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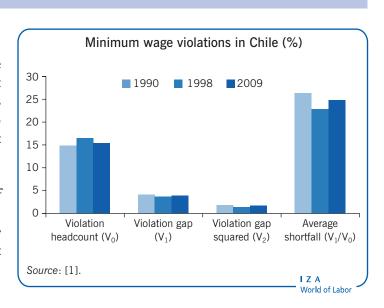
# Compliance with labor laws in developing countries

Non-compliance with labor legislation is widespread and this has critical implications for understanding labor markets in developing countries

Keywords: legislated minimum wages, developing countries, index of violation, enforcement, compliance, ALMPs

#### **ELEVATOR PITCH**

Compliance with minimum wage laws and non-wage conditions of employment often depends on labor market specific factors. In developing countries, many workers still earn less than the legal minimum and lack access to mandated non-wage benefits. Enforcement has not kept up with regulation growth and compliance has not been measured from a multidimensional perspective. Such an approach would help to understand the impact of institutional variables and country-specific approaches on the level of labor law violation. The difference between *de facto* and *de jure* regulation remains particularly pertinent in countries where compliance is low.



## **KEY FINDINGS**

# **Pros**

- An index of minimum wage violation would allow decision-makers to analyze the level and depth of non-compliance and act accordingly.
- Violation of non-wage labor laws in developing countries is high and often overlooked.
- A multidimensional index of labor law violation is useful for providing more comprehensive data on non-compliance.
- Despite limited enforcement there is evidence that employers do respond to wage regulations, although compliance remains partial.
- Attention needs to be placed on *de facto*, rather than just *de jure*, labor market regulation.

#### Cons

- If data on enforcement and compliance are scarce, finding appropriate measures for both is problematic.
- Very high minimum wages and overly strict non-wage laws can lead to unemployment and other economic costs that compliance and enforcement reinforce.
- A lack of skills and resources often limits enforcement practices.
- Raising the number of inspectors will not necessarily raise compliance rates.
- Enforcement in a severely resource-constrained environment is difficult when minimum wage and other labor regulations are complex.

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#### **AUTHOR'S MAIN MESSAGE**

Despite concerns about the effect of minimum wage laws and employment regulations on employment and the economy, enforcement and compliance remain critical. Resource-constrained developing countries should enforce minimum wage laws in a way that both protects employment and incentivizes firms to comply. An index of minimum wage and multidimensional labor violation can provide important data for enforcement decisions, and provide a powerful policy tool for guiding where and how to channel enforcement resources most effectively.