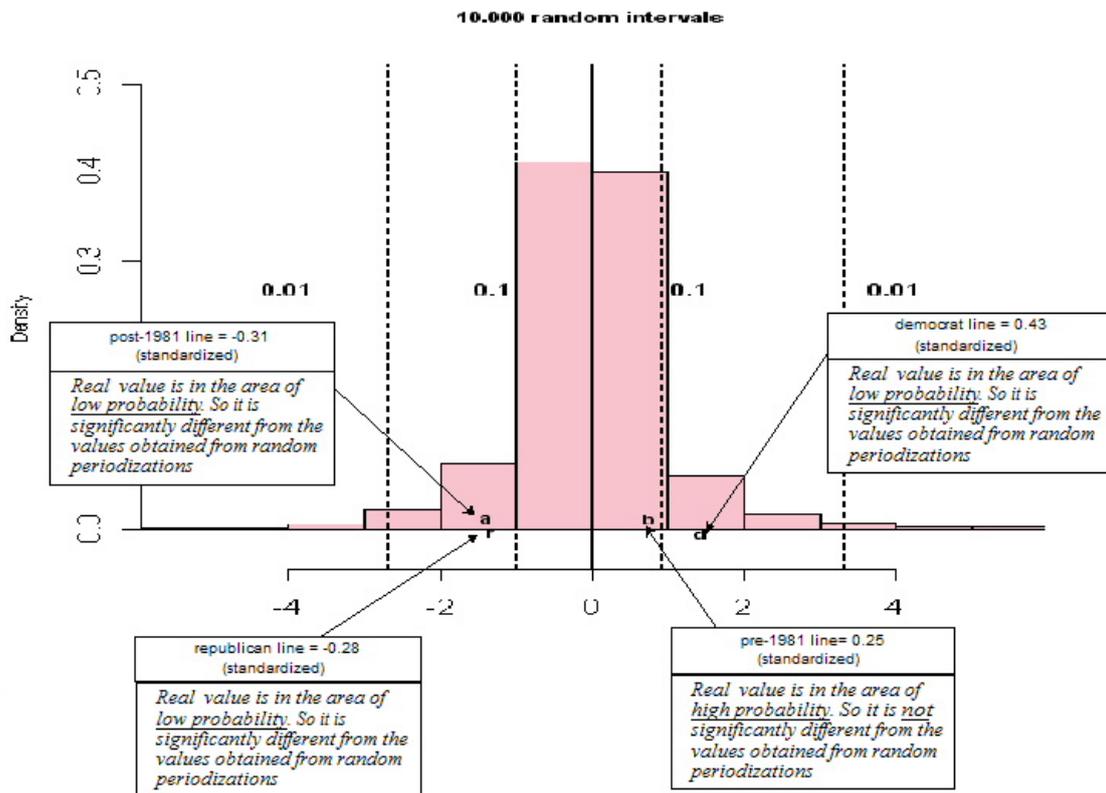
Figure 9: Comparing Democrats and Republicans, and pre-and post 1981 periods in the US: actual balance points and actual balance lines



The left panels of figure 9 seem to suggest that Democrat and Republican, as well as the pre and post-1981 periods, are rather similar and equally tended towards favouring accumulation over legitimation. However, the right panels reveal that there are in fact differences between these two parties and between the two periods. The Republican line is much more radical and is negatively sloped ($\psi = -0.28$) whereas the Democrat line has a positive slope ($\psi = 0.43$). Similarly, the post-1981 period has a negative slope ($\psi = -0.30$) while the pre-1981 period has a positive one ($\psi = 0.25$).

Before making substantive interpretation of these patterns it is necessary to examine whether these periodizations are reasonable and statistically significant by using the simulation procedure applied in the case of Turkey. The outcome is presented in figure 10.

Figure 10: Examining the validity of periodization in the US

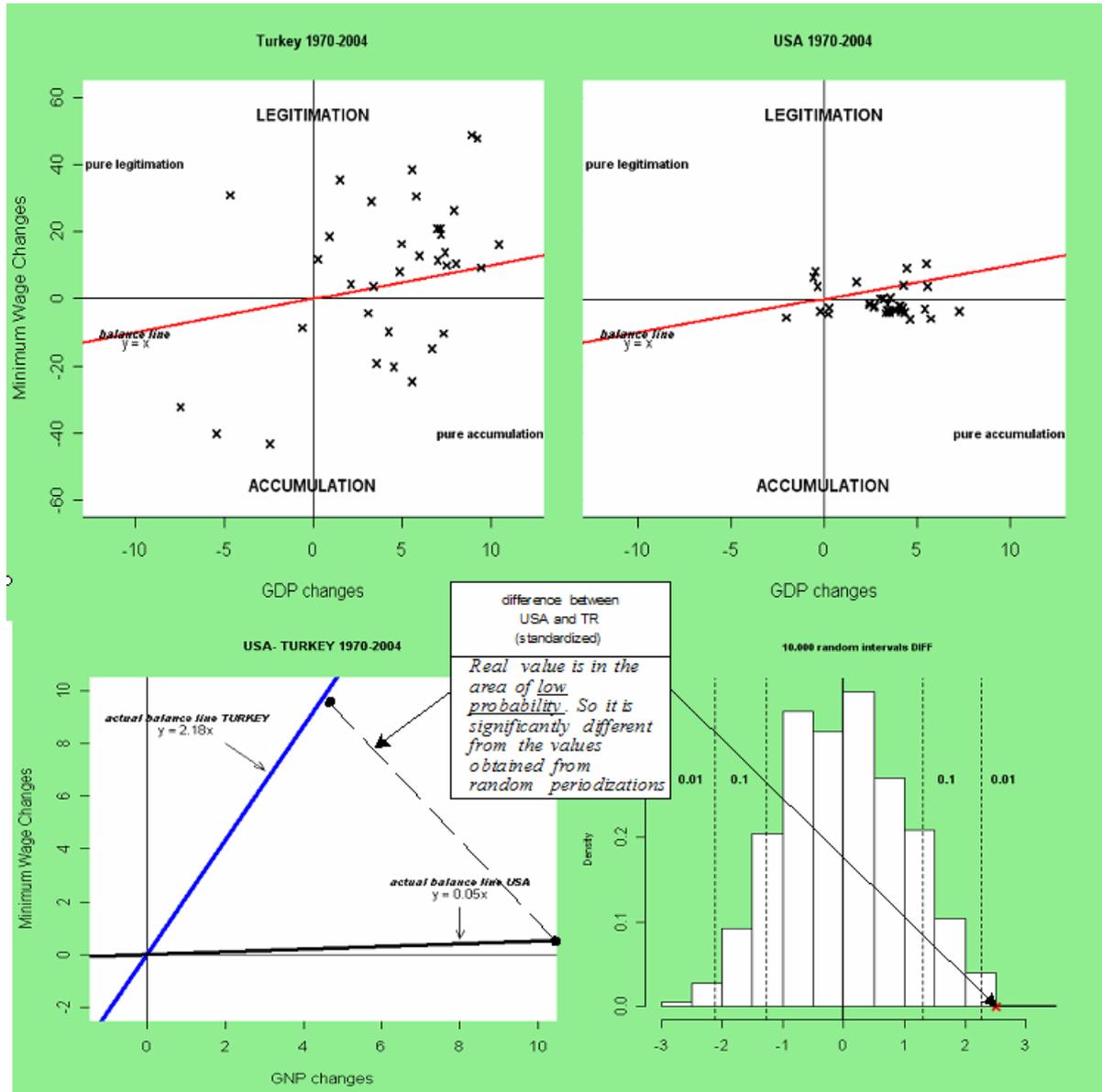


Our simulation shows that only the value of the pre-1981 period ($\psi = 0.25$) seems to be insignificant. Thus we feel confident to argue that in the US Democrat and Republican administrations have been behaving differently in terms of putting accumulation or legitimation first when making (or refraining from making) their adjustment decisions concerning the nation's minimum wage. Yet, in spite of this overall difference, 1981 does mark a structural shift. Regardless of who is in the presidency, a Democrat or Republican, the post-1981 years have been more oriented towards accumulation. From a comparative perspective, what is important is that even the most radical accumulation bias in Turkey, manifested by the $\psi = 0.72$ line imposed by the Özal governments in the 1980's, is still moderate compared to least radical accumulation bias in the US imposed by Democrat administrations ($\psi = 0.43$).

We can sum this up with a straightforward comparison between Turkey and US, as in figure 11, where we picture the mean actual balance lines for Turkey ($\psi = 2.18$) and the US ($\psi = 0.05$) during

the same years, between 1970 and 2004. Our simulation exercise gives us confidence in claiming that the difference in how the two states, Turkey and the USA, politically manage minimum wage decisions is significant ?.

Figure 11: Comparing the US and Turkey



9. CONCLUSION

Instead of indirectly engaging with the role of the state in industrial relations by scrutinizing the regulatory impact of state policies on the strategies of trade unions and business, our concern is with the direct role of the state and the political basis of its distributional decisions regarding the minimum wage. The essence of our argument is premised on the idea that in order to ensure stability and growth, any state in a capitalist democracy must somehow balance the interests of capital and labour when taking this kind of distributional decisions. We show that it is possible to operationalize this idea in a rather parsimonious fashion by using O'Connor's concepts of accumulation and legitimation as the basis of an analytical model that can be put to an empirical test.

By using this model, we show that in Turkey, as a developing economy, while seeking to promote growth and accumulation, governments must take account of legitimacy concerns in their minimum wage decisions. We were able to show that such concerns became more prominent in recent times, as the response to a period of austerity and liberalisation, followed by a sharp rise in industrial and public unrest around 1990. This direct role of the state in wage setting, with contradictory demands placed on its decisions, did increase in an environment of union weakening, a much reduced role for collective bargaining and the absence, destruction or erosion of institutions which would have allowed the taking of distributional decisions by means of delegation to societal interest groups like unions and employer associations. In Turkey, the change from an import substitution strategy to one based on export promotion and liberalisation, which happened in the early 1980s as it did in many developing countries, destroyed the institutional conditions for collective bargaining reaching the majority of workers. As a result, the statutory minimum wage was "upgraded" from a supplementary facility for those workers outside the scope of collective bargaining to the main instrument influencing employer's wage decisions and workers' purchasing power. With it came a much more prominent role for the state in making these distributional decisions and a larger legitimacy constraint on governments when making such decisions.

The contrast with the USA supports our argument. Even though both economies share a rather similar weakness of trade unions and collective bargaining, especially in the post-1980 years, the much smaller role of the minimum wage in the USA – according to figures of the US Department of Labor the minimum wage directly affects only 2-3 percent of all employees in employment -, guarantees minimum wage decisions a much lower political profile. Even though minimum wage decisions in the USA are not altogether insignificant (one of the first decisions of the newly elected Democratic majority in the House of Representatives, convened in January 2007, was to raise the national minimum wage), we are able to show that overall the balance in the US was much more

towards accumulation rather than legitimation and that elections did nothing to bring legitimacy concerns to the fore.

Obviously, it would be very interesting to test these conclusions by applying our model to other countries. We could think of other developing countries with statutory minimum wages like Costa Rica, Mexico, Korea or indeed the ten transition economies of Eastern and Central Europe, all with a mandatory minimum wage decided by the government and nearly all with weak, fragmented or poorly representative institutions of collective bargaining (EC 2004). At the other end, we could learn from a comparison of the US case with minimum wage decisions in other advanced capitalist economies like France, Spain, the Netherlands or Finland. Summing up, we believe that our findings confirm the usefulness of our analytical model and the underlying idea inspired by O'Connor's concepts of accumulation and legitimation. This model provides a basis for theorizing the role of the state in industrial relations at different stages of development and under varying institutional, political and economic conditions.

NOTES

1. A somewhat similar conceptualisation of the problem of capitalist development and stability can be found in Offe (1972), who predicated the ability of the state to legitimize the capitalist system on its ability to present its decisions as resulting from economic necessities (*Sachzwänge ökonomischer Daten*), while they represent a choice, reflecting the state's relative autonomy.

2. "Government" may be defined as the body that runs the state, whereas "state" is defined, in a Weberian sense, as "the set of organizations invested with the authority to make binding decisions for people and organizations juridically located in a particular territory and to implement these decisions using, if necessary, force" (Rueschemeyer & Evans 1985: 46-47).

3. This problem of the inconsistency between short-term and long-term goals and the lack of coordination within the state, as well as between the state and the private sector, was at the heart of the attempts at 'planning' and 'incomes policy' in many European post-war economies (for an early and still unsurpassed analysis of the political illusions and technical difficulties: Shonfield, 1964).

4. Note that we have measured the annual change in minimum wages and GDP in Turkey in US dollars. Owing to this conversion we observed negative increases in the minimum wage in Turkey. Here it is important to emphasize that due to the export orientation and dependence on foreign raw materials the value of wages in US dollars was crucial for employers. Due to high inflation the dollar value of wages was also relevant for purchasing power during the post-1980 period and increasingly so between 1990 and 2004. In fact one of Turkey's ex-ministers of Labor and Social Security (the key post in the government for determination of minimum wage) told us in an interview (September 2007) that the CPI based estimations were never taken into account in their minimum wage deliberations within the cabinet but they always considered the purchasing power of an average family under the assumption that there would be more than one minimum-wage earner in the household. In the case of the US we used CPI (1998 prices) corrected minimum wage.

5. In the area demarcated by $x=y$, $y=0$ and $x<0$, the percentage change of the minimum wage is negative, whereas the legitimation level is positive; in the area demarcated by $x=y$, $y=0$ and $x>0$, the percentage change of the minimum wage is positive and the legitimation level negative.

6. If $f(\psi) = (y - \psi x)^2$ then solving $\lim_{\Delta \psi \rightarrow 0} \frac{f(\psi + \Delta \psi) - f(\psi)}{\Delta \psi} = 0$ for ψ .

7. The analysis of interactions is omitted in this paper and just the outcome is mentioned. The detailed analysis can be provided at request.

8. The years 1952, 1956, 1960 and 1980 do have too large influence on the outcome. In order to reveal the underlying pattern more clearly and avoiding a model which may be driven only by these years, we decided to eliminate them. Moreover, their elimination also solves a slight heteroskedacity problem. However it is important to note that inclusion of these years does not make any variable which is significant in the given model insignificant. On the contrary, their elimination has a strengthening impact on the significance structure.

9. This simulation is different than the previous ones: now what is randomized is the degree of deliberation in the decisions (i.e. the percentage changes in minimum wage) taken in a country during a given period. A detailed description of this simulation can be provided on request.

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AIAS is a young interdisciplinary institute, established in 1998, aiming to become the leading expert centre in the Netherlands for research on industrial relations, organisation of work, wage formation and labour market inequalities.

As a network organisation, AIAS brings together high-level expertise at the University of Amsterdam from five disciplines:

- Law
- Economics
- Sociology
- Psychology
- Health and safety studies

AIAS provides both teaching and research. On the teaching side it offers a Masters in Advanced Labour Studies/Human Resources and special courses in co-operation with other organizations such as the National Trade Union Museum and the Netherlands Institute of International Relations 'Clingendael'. The teaching is in Dutch but AIAS is currently developing a MPhil in Organisation and Management Studies and a European Scientific Master programme in Labour Studies in co-operation with sister institutes from other countries.

AIAS has an extensive research program (2000-2004) building on the research performed by its member scholars. Current research themes effectively include:

- The impact of the Euro on wage formation, social policy and industrial relations
- Transitional labour markets and the flexibility and security trade-off in social and labour market regulation
- The prospects and policies of 'overcoming marginalisation' in employment
- The cycles of policy learning and mimicking in labour market reforms in Europe
- Female agency and collective bargaining outcomes
- The projects of the **LoWER** network.



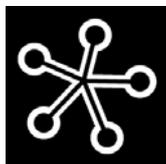
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