

# Compliance with minimum wage laws in developing countries

Institutional, individual, firm, and local labor market characteristics are critical for understanding non-compliance with minimum wage laws

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## ELEVATOR PITCH

The level of compliance with minimum wage laws often depends on factors specific to each labor market. In most developing countries, a substantial share of workers still earns less than the legal minimum. Enforcement has not kept up with growth in regulations to protect workers from low wages and poor working conditions. Several institutional structures shape enforcement, including the role of labor inspectors and approaches to compliance, and these and other variables can be analyzed to explore their effects on the level of minimum wage violations.

## KEY FINDINGS

### Pros

- ⊕ Minimum wage enforcement and compliance are low in developing countries.
- ⊕ An index of minimum wage violation would enable policymakers and researchers to analyze the level and depth of non-compliance and act accordingly.
- ⊕ Four sets of variables help in understanding the factors that influence minimum wage violations.
- ⊕ Alternative approaches to increasing compliance would shift the focus from firms' financial incentives toward interventions that shape enforcement efforts.
- ⊕ A template can help derive measures and formulate strategies to establish a more conducive environment for minimum wage enforcement and compliance.



### Cons

- ⊖ If data on enforcement and compliance are scarce, finding appropriate measures for both is problematic.
- ⊖ The minimum wage can result in substantial unemployment and other economic costs that compliance and enforcement may reinforce.
- ⊖ While careful planning of enforcement strategies is necessary, lack of skills and resources often determines enforcement practice.
- ⊖ Policymakers need to consider the country's policy goals before increasing the number of inspectors; raising their number will not necessarily raise compliance rates.
- ⊖ Enforcement in a severely resource-constrained environment is difficult when minimum wage regulations are complex.

## AUTHOR'S MAIN MESSAGE

Despite concerns about the economic effect of minimum wage laws 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 with the law. The index of minimum wage violation can provide more disaggregated baseline data on which to base enforcement decisions and provide a powerful policy tool for guiding where and how to channel enforcement resources most effectively to achieve desired outputs.