

# The Role of the State in Balancing 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 decision. This idea is operationalized using O'Connor's concepts of accumulation and legitimation as the basis for an analytical model. Application to Turkey and comparison with the USA reveals that in Turkey, governments take account of legitimacy concerns in their minimum wage decisions due to the large number of workers directly dependent on minimum wages and weak collective bargaining institutions. In the USA, despite rather similar industrial relations conditions, this tendency is not present, probably due to the much smaller number of minimum wage earners and their weakness in the political process. However, in the USA, too, we observe that there is a difference between political parties and historical periods in the way in which the minimum wage is determined.*

## 1. 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 and 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 the 1935

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Wagner Act and the political endorsement 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; Lehbruch and Schmitter 1982; Schmitter and Lehbruch 1979). But as had been noted by Baccaro and Simoni (2006), the 'political exchange' (Pizzorno 1978) between governments and unions was almost exclusively analysed from the perspective of the organizational, political or economic conditions allowing trade unions to support or endure incomes policies under state guidance, and the 'neo-corporatist' authors had little to say about the strategic choices of governments. Crouch's seminal work on state traditions in industrial relations showed how the political space in which unions and employers operated as co-managers of economic progress and social conflict varied across Europe, reflecting historical patterns (Crouch 1993). However, the politics of state intervention, and the minimum wage as one of its instruments, goes unmentioned. Comparative studies of incomes policies tend to pay scant attention to the minimum wage and concerns of legitimacy or justice (e.g. Fallick and Elliott 1981; Flanagan *et al.* 1983; Hassel 2006).

Another distinguishing mark of most industrial relations research is its focus on the developed industrialized western world. There is no equivalent for Crouch's (1993) study of Western Europe for other world regions. Armingeon'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 or opening up to world markets that the state is most prominent in dominating, defining or restraining collective bargaining and trade union organization, even under conditions of democracy, as many examples in Asia (South Korea, Singapore), Africa (Nigeria, Uganda, Zimbabwe) and Latin America (Argentina, Colombia, Mexico) 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 comparison with the development and politics

of the minimum wage in the USA. 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 section, 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 of this framework 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 the 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 USA.

## **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 the sake of the other, most of the time, the state must balance them. Before premising a model on this simple conceptualization, a little elaboration is necessary.<sup>1</sup>

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. First, 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. However, as pointed out by Gramsci (1971), such a strategy is unlikely to be successful without some real concessions. Second, 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. This was the golden path of institutionalization of industrial relations and its insulation from political conflict foreseen by Kerr *et al.* (1960) and theorized by Dahrendorf (1959). 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 assuring the 'state of law', promoting investment in human resources and enabling the entire economy to function better in the sense of generating more growth, may ensure accumulation and legitimation simultaneously (North 1990). 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 from the point of view of advancing growth and avoiding conflict. 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 government: short and long. Accordingly, we assume that the government<sup>2</sup> 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 the 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 the long horizon and the short horizon are most of the time neither identical nor perfectly co-ordinated.<sup>3</sup> 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 the 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 of the system, to demand legitimation. Additionally, we focus on conditions of reduced or severely constrained collective bargaining autonomy, as prevailing in many developing countries (ILO 1998; Visser 2003), 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. Finally, we 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 typically 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 available to the actors. GDP growth serves as a compound 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, we must choose a variable the value of which is determined by the government. For this purpose, we will use the annual percentage change in the minimum wage. As we will show shortly, in Turkey, the government has the final say in minimum wage decisions and the statutory minimum wage has become the main reference point for the value of labour.

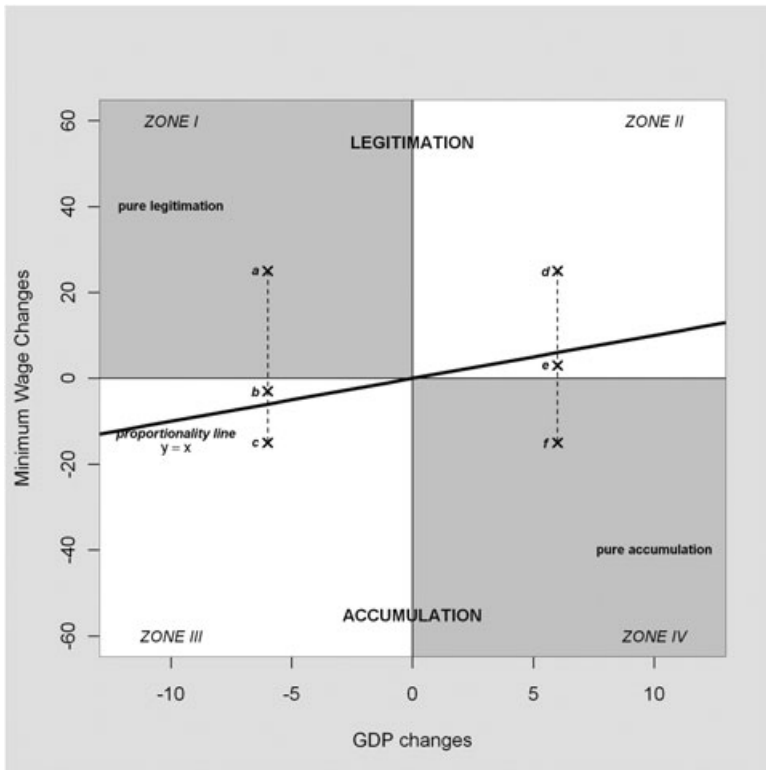
Below, we will create two new variables, *legitimation level* and *choice slope*, based on the combinations of annual percentage change in the GDP change and annual percentage change in the minimum wage over a particular number of years. These variables can be used to scrutinize the structural and cyclic 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 and data

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. 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.<sup>4</sup> While annual changes 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 in the space mapped by the  $x$ - and  $y$ -axes.

For the 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.<sup>5</sup> 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 *proportionality line*.

There are various possibilities (choices on the  $y$ -axis) depending on two main contingencies. If the economy contracts, the choice will be either in zone I or III. Under such conditions, the government can choose between  $a$ ,  $b$  or  $c$

FIGURE 1  
Analytical Model.

(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  $y = x$ . In this ‘loss sharing’ choice, the balance still swings in favour of legitimation. At point *c*, labour is burdened with a disproportional share of the loss and, in this case, legitimation is partly sacrificed for the sake of accumulation. In the case of GDP growth, the choice will be either in zone II or IV. If the government chooses a *y*-point which is higher than the given *x* value, like point *d*, accumulation is partly sacrificed for legitimation. Points *e* and *f*, below the proportionality 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 proportionality line  $y = x$  thus divides the entire two-dimensional space mapped by *x*- and *y*-axes into the upper part or *legitimation region* and

the lower part or *accumulation region*. This model can be explored in two different ways so as to define the two dependent variables of our article:

1. *Legitimation level*, defined as the *Euclidian distance* between the actual choice made by the government and the corresponding point on the proportionality line  $y = x$  (see the dotted lines in Figure 1). If the actual point lies in the legitimation region as defined, 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. First, 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. Second, 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.<sup>6</sup>
2. *Choice slope*, defined as the slope coefficient  $\Psi$  obtained from the equation  $y = \Psi x$  for any given number of years. The best estimate for  $\Psi$  is obtained by using Gaussian least squares.<sup>7</sup> Obviously  $\Psi = 1$  for the proportionality 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 *choice slope* informs us about the main tendency of state policy in a given period and can be used to link institutional, political and economic changes within the political economy and industrial relations.

In the next section, we will briefly examine industrial relations in Turkey in order to show that this operational model can be fruitfully applied.

#### **4. Industrial relations and minimum wage setting in Turkey**

In Turkey, collective bargaining was properly legalized in 1963 with the enactment of new industrial relations laws. A rather permissive legal structure created 'a very favourable climate for the development of trade unionism' (Jackson 1971: 72–3). 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 per cent 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 and Sayari 1986). The year began with harsh stability measures in order to cope with high inflation and unemployment (Herschlag 1988: 38–44). The hitherto prevailing policy of import substitution was replaced by the project of creating an open-market economy (Aydin 2005: 43–4). 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 unions (Aydm 2005: 52–6; Boratav 2005: 147–64). Through the 1980s and 1990s, the increasing size of the informal economy and the decline of public employment added to the predicaments of the unions. Unsurprisingly, in this new legal and economic environment, only about 90 of the more than 700 unions of the pre-1980 period survived (ÇSGB 1994: 71; Tokol 1997: 112–237). By 1997, union density had fallen to around 15 per cent (Cam 2002: 98) and in the 2000s, the actual proportion of workers that benefit from collective bargaining has declined to less than 10 per cent of the registered non-agricultural workforce. Therefore, collective bargaining has increasingly become an irrelevant institution for the majority of workers in Turkey.

Under these conditions, the 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 of the registered but non-unionized workers, which account for approximately 90 per cent 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 per cent of non-agricultural employment in Turkey (Auer and 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 per cent of the entire non-agricultural workforce can be included in one of these groups, it is possible to argue that for the vast majority of workers and employers in Turkey, the minimum wage appears to be of crucial importance and represents the main reference for the value of labour.

Given its importance, it is crucial 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 union confederation. The members from within the state bureaucracy actually represent the government, and one is appointed as chairperson. If the committee fails to agree, the chair casts the decisive vote. This means that in reality, the government determines the minimum wage, for workers' and employers' 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: it 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 1980–2000 the Minimum Wage Commission was convened almost 20 times, which is about once a year, but with a timing decided by the government of the day.

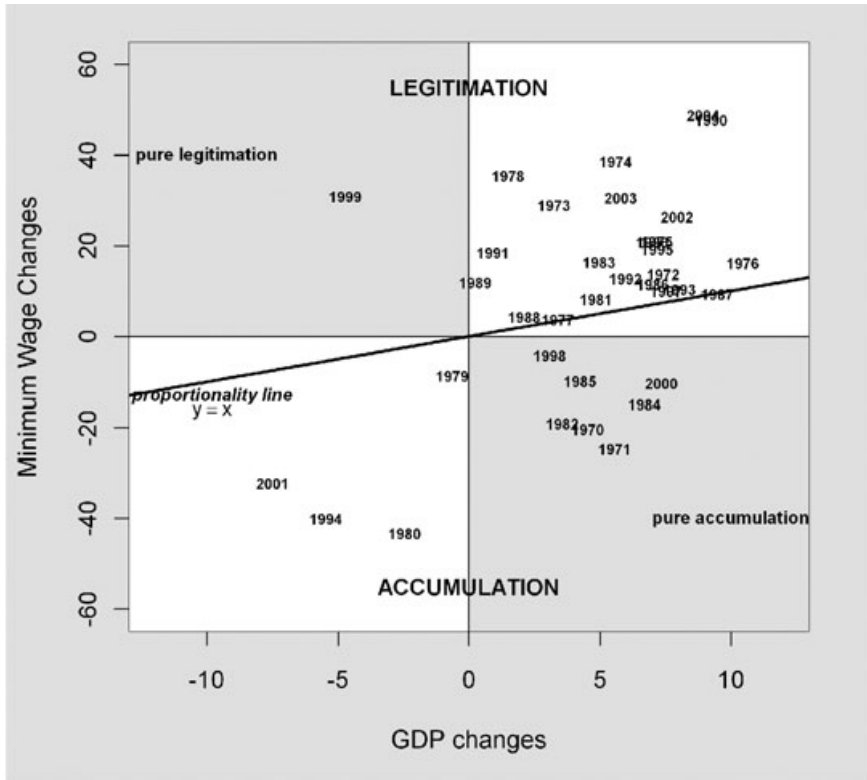
Summarizing, as the collective bargaining system was gradually marginalized due to the anti-union legal environment and the expansion of the informal economy, the value of labour, admittedly a key factor in industrial

relations, started to be determined by the state. 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.

### 5. The choice between accumulation and legitimacy in Turkey

Figure 2 shows the application of our model to Turkey. The boxed-crosses depict the actual choices in the 1970–1979 period during which the import substitution was the main economic strategy, and trade unions were operating in a quite liberal legal framework. The other crosses show the choices in the 1980–2004 period during which the establishment of an open-market economy has been the undisputed maxim, and the power of trade unions was severely restricted. Election years are designated with ‘E’, industrial action

FIGURE 2  
Accumulation and Legitimation in Turkey 1970–2004.



years with 'S' and economic crisis years with 'C'. Naturally, some years are marked with more than one letter.

Comparing the number of points above and below the proportionality line, one is tempted to conclude that the preference of Turkish governments through the 1970–2004 period has been in favour of legitimation rather than accumulation. However, we observe that during these 35 years, the state has entirely abandoned legitimation for accumulation seven times (i.e. the points in the pure accumulation region), while making the opposite choice only once (points in the pure legitimation region). We further note that during election years (marked with 'E'), the choice was made either in favour of legitimation or exactly on the proportionality line, never below. In other words, regardless of the economic situation, between 1970 and 2004, Turkish governments never favoured accumulation over legitimation during an election year.

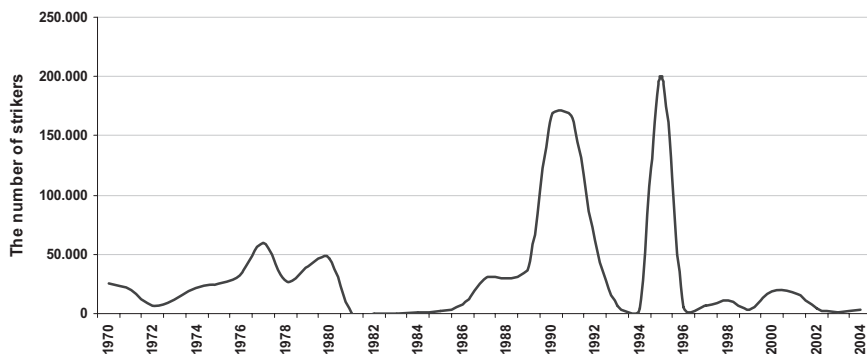
To make this point more clearly, we examine the government's choices in crisis years (marked with 'C'). Four of the five crisis years witnessed a preference for accumulation over legitimation, so it appears that to favour accumulation during a crisis is the usual choice. There is one exception only: when the crisis coincides with elections, the government favours legitimation over accumulation (see Figure 2). Finally, when focusing on the years which witnessed large strike waves and public dissidence (marked with 'S'), we observe that in all four of such years, the choice fell in favour of legitimation. This suggests that industrial unrest as well as the need to win elections induced Turkish governments to sacrifice accumulation for the 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. Periodization

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 periodization on the basis of deep changes in economic strategy, ideology and institutions of industrial relations, should be reflected in shifts in the choice slopes between accumulation and legitimation between such periods.

In Turkey, since the introduction of the 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 1970s maintaining purchasing power of workers was considered as an essential component of a quasi-Keynesian economic policy, during the 1980s, 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 3).

FIGURE 3  
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 choice slopes. This is indeed the case.  $\Psi$  was 1.77 between 1970 and 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 a 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 the 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  $\Psi$  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. Since collective bargaining had shrunk and the informal economy had expanded, the credibility of the new liberal economic approach was low, at least among workers, while the marginalization of the unions and the dismantling of the institutional conditions for a wage-setting approach based on delegation 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  $\Psi = 2.44$ , more in favour of legitimation than even the 'permissive' union environment before the 1980 coup. Thus, as the importance of formal industrial relations shrank and the role of unions diminished, the state was compelled to fill the void.

Before accepting this interpretation, we must evaluate the validity of periodization on which our argument rests. In order to provide a statistically sound basis for our periodization we compare ours with all possible random periodizations. For this purpose, we used the following six steps: (a) 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 cycles may occur); (b) choosing  $S_i$  random years from the period 1970–2004; (c) estimating the choice slope  $\Psi_i$  for  $S_i$ ; (d) repeating these three steps 10,000 times in order to create a set of randomly estimated  $\Psi_i$  values for randomly chosen sets of  $S_i$  which, due to the central limit theorem, should be normally distributed; (e) standardizing the full  $\Psi$ -set with 10,000 values so as to create a probability density function; and (f) placing the (standardized) historical values  $\Psi_1$ ,  $\Psi_2$  and  $\Psi_3$ , 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 the simulation exercise is encouraging: whereas we cannot reject the null-hypothesis that the  $\Psi$  value of the first sub-period (1970–1979) might be random, the other  $\Psi$  obtained for the second and third periods (1980–1989; 1990–2004) are significant below the 0.1 level. This means that whereas statistically we cannot be sure that the legitimation bias in the years before 1980 was a deliberate choice of governments, we are on solid grounds to believe that both the accumulation bias of 1980–1989 and the legitimation bias of 1990–2004 reflect deliberate policy choices and, statistically speaking, are not just a matter of chance. This finding supports our argument that despite the continuing adherence to the idea of establishing and developing an export-oriented economy, there was a shift from accumulation into legitimation occurring around 1989 or 1990, following the large-scale industrial unrest happening around that time.

## 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 proportionality points on the  $x = y$  line). We include GDP change, strike participation and elections, as well as interaction terms 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). In order to decrease the level of multicollinearity due to the inclusion of interaction terms, we drop the interaction

TABLE 1  
A Multivariate Test of Minimum Wage Decisions in Turkey 1970–2004

| <i>Variables</i>                 | <i>Coefficients</i> | <i>t-values</i> | <i>Associated probabilities</i> |
|----------------------------------|---------------------|-----------------|---------------------------------|
| <i>Intercept</i>                 | -16.6472            | -1.831          | 0.08*                           |
| <i>Elections</i>                 | 41.8905             | 2.298           | 0.03**                          |
| <i>log(strikers)</i>             | 0.6737              | 0.681           | 0.50                            |
| <i>GDP growth</i>                | 2.6233              | 3.133           | 0.004***                        |
| <i>Elections × log(strikers)</i> | -1.0256             | -0.502          | 0.62                            |
| <i>Elections × GDP</i>           | -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*.  
 • GLEJSEK test, SPEARMAN rank-correlation test (undertaken for all variables separately) and visual diagnostics reveal *no heteroscedasticity*.  
 • Elimination of *highest Cooks' distance* entry impose *no alteration in the significance structure*.

\*, \*\*, \*\*\* significant at 0.1, 0.05 and 0.01 levels, respectively.

between log(strikers) and GDP from the equation. The result is shown in Table 1.

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.<sup>8</sup>

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 has a statistically significant influence on the legitimation level. Detailed analysis of the interactions reveals that elections, when interacted with GDP growth, always trumped the impact of GDP growth on the legitimation level. We can summarize our findings as follows:

1. Under usual circumstances, when all factors equal zero (no elections, no industrial unrest, whatever growth rate), the Turkish state is biased in favour of accumulation rather than legitimation (as implied by the 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  $\times$  elections) effect, the impact of GDP growth on legitimation levels is nullified during election years.

## 8. Minimum wages in the USA and a comparison with Turkey

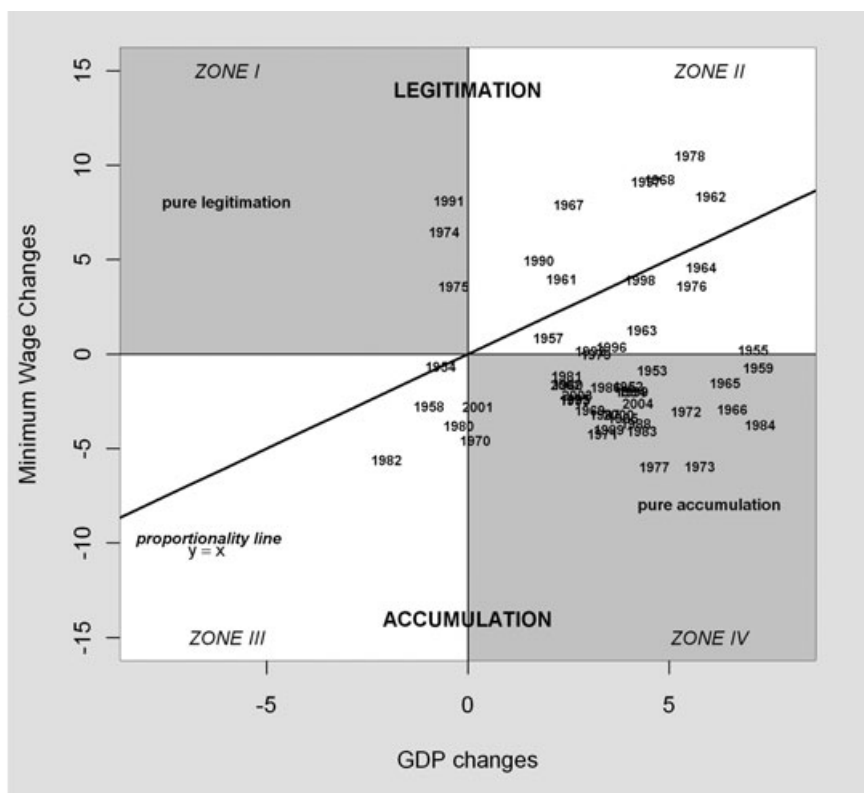
In order to add a comparative dimension to our inquiry, we now turn to a brief examination of the legitimation and accumulation dynamics in the USA and make a comparison with Turkey. We are aware of the differences between Turkey and the USA in terms of the relative importance of the minimum wage and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

Minimum wage legislation in the USA has its origins in the Fair Labour Standards Act of 1938, which allows Congress to set a nationwide 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 and Krueger 1995; Ehrenberg and Smith 1994). In all cases, the final decision is political with a good deal of lobbying by labour and business. Figure 4 shows the legitimation and accumulation balance in the USA during the period 1952–2004.

The most striking difference is that with the exception of only 10 years, in the USA, accumulation was favoured over legitimation, whereas in Turkey, almost the exact opposite is found. Therefore, one might argue that, unlike their Turkish counterparts, US governments were not primarily led by considerations of legitimacy when making their adjustment decisions regarding the minimum wage. Our finding that elections played no role or, if they did, lowered rather than increased legitimacy levels reinforces this conclusion.<sup>9</sup> This surprising outcome of our multivariate analysis is presented in Table 2.

The fact that election years in the USA appear to have a depressing effect on the legitimation 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 presidential elections, the relatively 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

FIGURE 4  
Accumulation and Legitimation in the USA 1952–2004.



to business and middle-class voters. This would also explain the negative relationship between GDP growth and legitimation 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.

Summarizing, legitimation concerns seem to play no role in minimum wage decisions in the USA, 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 generalized 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

TABLE 2  
A Multivariate Test of Minimum Wage Decisions in the USA, 1952–2004

| <i>Variables</i>                 | <i>Coefficients</i> | <i>t-values</i> | <i>Associated probabilities</i> |
|----------------------------------|---------------------|-----------------|---------------------------------|
| <i>Intercept</i>                 | -3.2304             | -0.347          | 0.73                            |
| <i>Elections</i>                 | -44.9140            | -1.981          | 0.054*                          |
| <i>log(strikers)</i>             | 0.2437              | 0.349           | 0.73                            |
| <i>GDP growth</i>                | -1.0240             | -3.354          | 0.0017***                       |
| <i>Elections × log(strikers)</i> | 3.8357              | 2.080           | 0.043**                         |
| <i>Elections × GDP</i>           | -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: 1|15.1|67.5|183.4|467.7|*multicollinearity is possible*
- Durbin-Watson: 1.59
- RUN.TEST and visual diagnostics reveal *no autocorrelation*.
- GLEJSEK test, SPEARMAN rank-correlation test (undertaken for all variables separately) and visual diagnostics reveal *no heteroscedasticity*.
- The model is stabilized further after the elimination of *high cooks' distance entries* (of years 1952, 1956, 1960 and 1980).

\*, \*\*, \*\*\* significant at 0.1, 0.05 and 0.01 levels, respectively.

distributional decisions to societal interest groups are weak or lacking, suggests that minimum wage decisions cannot be treated lightly.

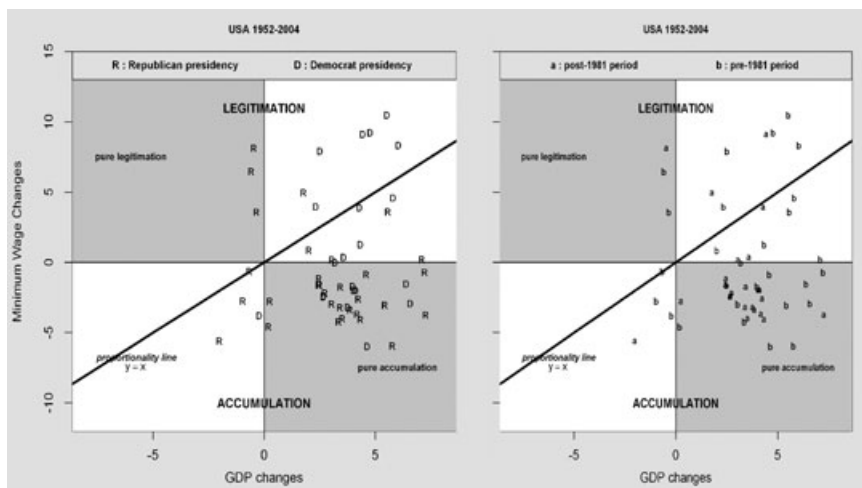
We can deepen our comparison of Turkey–USA by focusing on possible breaks in periodization and corresponding choice slopes in the USA. Here we are guided by two expectations. First, there will be difference between Democratic and Republican administrations as to how they balance accumulation and legitimation. Second, starting from the first term in office of President Reagan and the opening up of the American economy in the 1980s, we expect to find a shift in the choice slopes before and after 1981.

In order to examine these expectations, we distinguish Democrat and Republican administrations by depicting their choices with 'D' and 'R', respectively, in the left panel of Figure 5. 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 right panel of Figure 5.

The dots in Figure 5 do neither suggest big differences between Democrats and Republicans in the White House, nor a significant shift between the two periods. However, an analysis of the choice slopes does bring out differences. The Republican choice slope is much more radical and negatively sloped ( $\Psi = -0.28$ ) whereas the Democrat presidents are associated with a moderately positive slope ( $\Psi = 0.43$ ). Similarly, the post-1981 period has a negative slope ( $\Psi = -0.30$ ) whereas 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 result is that with the exception of the value for the pre-1981 period ( $\Psi = 0.25$ ), these choice slopes do represent significant values. Thus, we feel confident to argue that Democrat and Republican administrations have been

FIGURE 5  
Comparing Democrats and Republicans, and Pre- and Post-1981 Periods in the USA.



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. The post-1981 period witnessed a further shift regardless of who is in the presidency, a Democrat or Republican; the post-1981 years have been more oriented towards accumulation. (Note, however, that during eight of the Clinton years, Republicans dominated Congress.) 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 1980s, is moderate compared to the least radical accumulation bias imposed by Democrat administrations in the USA ( $\Psi = 0.43$ ).

## 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 (1973 [2004]) 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 demonstrate 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, after a period of austerity and liberalization, 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 and a much reduced role for collective bargaining. The state was 'forced' to take this role because the industrial relations institutions that would have allowed delegating the task of settling distributional conflict through union–employer bargaining, no longer existed. In Turkey, the change from an import substitution strategy to one based on export promotion and liberalization, which happened in the early 1980s as it did in many developing countries, had 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 and a larger legitimacy constraint on governments when making such distributional 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 per cent 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 USA 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 10 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 USA 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.

Final version accepted on 14 November 2008.

## Acknowledgements

The authors would like to thank Bernhard Kittel for his comments and suggestions.

## Notes

1. A rather similar conceptualization 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*).
2. Government is here defined as the body that runs the state and makes decisions on its behalf, whereas the state is, following Weber, '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 and Evans 1985: 46–7).
3. This problem of 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 postwar economies (for an early and still unsurpassed analysis of the political illusions and technical difficulties, see Shonfield 1964).
4. We deliberately use GDP change and not GDP change per capita in our estimations. From a theoretical point, this is the value that is best known to the actors. GDP per capita data would have to factor in data on demographic change and migration, which is less likely available on an *ex ante* basis. Moreover, our analysis is concerned with developments within, rather than between, countries.
5. We have measured the annual change in minimum wages and GDP in Turkey in US dollars. Owing to this conversion, we do observe negative increases in the minimum wage in Turkey. Our choice of measurement reflects the importance of the US dollar in the Turkish economy. Due to high inflation and currency devaluation of the lira, the dollar value of wages has been relevant for purchasing power at least since the 1980s and increasingly so between 1990 and 2004. In an interview (September 2007), one ex-minister of Labor and Social Security (the key post in the government for determining the minimum wage) told us that the CPI-based estimations were never taken into account in their minimum wage deliberations within the cabinet, confirming that the minimum wage was not considered as a living wage but as a reference with a substantial lighthouse effect on the economy. Hence, we model the minimum wage in Turkey on the basis of a common perception of its value both for workers and employers based on US dollars. In the case of the USA, we used the CPI (1998 prices) corrected minimum wage.

6. 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 is negative.
7. If  $f(\psi) = \sum (y - \psi x)^2$  then solving  $\lim_{\Delta\psi \rightarrow 0} \frac{f(\psi + \Delta\psi) - f(\psi)}{\Delta\psi} = 0$  for  $\psi$ .
8. A more detailed analysis of the interaction terms can be obtained from the authors.
9. We look at presidential elections, in which usually up to a third of the Congress is renewed as well. It turns out that the years 1952, 1956, 1960 and 1980 drive the result. In order to reveal the underlying pattern and avoid a result that may be driven only by these years, we decided to rerun our regression without these years. Omission of these years had a strengthening impact on the significance structure, but inclusion did not make any variable insignificant (see Faraway 2005: 64–72; Maronna *et al.* 2006: 3–11).

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