

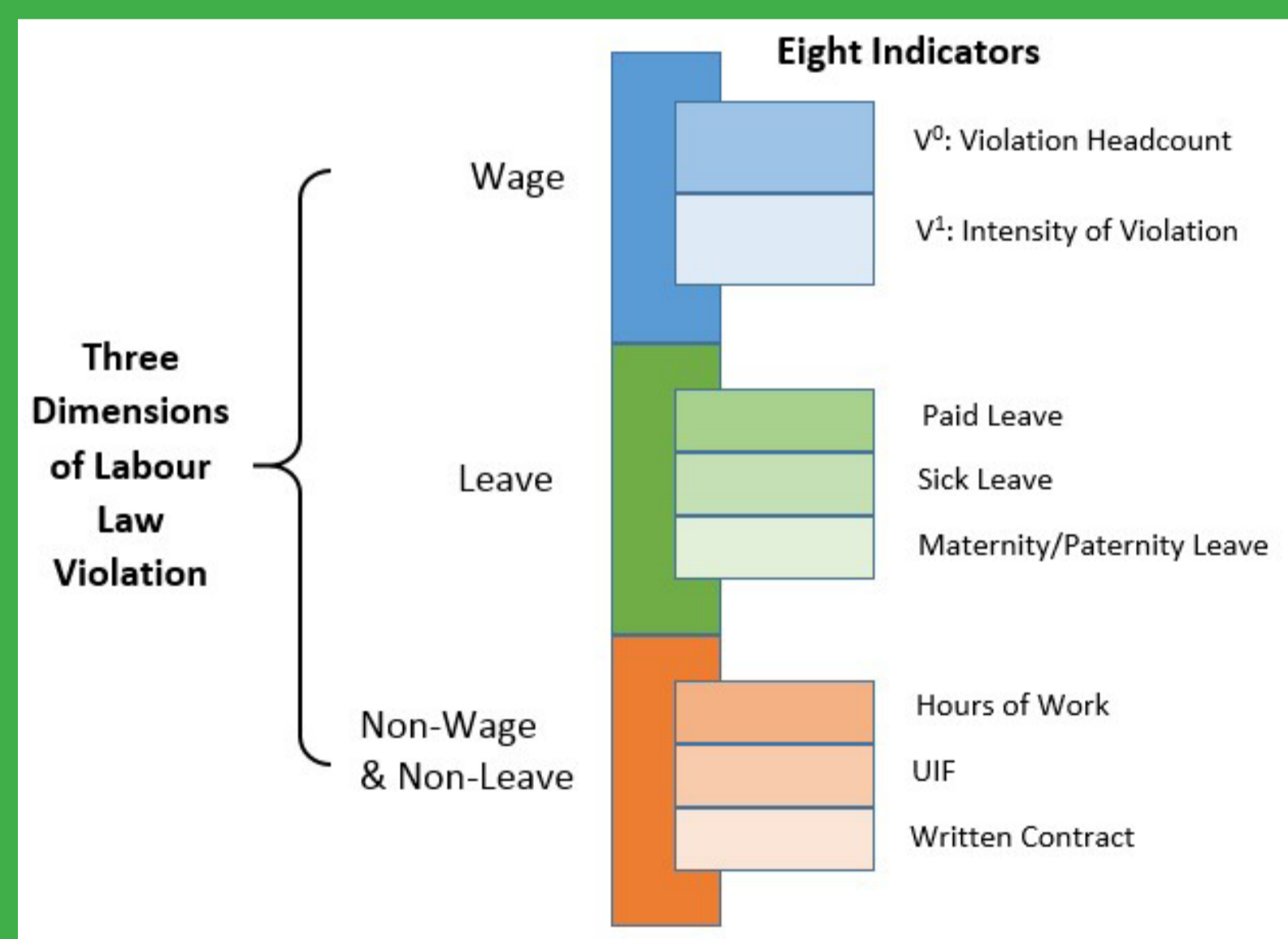
MEASURING LABOUR LAW VIOLATION: An application to South Africa

Debates over labour market regulation often revolve around legislation, and pay no attention to issues of enforcement and compliance. We show that in South Africa, noncompliance with labour regulations is widespread. In order to measure both wage and non-wage violation we create a multidimensional **violation index (MVI)**. This provides a more comprehensive measure of violation and serves as an indicator of vulnerability in the labour market. The index also allows us to investigate some of the determinants of violation in South Africa, and contribute to the discussion on labour market regulation and its impacts.

METHODOLOGY

We measure violation using data from the 2014 Labour Market Dynamics Survey, adapting methodology from the multi-dimensional poverty literature to combine wage and non-wage measures into a single index. Different types of violation (e.g. wages, leave, UIF) are grouped into 3 weighted dimensions: wages, leave, and other.

Fig 1. Composition of the MVI



We use this methodology to create two indices: The first includes wage & non-wage violation (above), while the second looks only at non-wage violation. We also use principle component analysis (PCA) to check our index weighting.

From these indices we extract summary statistics (see Fig 2) where:

H = proportion of violated employees;
A = average intensity of violation; and
MVI is the multi-dimensional violation index (or H multiplied by A).

RESULTS

The overall MVI measures suggest that non-wage violations are substantial. While minimum wage violations are widespread, the index suggests that the intensity of non-wage violation is what contributes to the difference between the MVI outcomes.

Fig 2. Violation Headcount (H); Violation Intensity (A); and the MVI (H*A) for Different Indices of Violations, 2014



Notes: adjusted using sampling weights; own calculations using LMDS 2014; Sample consists of employees of working age in sectors covered by Sectoral Determinations.



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Examining some correlates of violation reveals that local labour market conditions are an important factor in the probability of violation. Figure 3 plots the local unemployment rate against the violation level for both the wage and non-wage indices.

Fig 3. Local Unemployment Rate & Violation



Notes: Authors' calculations using LMDS 2014; District Councils are used as the measure of geographic variation.

In both cases we find a strongly positive relationship: **labour law violation is more common in areas with higher unemployment**. Similar to the wage curve literature, this may suggest that unemployment lowers worker bargaining power and results in higher levels of labour law violation by employers. Regression results suggest that a 1% point increase in the local unemployment rate is associated with an increase of 0.22 points in the combined MVI.

We also find strong relationships between violation, firm size, and contract type (where smaller firms are more likely to be non-compliant), and variations of non-permanent contracts are correlated with much higher levels of violation.

We also find that **non-wage violation indicators are positively correlated with minimum wage violation** – i.e. there is a higher probability of non-wage violation if the minimum wage is violated.

Further research will be able to use the MVI to track levels of violation over time, and across countries.

POLICY IMPLICATIONS

More attention should be paid to noncompliance, and in particular, aspects of non-wage regulation which are widespread, and intense in the level of violation.

Analysis of the determinants of labour violation offers insights into where attention should be paid most keenly: Specifically small firms, areas with high unemployment, and workers with non-permanent contracts.