

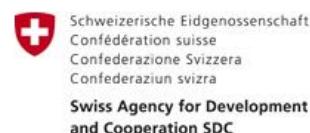


Two Worlds of Minimum Wage: A Critical Look on Literature and a New Research Agenda

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Under the conditions of advanced capitalism minimum wage is the statutory lowest boundary for remuneration that is directly relevant for a small group of people who are not protected by the other components of the system. In developmental context, however firms do not exactly comply with minimum wage but it is still capable of acting like a lighthouse positively affecting all wages across both formal and informal sectors even without being effectively enforced by an authority. Consequently, majority of population is influenced by minimum wage dynamics. Therefore while under the conditions of advanced capitalism the name and nature of minimum wage coincide, in developmental context this is no longer the case. Although its name remains the same its nature is different: it is neither minimum nor wage but a signal that may become the reference price for the fair value of labor across entire economy. This suggest that minimum wage and people's sense of fairness may be linked. The research has been overlooking these peculiarities and analyzing minimum wage in developmental context on the basis of assumption derived from the conditions of advanced capitalism. This approach makes us overlook interesting dynamics triggered by minimum wage across 'developing' countries. I propose a new approach to minimum wage that would recognize its different nature in developmental context and would scrutinize its role in legitimation dynamics and its relationship with social cost of labor. This approach would open new avenues for research and prevent us from asking wrong questions.

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Introduction

Do we know enough about minimum wage? This question may sound absurd given the huge literature on this subject accumulated over more than a century enabling meta-studies (Card & Krueger 1995, Doucouliagos & Stanley 2009, Belman & Wolfson 2014) and even inspiring meta-meta studies (Schimdt 2013). But still the answer is simple: No probably we don't! And to understand why, we should recall a nice observation made by Karl Marx long time ago: "Name of a thing is entirely external to its nature. I know nothing of a man if I merely know his name is Jacob" (Marx 1867[1992]:195).

I argue that a substantial part of minimum wage research, by taking the name of this 'thing' literally and thereby confusing the name of the thing with its nature, has developed on the basis of an implicit assumption, namely, the assumption that minimum wage is a component of an institutional landscape which reflects characteristics of advanced capitalism as it is imagined to exist in 'Western' countries. The implication is that within this conceptualization minimum wage appears quite literally as the lowest legally possible wage which is directly relevant only for a small group of marginalized people and thus its significance results not from its wider societal impact but from its capacity to provide a test ground for opposing economic theories about the nature of labor 'market' (Leonard 2000, Kaufman 2010). Practical end results have been the colonization of minimum wage research by mainstream economics and its use as an academic battlefield for competing theories that attack each other almost as if they fight a war of attrition in which only numbers rather than creativity count. Hence is the authority of meta-studies in this field.

In fact one can easily find himself constrained by this dull programme even as he tries to object it if he solely scrutinizes the empirical reality of 'advanced' capitalism. Thus the only heretical strand within minimum wage research that objects the confinement of the programme to the employment effect, that is, institutional economics perspective too, due to its de facto subscription to the same 'advanced capitalism' idea fails to enrich our understanding as much as it could do.

In this article, first I show that minimum wage exists in two different worlds: those of advanced capitalism and developmental context, and argue that examining the latter on the basis of assumptions derived from the former would pave the way for complete ignorance of implications of minimum wage in terms of fairness and justice and would make employment effects the main focus with the result that rich dynamics created by minimum wage across 'developing' countries would remain unexplored. And second,



by drawing on O'Connor's conceptualization of accumulation & legitimation dilemma (1973) and the idea of social cost of labor introduced by Webbs (1912, Kaufman 2009), I outline a working hypothesis and modestly propose a new agenda which requires 'renaming' minimum wage in accordance with the dynamics created by the juxtaposition of politics and economy so as to comprehend its distinctive features in 'developing' countries. And within this framework I argue that there are at least three paths through which minimum wage research may advance further: first, identifying the conditions under which minimum wage acts like lighthouse affecting all wages without being enforced by an authority and revealing the link between this dissemination dynamic and the social cost of labor, second, scrutinizing the role of minimum wage in containment of industrial conflict at micro level, and finally, comprehending legitimation dynamics triggered by minimum wage and its link with accumulation process and the implications of this relationship for politics.

In the following pages, first I examine minimum wage under the conditions of advanced capitalism and explain why the research under these conditions have been mostly confined to the scrutiny of employment effects. In this exercise I also briefly outline institutional economics approach as the only alternative perspective and the idea of social cost of labor. Second section is reserved for outlining the general characteristics of developmental context that distinguish it from advanced capitalism and showing the failure of neo-classic economics to predict the impact of minimum wage in this environment. In third part I outline the accumulation & legitimation dilemma of capitalist states and explain the relevance of this for studying minimum wage in developmental context. In the fourth section a working hypothesis is developed by combining the insights provided by social cost of labor and accumulation & legitimation dilemma. This exercise is completed by pointing out three possible themes for further research.

"Name of the thing": minimum wage in the context of advanced capitalism

In order to see why minimum wage research has developed within narrow limits of (main-stream) economics and almost completely obsessed with unemployment effect, it is essential to explore what this name 'normally' implies when its meaning is derived from the idealized environment of advanced capitalist countries¹.

¹ I think despite all the differences across 'advanced' capitalist countries, one can still draw a common picture, as I try here, for heuristic purposes. I think varieties of capitalism literature, despite very useful insights it has produced, focuses too much on differences so as to overlook similarities across 'capitalisms'.



In this environment it is taken for granted that minimum wage is nothing but the wage that is minimum, more explicitly, the minimum amount of money that must be paid for a specific duration of work. And of course the most crucial element is the 'must' part, that is, the mandatoryness of this minimumness, and this mandatoryness is based on the assumption that compliance only implies strict implementation and this can only be assured by an external authority that effectively enforces minimum wage in such a way that failure to comply with this enforcement has legal consequences that are sufficiently deterring.

On top of this initial conditioning about what minimum wage and complying with minimum wage can possibly mean comes a second layer of assumptions that specify people targeted by minimum wage. To understand who these people are it is essential to point out two broad (and not necessarily mutually exclusive) types of workers for whom minimum wage is not directly relevant. Firstly, those people with regular and long term employment contracts who are covered by collective agreements and represented (directly through membership or indirectly through extension of collective agreements) by trade unions. Secondly, those people with 'good' education (which gives them marketable skills) some of whom might even prefer flexible employment in order to capture better opportunities in the labor market but in general have no problems in finding permanent jobs (without needing or not any more interested in collective representation). Neither of these types of workers would need minimum wage (though they may be indirectly affected by it) because their institutionalized collective power or their individual skills and education would usually allow them to negotiate reasonable terms for their contracts with employers, and thus there would be some sort of proportionality between the effort they spend at work and the wage they receive in return.

Against this background it is easy to see that minimum wage is meant for a third group of people, namely, those who are not, at least not effectively, represented by trade unions or not covered by collective agreements and at the same time lack education and sufficiently marketable skills that would endow them with a reasonable level of bargaining power. But of course, given that this overall picture is imagined within the context of advanced capitalism one should assume that, there are some social policy provisions (ranging from generous unemployment benefits and active labor market policies in some European countries to tough means-tested assistance of various sorts across the US) that would to some extent facilitate these people to resist accepting unfavorable conditions for commodification of their labor. However, if/when they are employed or need to find a job given that they lack bargaining power,



there is nothing that would prevent employers from exploiting them if there is no statutory lower boundary for remuneration. Here comes the minimum wage that is effectively enforced by government (which may be local, regional or national) as an instrument to help these vulnerable workers by setting a lowest level of pay.

According to this picture minimum wage exists as a part of comprehensive institutional landscape which includes at least one of the following components: collective bargaining mechanisms and collective non-state actors that prevent employers from unilaterally dictating the value relation between wage and effort, education system and/or comprehensive vocational training opportunities that enable people to acquire skills that allow them to enjoy some level of individual bargaining power, some sort of formal social policy that alleviates immediate commodification of labor, and finally sufficient amount of state capacity to regulate and monitor employment dynamics and enforce wage limits. Thus if someone is not covered by collective bargaining, has no marketable skills due to lack of education, cannot be helped (anymore or sufficiently) by various social policy provisions or active labor market policies, then comes minimum wage to protect him/her from straight forward exploitation.

Of course, one should not forget the integrated nature of this entire composition for those systems that contain all components. In order to prevent vulnerable people from remaining permanently within social policy net² rather than participating in the 'labor' market, usually benefits and minimum wage are indexed to each other in such a way that the latter remains higher than the former. Similarly, collective bargaining too would be (if not being directly incorporated into the mechanisms of determining minimum wage then at least) indirectly linked to minimum wage in the sense that any increase in minimum wage would be gained without a 'fight' by those who are covered by collective agreements. The result is that changing minimum wage level radically would imply a lot of other changes in the entire system and thus it would not be surprising to see that such changes would not happen very frequently.

There are also two important though implicit corollaries: firstly, those people whom the minimum wage helps are imagined have not much agency, expected to accept very low wages due to their almost non-existent bargaining power unless there are purely technical reasons (so called 'frictions' of labor market such as transportation costs) that prevent them from performing the job, while firms and

² This is the claim usually made by the opponents of comprehensive welfare policies. They tend to think that those who receive welfare benefits would prefer to stay idle unless there are disincentives



employers retain their capacity to act (thus considered as agents) and may always choose from a set of alternatives that in the worst case scenario contains the exit (from the market) option. Secondly, if minimum wage is not effectively enforced by an authority than it would de facto cease to exist, thus minimum wage that practically exists is the one that is enforced. Consequently, if minimum wage 'really' exists, then at least in theory compliance would be the norm whereas non-compliance being exception, thus it is the general implications of the former case rather than those of the latter that would deserve scrutiny³.

Actually, as mentioned above, this picture coincides (and perhaps used to coincide more) with the reality of advanced capitalism where trade unions and collective bargaining have pushed wages closer to the full cost of labor balancing wage and effort (more on this below) and there are comprehensive social policies and/or laws (health insurance, unemployment benefits, housing subsidies, labor law) that generate legitimacy and stability (Koch 2005, Freeman 1996).

One may argue that if we see minimum wage within this institutional structure we must concede that it would have a complementary role which is relevant only for a marginal group of people who are not covered by other components of the system. They may be marginal in terms of their numbers or they may be marginal in terms of their power to influence political processes or both. Under these conditions- and let's borrow the terminology introduced by Marx once again- the name of minimum wage would have something to do with its nature: it would merely be the wage that is minimum without any political repercussions or wider societal impact. If this is the case, then it is not difficult to see why minimum wage research would focus on employment effects given that under these circumstances minimum wage would have a sole purpose of helping those people who are at the bottom of income (and perhaps also marketable skills) distribution and do not have much chance of climbing up. Of course implication is that if the goal is to help these people, and given that no other component of the system can do that, the only way of helping them would be to ensure that they help themselves, that is, they are employed and earn a reasonable wage. If we arrive at this point in our reasoning than the following questions appear: as we try to make sure by using minimum wage that these vulnerable people earn a reasonable wage do we

³ There are also those who acknowledge that non-compliance rather than compliance might be the norm, or more correctly, official enforcement might not be very strict and this leads to evasion (see Basu et al 2010). However, this approach fails to realize two things: compliance might be with the change in minimum wage rather than with its exact level, and, there may be sophisticated mechanisms that compel firms to comply firms with minimum wage in this sense even without official enforcement.



undermine their chance of finding employment? To what extent or under which conditions there is a trade-off between employment and reasonable wage? Of course, if minimum wage increases unemployment or reduces employment then we must admit that as we try to help vulnerable people we actually diminish their chance of helping themselves. Implication of these questions are clear: employment effects of minimum wage must be carefully scrutinized to find out whether there is a way of dictating a lowest wage limit without increasing unemployment and/or decreasing employment. Of course at the same time various designs such as differentiation of minimum wage across regions, sectors or age groups and/or determination of minimum wage by governments, wage councils, tripartite commissions, or benign experts, should be carefully compared and analyzed so that as we determine lowest wage we do not hurt those people that we try to help. It is not difficult to see that at this point the issue is of purely 'technical' nature, something which is dear to the heart of mainstream economics, and consequently the resulting research agenda and debate would be devoid of anything else than simple 'numerical' facts that are supposedly susceptible to falsification. Now only avenue that is left open is that of methodological proficiency; finding out the most unbiased way of observing, measuring and modeling the unemployment effect of various minimum wage setting mechanisms.

Indeed this has been the focus of minimum wage research for decades. The result is the opposition between two arguments. On the one hand there is the claim that minimum wage distorts the equilibrium between labor supply and demand by imposing a higher wage than the market clearance value. This is expected to decrease employment. Thus, minimum wage in the middle and long-term cannot help the vulnerable workers (for example Stigler 1946, Brown et al 1982, Mahoney & Nunez 2003, Kuhn 2004). And there is the monopsony argument⁴: if an employer has significant control over labor, minimum wage, by bringing the remuneration closer to the marginal product and increasing the output, may increase employment (for example Lester 1946, Card & Krueger 1995, Dolado et al 1996, Boal & Ransom 1997, Manning 2004). Minimum wage studies have been mainly confined to this debate between unemployment versus monopsony effects. Although this is not a paper about the findings of existing minimum research, it is still important to mention two things about this programme. Firstly, it is somewhat surprising to see that huge effort has been devoted to minimum wage research given that it is in fact directly relevant, as mentioned above, only for a small group of people in advanced capitalist countries,

⁴ The term 'monopsony' has been first used by Joan Robinson in her book titled *Economics of Imperfect Competition* (1933)



for example around 5 percent of population in the US (Leonard 2000:118) and around 7.5 % in France (Husson et al 2012:3). The reason behind this peculiarity is the fact that minimum wage offers an empirical test ground for examining the validity of prominent claims of neo-classical economics, thus, the fight is essentially about something else than minimum wage itself; the extent to which neo-classical claims match with reality (Leonard 2000, Kaufman 2010). Secondly, despite numerous studies inquiring the unemployment effect of minimum wage there has been so far no indisputable, unambiguous and generalizable finding that shows that minimum wage increases unemployment or reduces employment (for an overview see Schimdt 2013). Actually some prominent meta studies show that the effect is quite close to zero (Card & Krueger 1995, Doucouliagos & Stanley 2009). In other words confidence of neo-classical economics about its ability to capture the reality of economy seems to have failed at least in the case of minimum wage.

To do justice to minimum wage research, however, it is important to acknowledge that there is also a third and more sophisticated strand in the literature that has been quite prominent in the early 20th century but then pushed to the margins of debate, that is, “institutional economics approach”. Drawing on a formidable tradition emanating from Thorstein Veblen, Walton Hamilton, John R. Commons, Wesley Mitchell (Rutherford 2001, Kaufman 2007), this perspective, does not conceptualize minimum wage as an artificial interference with the dynamics of ‘free’ market as neo-classic economics does, instead it considers the market itself not as a fragile thing that appears naturally in its perfect form when there is no intervention but as an institutional structure which is constructed and sustained by elaborate rules and mechanisms. Thus, minimum wage appears as one of the possible instruments that can be used in construction of labor market, and its merits should be judged in accordance with the extent to which it serves the societal goals that deemed valuable. Against this background, institutional economics approach reminds us at least one important thing that is intimately related to minimum wage but has been overlooked due to the exclusive focus on employment effects: the social cost of labor.

As Webbs has observed more than a century ago (Webbs 1912), labor like all other production factors has a replacement cost, and if the remuneration falls below this cost, the difference between cost and price, unlike any other production factor, would be covered by society, and thus there will be a ‘social cost of labor’ imposed by the firm on society. In less abstract terms this means that if a firm pays someone insufficiently so that he cannot even cover his basic expenses properly such as food, accommodation, leisure, and health that are indispensable for being able to work in the first place then these needs would



be covered by those who are connected to this person by emotional ties. Thus, the firm would be practically stealing from these third persons as it simultaneously exploits the worker because under such circumstances these people would be partly covering the production costs of the firm by directly paying for one of the production factors. Such firms are not producers of surplus value but essentially inefficient entities that have a parasitic relationship with society. Institutional approach argues that minimum wage may, by making wages at least equal to replacement cost of labor, ensures that no firm can enjoy such parasitic existence at the expense of society, and thus minimum wage facilitates proper functioning of economy.

This is a valuable insight which is, as I argue below, crucial in comprehending minimum wage dynamics in developing countries. However, it is important to note that despite such insights it produces for minimum wage research, the institutional economics perspective itself has developed as response to the problems of advanced capitalism (Kaufman 2010). This of course does not rule out its usefulness outside this context but should warn us about the way in which it is hitherto operationalized. In practice (and at least so far) institutional economics approach despite its objection to the dominant paradigm in minimum wage research that solely focuses on employment effects shares the same premise, namely, that it conceptualizes minimum wage under the conditions of advanced capitalism. Thus this approach is more about finding out which institutions in the institutional landscape of advanced capitalism can perform the functions that minimum wage fulfills rather than variety of functions minimum wage can perform in the absence of these other institutions for example in developmental context. This is clearly articulated by Kaufman, arguably the most prominent proponent of institutional economics approach to minimum wage: “minimum wage is likely to become less useful and attractive as the degree of unionization increases and as a country’s social welfare program expands in breadth and depth (as in many European countries) ... even in lightly regulated neo-liberal labor markets a legislated minimum wage could be a second-best solution to one or more of [these] other approaches” (Kaufman 2010:448-49). Therefore the only heretical strand in minimum wage research that objects the confinement of the programme to the employment effect, that is, institutional economics perspective too, due to its de facto subscription to the same ‘advanced capitalism’ idea fails to enrich our understanding as much as it could do.



“Nature of the thing”: (neither) minimum (nor) wage in developmental context

Now let’s outline (an idealized) institutional landscape of ‘developing’ countries, and contemplate about the position and implications of minimum wage in such setting⁵.

Usually in ‘developmental context’ political economy contains all institutions that one would have in advanced capitalist countries but the resemblance would mostly be at the level of names. The nature of these institutions would be quite different. Let’s outline these differences. Firstly, there is almost always some sort of organized industrial relations component that consists of interest representation organizations and collective bargaining. However, the coverage is extremely small and confined only to quite privileged segments of labor market such as public servants (though possibly without the right to strike), workers at public enterprises and some workers in large private firms that usually have some sort of international connection. Secondly, there is always an organized education system but those educational tracks such as tertiary level or even short vocational training opportunities that would enable one to acquire marketable skills that increase bargaining power would remain quite inaccessible for vast majority of people. And finally there are social policy provisions but usually only at very rudimentary level (such as pensions and health insurance) and serve once again a small part of population that includes groups like public servants, employees of public enterprises and those who perform managerial jobs or high-skill tasks in private sector. It is also important to realize that usually in developmental context the monitoring capacity of the state is quite low. Thus labor market regulations may look elaborate on paper but in practice they remain unenforced.

If we ‘add’ minimum wage into this picture, which kind of function should we expect it to perform: would it be once again helping a small marginalized group of people that are not helped by the other components of the system? Obviously this would not be the case because now those unprivileged people constitutes the majority and the institutional landscape outlined above is relevant for a small minority. Moreover the capacity of the state to monitor the compliance with regulations is rather low. Thus one

⁵ Needless to say that descriptions associated with generalizations like ‘developing countries’ would be quite misleading if they are used to comprehend the specificities of any particular country, but as a heuristic device such generalizations would help us to identify the way in which minimum wage performs quite different roles once it is imagined outside the conditions of advanced capitalism.



can assume that under such conditions minimum wage too would remain unenforced (Saget 2001:237). What should we expect then?

The key that would help us to answer this question is informal economy, that is, all sorts of commercial, industrial or entrepreneurial activities that are performed or undertaken without official records, registration or contracts. In developmental context majority of people are employed in informal economy and it is this fact that we should take into account as we try to figure out the implications of minimum wage. Before elaborating on these implications it is important to clarify couple of things. Firstly, informal economy exists also in advanced capitalist countries but its relative magnitude is quite different in developmental context. It is not unusual to have more than 80 percent of working population to be employed in informal economy in some developing countries (Kocer & Hayter 2011:32). Secondly, formal/informal divide does not imply a binary differentiation. The best way to think about this divide within the realm of employment relations is to imagine it as a continuum starting from full registration of workers and their salaries and exercise of collective bargaining to complete absence of any kind of contract or registration and thus no officially recognized collective interest representation. In between these two extremes one might have situations like part of workers' salary is registered, only part of workforce is registered, and various combinations of such arrangements. Finally and most crucially formal and informal economy are functionally connected. This can happen in at least two ways. One way is that a firm by making different (in)formality arrangements for different parts of its workforce might functionally connect these various forms of (in)formality for itself so as to make them jointly generate a beneficial position for the firm⁶. The other possible functional connection is generated by subcontract relations⁷ that help formal firms to reduce their labor costs. An entirely formal firm may outsource some of its production to a partly formal firm which in turn re-outsources part of the production to another and perhaps entirely informal entity (Kocer & Fransen 2009: 243). Final point in such a sequence may be single female workers making production in their own homes, and thereby blurring the distinction between self-

⁶For example, keeping some workers entirely unregistered so as to reduce labor costs while retaining a formal appearance by offering official contracts to a small segment of workforce might be the best strategy for being connected to international production chains because in this way it would be possible to remain as an accountable legal entity that can sign deals while keeping costs as low as possible.

⁷Usually there are three reasons for subcontracting: first, a firm may supply sub-contracts to other firms in order to make use of technology or know-how, second it may do so occasionally when the production orders overwhelms its capacity, and finally subcontracts may be offered in order to reduce labor costs



employment and being employed⁸. Actually in 'developmental context' one might think of formal and informal economy as components that are integrated through a large grey zone which is always in flux. Pure formality, pure informality and this grey 'in-between' zone together create a single production field that can be cultivated in different ways to reduce costs and increase profitability.

Now, before dealing with the question of implications of minimum wage, let's once again outline the main contours of our generic 'developmental context' by adding informal economy as a crucial component: the state has a low capacity to enforce its own regulations and cannot effectively monitor employment relations, collective bargaining together with education system and rudimentary social policy provisions serve only a small part of the population that is employed in formal economy while the majority remains uncovered by this institutional landscape and makes its living from informal economy but these two segments are functionally connected. Now our task is to imagine what happens if we 'add' minimum wage into this setting.

Neo-classical economics would have the following argument which is known as Welch-Gramlich-Mincer model (Welch 1974, Mincer 1976, Gramlich et al 1976): let's assume that minimum wage is at least partially enforced in small formal economy but remains entirely unenforced in large informal economy. Under these conditions once minimum wage is dictated formal firms would lay-off some of their workers due to increasing labor costs and these workers would seek new jobs in informal economy and thereby increase the number of job seekers there. Consequently, firms operating in informal economy would have higher bargaining power vis-à-vis workers and would offer less remuneration not only to those who are seeking jobs but possibly also to their existing workforce. The overall result would be that minimum wage would not only increase unemployment and reduce the relative size of formal economy but would also trigger a dynamic which would decrease the wages in informal economy. Thus, it would actually hurt those people it tries to help while hindering structural transformation of entire economy from less to more formal existence.

This hypothesis may sound intuitive to those minds that are conditioned to reason in neo-classical way but it seems like there are complex dynamics initiated by minimum wage in developmental context that cannot be captured by the simplistic logic of Welch-Gramlich-Mincer model. There is empirical

⁸ Thus a production chain emerges that cuts through various forms and grades of (in)formality that may start from large and 'respectable' formal firm and ending up in home production units at slums of big cities.



evidence hinting that in an environment characterized by the absence of comprehensive collective bargaining, rudimentary social policies, limited educational opportunities and large informal economy, increasing minimum wage seems to act like a lighthouse and generate an upward push for the price of labor across entire economy including the informal sector where it is not officially enforced (Lemos 2009, Freije 2007, Maloney & Nunez 2004, Lustig & McLeod 2001: 65). There can be wages below minimum wage (in informal sector) and there are certainly wages above it (both in formal and informal sectors) but it seems possible that minimum wage may positively influence all wages regardless of the official enforcement (Koçer 2009). Therefore minimum wage seems to be capable of acting as the reference price for labor throughout the entire labor market affecting a large part of the population. It is argued that “though probably not enforced by law, the minimum wage appears to be an important benchmark for ‘fair’ remuneration” (Maloney & Nunez 2004:120).

Let’s clarify what is interesting about this. Firstly, what is surprising is that these findings suggest that increasing minimum wage in developmental context may also raise wages in informal economy despite the fact that it is not enforced there⁹. This compels us to recognize that complying with minimum wage may mean something else in developmental context than what it is under the conditions of advanced capitalism. Secondly, it is interesting to see that the concept of ‘fairness’ enters into the equation. It seems like people’s notion of fair remuneration, regardless of their weak bargaining position, is a factor that may influence wage dynamics, and, minimum wage, it seems, is a factor that may influence people’s notion of fair remuneration. Of course under such circumstances one may also expect people’s sense of fair remuneration to influence minimum wage in some way. This means that it is essential to develop an approach to comprehend minimum wage in developmental context that takes this fairness dimension into account.

⁹ To be sure this is the opposite of neo-classical expectation which probably fails because it does not appreciate the complex nature of the link between formal and informal sectors outlined above and instead envisages a binary differentiation between these two realms. The neo-classical explanation about the lighthouse effect of minimum wage inspired by Carruth & Oswald (1981) is instructive because it reveals the lack of understanding about the nature of informal economy. According to this view it is the capital that moves to informal sector rather than labor and thus due to increasing demand for labor the wages increase there (Lustig & McLeod 2001: 65). This is not convincing because usually firms are either already connected to informal sector via subcontract relations or they are placed somewhere in between formality and informality at a rigid point that assures their legal visibility and cannot move away from this position easily (see Kocer & Fransen 2009).



Before attempting to sketch such framework, let's be clear about the name and the nature of the thing that we are dealing with. The name is still minimum wage. But once we envisage it within 'developmental context' now its nature seems to be different from what it is in the environment of advanced capitalism. There the name and nature of the thing coincide: the minimum wage is the lowest possible wage. However in developmental context minimum wage is not *the* minimum wage since we know that there are wages below it. It is also clear that minimum wage is relevant for a large part of the population because it seems possible that it acts like a lighthouse and may positively influence all wages both in formal and informal economy. Moreover complying with minimum wage refers to different things under the conditions of advanced capitalism and in developmental context. In the former compliance implies the adoption of the exact level of new minimum wage but in the latter compliance seems to mean that firms would increase their wages (to a level whose determinants are yet to be determined, as I argue below) when there is an increase in minimum wage. Thus compliance is essentially with the change rather than with the exact level. In short the name of the thing that we are looking at may be minimum wage but by examining its nature we see that in developmental context it is not the lowest possible wage, it is actually a signal rather than wage and it is definitely not something which is only marginally important. Thus its nature tells us that minimum wage in developmental context is something different from what it is in advanced capitalist countries. Given these differences, one should ask whether it is adequate to think of minimum wage in developmental context merely as a policy instrument that might be altered at will without properly understanding its exact meaning and function.

Existing research seems to have overlooked this question and remains to be purely technical, essentially pursuing an agenda that is quite similar to that of minimum wage inquiries in advanced capitalist countries. Consequently the focus has been, not surprisingly, the employment (or unemployment) effects of minimum wage and only additional item in the agenda is the question of whether or not minimum wage might be used for poverty reduction (see for example Comolla & Mello 2011, Saget 2001, Lustig & Mcleod 1997, Jones 1997).

I argue that this technical approach to minimum wage which considers it as an instrument to be judged in accordance with its effect on unemployment and poverty while ignoring its meaning for people in terms of fairness and justice is inadequate. To be sure increasing employment and reducing poverty are important but they are essentially middle and long term goals that can be discerned at macroscopic level. However, for people what matters is what happens in the present time; their expectations about fairness



must be satisfied here and now. If an institution has an unintended function of somewhat responding to these concerns, then it would be imprudent to think that one could treat this institutions as if it is a technical instrument. However when minimum wage research in developmental context pursues an agenda derived from the conditions of advanced capitalism focusing entirely on unemployment and poverty reduction effects this is exactly what happens. Because then the implicit assumption derived from the conditions of advanced capitalism about minimum wage recipients, namely considering them as people without much agency who are in need of help would be too extrapolated into the developmental context. This would lead to seeing the majority of people in developing countries as impotent objects rather than individuals, ignoring their expectations about fairness and justice. This is not a sentimental note for respecting people but an analytical argument for taking people's expectations seriously. In recent years the Arab Spring has shown once again the consequences of not doing so. Ignoring the agency of people in 'poverty' and treating them as masses with predictable reactions while attributing enormous capacity to policy makers as if they could 'play with' institutions such as minimum wage at will without properly understanding their exact meaning and function is probably dangerous.

Against this background I argue that there are two worlds of minimum wage: those of advanced capitalism and developmental context. Examining the latter on the basis of assumptions derived from the former would pave the way for complete ignorance of elusive dynamics created by minimum wage across 'developing' countries. The minimum wage research so far has not fully acknowledged this neither theoretically nor empirically. Therefore one needs to develop a new theoretical framework and set a research agenda in order to scrutinize and comprehend minimum wage in developmental context.



Accumulation and its Legitimation

As mentioned above, institutional economics proposes to examine the minimum wage in accordance with the function it performs within the entire institutional landscape in which it operates. This is a valuable insight but so far it has been used to speculate about which other institutions can perform the functions currently assumed by minimum wage rather than which kind of functions minimum wage can perform when institutions that are comprehensive in advanced capitalism become exclusive in developmental context. Given that it is the latter situation that we are interested in, it is essential to develop a theoretical framework that would help us capture possible functions performed by minimum wage under the conditions peculiar to developmental context.

I suggest to use James O'Connor's *The Fiscal Crisis of the State* (1973). O'Connor argues that in any capitalist economy the state must undertake two potentially contradictory tasks. On the one hand it must ensure the accumulation of capital in the hands of a small group so that they can continue their entrepreneurial activities and create surplus value. On the other hand this process must be legitimized in the eyes of those who cannot accumulate wealth, that is, the vast majority of society. If the existing economic order while enabling accumulation of capital cannot prevent accumulation of resentment triggered by this process, then the entire system would be volatile and unsustainable. Therefore in any capitalist society accumulation must be accompanied by legitimation. The accumulation task is simple but not necessarily easy. Legitimation task is neither simple nor easy. While the former always means the transfer of a large part of economic surplus value to an existing or emerging class of capitalists, the latter requires cultivation and preservation of silent approval of the majority for this uneven distribution of wealth. This legitimation process may be based on promotion of societal goals invoking various common values such as patriotism or may be ensured through propaganda that endows hegemonic status to the idea that the existing accumulation regime is inevitable, or may be substituted by the coercive powers of the state. But sooner or later legitimation process must involve at least incremental improvements in the material conditions of those who cannot accumulate wealth (Gramsci 1971). In the last analysis these people should be convinced that the existing political and economic order works or may potentially work in some way also for their advantage. Therefore although it is imperative for any capitalist state to ensure the continuity of accumulation process, it is equally crucial to cultivate and sustain the acquiescence of those people who cannot accumulate wealth. Hence is the accumulation & legitimation dilemma.



In advanced capitalist countries the legitimation task is performed by a complex network of institutions. Social policy provisions, so long as they are comprehensive, constitute a crucial component of legitimation function. Similarly education system too, especially if it has at least some free tracks, would contribute to the legitimation task. Collective bargaining has a special role within the performance of legitimation function: since bargaining is usually conducted by non-state actors it is them who would bear the brunt of societal reaction first if they fail to deliver reasonable conditions for their affiliates. Thus, collective bargaining may be seen as the delegation of legitimation task from the state to social partners, and it also, at least to some extent, separates economic demands from political ones, and thereby prevents immediate politization of economic grievances (Dahrendorf 1959). One may also add free press and regular elections to the list of legitimation mechanisms which generate legitimacy for the system by hinting that it may be criticized openly and improved from within. Various consumption opportunities that enable people to buy expensive commodities such as house or car through bank credits also generate legitimacy for the entire political-economic order. In short, under the conditions of advanced capitalism, any given individual or group is 'covered' by several and at least partly overlapping layers of legitimation mechanisms which cultivate and sustain their tacit approval for the continuation of the system and the accumulation regime associated with it. Given that it is difficult to paralyze all these layers simultaneously, advanced capitalist countries usually remain stable. In this picture, however, minimum wage plays only a marginal role because, as mentioned above, it directly affects only a small group of people, and even this small group may still be 'covered' by other and more subtle legitimation mechanisms. Therefore it would probably be absurd to think that minimum wage might have crucial role in ensuring the stability of political system and economic order in advanced capitalist countries.

What about the legitimation (of accumulation) in developmental context and the role of minimum wage in this? The institutional landscape that performs the legitimation task in advanced capitalist countries through multi-layered and overlapping mechanisms has a very exclusive coverage in developmental context. As mentioned above, usually all components of the system exist (such as collective bargaining, education system, social policy) but only a small minority benefits from them. Moreover, it is not unusual to see that some more subtle legitimation mechanisms such as freedom of expression, or regular and free elections may suffer from infringements and limitations or they may simply not exist, thus they would not be very effective in cultivating the idea that system can be improved without radical transformations. However, as mentioned above, unlike in advanced capitalist countries in



developmental context minimum wage affects a very large part of population, and it may act like a lighthouse and become the reference price for the value of labor in entire economy even without being practically enforced. I argue that understanding minimum wage properly with these qualities in developmental context is only possible if one comprehends it as a crucial legitimation mechanism which occupies a central place in cultivating and sustaining the approval of people for the continuation of existing accumulation regime and corresponding political-economic order.

However, before outlining a working hypotheses on the basis of this idea some more justification would be appropriate. Because given that there is little research on minimum wage in developmental context one might 'legitimately' ask where this claim about 'legitimacy' function of minimum wage comes from. Actually, there is some empirical evidence that not only encourages us to think along these lines but it also illuminates other peculiar dimensions of minimum wage in developmental context. Evidence is from Turkey.

In Turkey during the last two decades of 20th century when the country was more of a developing country with a large informal economy than it is today, minimum wage had been used effectively for legitimation purposes to the extent that increases in national minimum wage were perfectly coupled with elections, hinting all governments' awareness of the crucial importance of this instrument for electoral success (Kocer & Visser 2009). The reason could be found by examining the employment relations at micro level. In Turkey too, minimum wage was (and still is) influencing wage developments across entire economy including informal sector, and this lighthouse effect was redirecting employee's feeling of injustice created at work regarding remuneration from immediate employers to governments. In other words, as long as employers responded to minimum wage increases by raising their wages (not necessarily to the same level), the blame for injustice has been directed at least partly towards governments who were (and still are), determining the minimum wage despite the tripartite appearance of the wage committee (Kocer 2009). One may see that as blame for injustice, through minimum wage is redirected from immediate employer to government, it would also reduce the conflict potential at shop floor level while politicizing economic grievances. It is important to see that in this way by connecting economic sphere with that of politics minimum wage does the exact opposite of what collective bargaining does in advanced capitalist countries by separating economic grievances from political expectations. This may be another distinguishing feature of minimum wage in developmental context that deserves scrutiny.



Obviously, coming from two studies this is not conclusive evidence but only an encouragement for making further scrutiny about minimum wage in developmental context on the basis of legitimation function it fulfills. My goal here is to develop a working hypothesis on this basis and point out possible directions for research.

A New Agenda

The basic goal of a new research agenda should be to explain why and under which circumstances minimum wage positively influences all wages across both in formal and informal sectors, and the consequences of this dissemination dynamic. I argue that one might craft a working hypothesis for this purpose by combining the idea of social cost of labor with the legitimation function that might be performed by minimum wage.

As mentioned above, when remuneration does not even cover the replacement costs of labor, then these costs must be covered by the society. They become 'social cost of labor', allowing firms to enjoy a parasitic existence. In practice this means that when a worker is not receiving sufficient amount of wage, then his friends and family pay for his accommodation, nutrition, health and leisure costs. In developmental context, with usually very low wages one can safely assume that many firms impose such costs on the immediate circle of their workers, probably, forcing these people to live on the limits of their capabilities. This situation however creates an uneasy condition for firms: they may directly engage only with their workers but they also have indirect relationship with the immediate social circle surrounding these workers. Workers acquiescence is possible as long as acquiescence of this immediate circle is ensured, and these people's judgment about the fairness of wages is of crucial significance. This implies that labor market is monitored closely by a large group of concerned individuals who cover part of production costs, and there should be a limit beyond which these costs can no longer be borne by them.

One might argue that those who determine minimum wage would recognize this limit point and, by increasing minimum wage, send a signal across the labor market hinting that existing situation is not fair anymore and the resulting social cost of labor can no longer be taken for granted. One may expect such an increase in minimum wage to make all concerned people to re-evaluate their obligations towards workers to whom they are connected with emotional ties. They, not only the workers, would expect a similar increase to occur in their own surrounding too. In other words change in minimum wage would undermine the legitimacy of work conditions and expectations raise. Consequently some speculations



about the magnitude of fair increase would start to disseminate across sectors, regions and firms which are intimately connected due to the integrated nature of formal and informal sectors. Firms, failing to respond to these expectations, would risk losing their workers because as the fairness is redefined the replacement costs would no longer be borne by society. The advantage of following the suit on the other hand is that this may redirect workers' blame for injustice from immediate employers to decision makers about minimum wage and reduce the conflict potential in the workplace.

This is a hypotheses rather than a theory, and it triggers, as it should, a lot of questions to be examined through empirical inquiry. Here is a list consists of three broad themes/questions for further research.

- 1) *Under which specific conditions of developmental context minimum wage functions as a lighthouse and affects all wages positively. What is the role of social cost of labor in this process of dissemination? How the actual wage changes occurring across sectors, firms and regions after an increase in minimum wage are determined? Is there any role played by different magnitudes of social cost of labor in this process?* Actually one could identify three dimensions of social cost of labor each of which might be of some relevance: its actual magnitude, the extensiveness of the network of people that bears it, and the basis of legitimacy that makes these network of people to pay this cost. The legitimacy dimension requires careful thinking. What would define the limit point here? Obviously studying this legitimacy dimension would require grasping the culture of responsibility prevailing in a country/region/locality, and this calls for the help of anthropology besides other disciplines.
- 2) *Does minimum wage in developmental context function somewhat like collective bargaining in advanced capitalist countries by at least partly removing the wage conflict from workplace as workers re-direct their blame for injustice from employers to those who determine the minimum wage?* Although it is not possible to rule out quantitative approach, to answer this question properly it would most probably be necessary to conduct interviews with employers and workers in different firms operating in informal and formal (or both) sectors. Such a study would need to take into account firm size, sector, and surrounding economic conditions as well as the nature of unofficial worker collectivities existing at shop floor.



- 3) *What is the role of minimum wage in management of accumulation & legitimation dilemma and implications of this for political processes?* The idea that minimum wage might be exporting the conflict created within employment relations into the realm of politics by redirecting the blame for injustice from employers to those who make minimum wage decisions (assumed to be the government in the last analysis) requires us to ask this question. In its relatively simple empirical form such an inquiry would require to examine the way in which minimum wage decisions interact with economic growth, public resentment, electoral process and government composition. However, in order to probe deeper into all possible complexities in politics in developmental context it would be imperative to realize or at least assume (and analytical tools to capture) that in all political systems even if they are not 'textbook democracies' there is some sort of 'process' through which people give their consent for the continuation of the system. In this regard when/where such processes are elusive it may be only possible to observe them when they fail. This requires studying periods preceding the moments of legitimacy crises (such as massive protests, violent clashes etc...) in order to see to what extent or whether rigidity of minimum wage has played any role in triggering such crises.

Conclusion

In this article I show that minimum wage exists in two different worlds: those of advanced capitalism and developmental context.

In the former it is the statutory lowest boundary for remuneration that is directly relevant for a small group of people who are not protected by the other components of the system such as collective bargaining, various social policies, and vocational training and education opportunities. For people belonging to this small group finding employment sooner or later becomes mandatory but their low bargaining power makes them susceptible to exploitation. Minimum wage aims to protect them but as it tries to do that it may also reduce their chance of finding employment. This dilemma may justify focusing on the employment effects of minimum wage.

In the latter, however, describing minimum wage is not easy. In developmental context although firms do not comply with it exactly, minimum wage is still capable of acting like a lighthouse positively affecting all wages across both formal and informal sectors, and this happens despite the fact that usually



there is no authority that would enforce it effectively. Consequently, unlike in advanced capitalist countries, the majority of population is directly influenced by minimum wage dynamics.

Therefore while under the conditions of advanced capitalism the name and nature of minimum wage coincide, in developmental context characterized by the absence of collective bargaining, rudimentary social policies, and limited education opportunities this is no longer the case. Although its name remains the same the nature of minimum wage is different: it is neither minimum nor wage but a signal that may become the reference price for the value of labor across entire economy. This suggests that minimum wage and people's sense of fair remuneration are somewhat linked.

However, the research has been overlooking these peculiarities and analyzing minimum wage in developmental context purely technically by focusing on employment and poverty reduction effects. This approach ignores elusive connections between minimum wage and people's sense of fairness and justice.

I propose a new approach to minimum wage that would recognize its different nature in developmental context and would scrutinize its role in legitimation dynamics and its relationship with social cost of labor. This approach opens at least three avenues for research: first, identifying wage dissemination dynamics triggered by minimum wage and the role of social cost of labor in these dynamics, second, scrutinizing the role of minimum wage in containment of conflict at shopfloor, and finally, comprehending the legitimation function performed by minimum wage and its relationship with different accumulation regimes and political processes.

I argue that this new agenda would enable us to capture interesting insights triggered by minimum wage in 'developing' countries and prevent us from using a conceptual framework which is derived from the conditions of advanced capitalism and quite often makes us ask wrong questions.

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