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Dialogue and action to overcome poverty and inequality

Measuring labour law violation: An application to South Africa

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1. What is the project about and why is it important?

This project investigates labour law violation in South Africa. Non-wage labour law violation (e.g. paid leave) in South Africa has received far less attention than minimum wage violation. This paper describes the extent of such violations using data from the 2014 Labour Market Dynamics Survey. An innovation of this study is the methodology used. We adapt methodology from the multi-dimensional poverty literature to create an index of violation in South Africa. This index offers a macro vision of violation in South Africa and allows us to use regression analysis to investigate the determinants of violation as a while in South Africa.

2. What are the main research findings to date?

One of our main research findings was to quantify violation in South Africa into an index format. We provided two such formats and a third as a check and balance. The first two were multi-dimensional poverty index (MPI) –style indices. We created one index that included wage and non-wage violations, and one that only included non-wage violations. An index created using principle component analysis (PCA) was included as a check and balance on our manually constructed indices. From these indices we were able to extract the summary statistics in Figure 1. In this figure, H is the proportion of violated employees; A is the average intensity of violation for the violated; and, MVI is the multi-dimensional violation index, or H multiplied by A. An important result is that whilst the headcount for the wage and non-wage index is the highest, the intensity of violation is higher for the non-wage index. It appears that it is more likely that minimum wages will be violated than non-wage stipulations in general; however, when firms do violate non-wage entitlements, they do so more intensely.
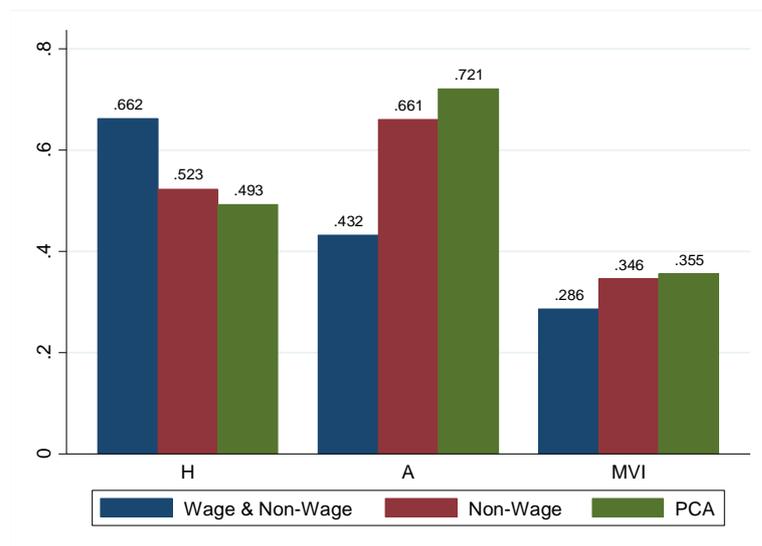
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Figure 1. Violation Headcount (H); Violation Intensity (A); and the MVI (H*A) for Different Indices of Violations, 2014
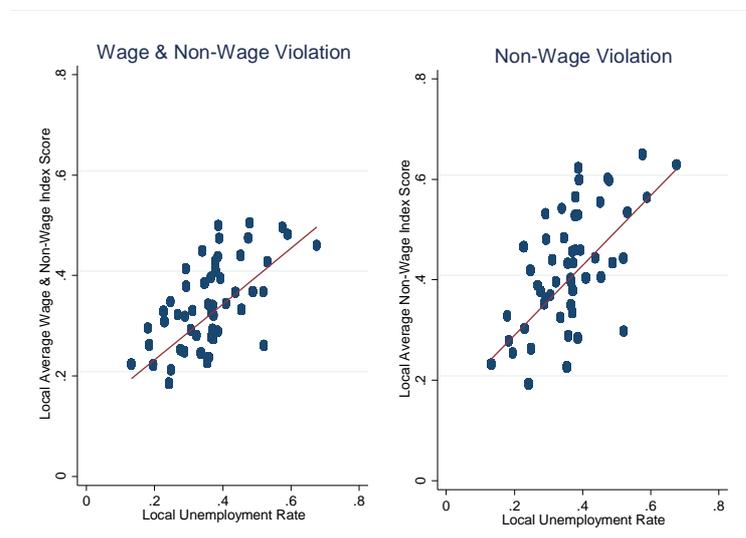

Notes: adjusted using sampling weights; own calculations using LMDS 2014; Sample consists of employees of working age in sectors covered by Sectoral Determinations.

A second important result stems from our analysis of the determinants of violation. We found that local labour market conditions are an important factor in the chance of labour law violation. In Figure 2 we plot the district council unemployment rate against the district council violation level according to the wage and non-wage index and the non-wage index. Both panels in figure 2 display a strongly positive relationship: labour law violation is more common in areas with higher unemployment rates. High unemployment likely lowers worker bargaining power resulting in higher levels of labour law violation. The indices have an interval of zero to one, increasing in violation. Regression results reported that a one percentage point increase in the district council unemployment rate was associated with an increase of 0.22 points on the wage, all else equal.

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Figure 2. Local Unemployment Rate and Violation

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

3. What is the significance of these findings?

These findings represent a meaningful contribution to the literature on labour law violation in two ways. Firstly, non-wage violations have not received the attention that wage violations have in the South African violation literature. Our second contribution is in the form of methodology. Our paper provides an innovative new way of measuring violation in the form of a multi-dimensional poverty index-style index of labour law violation. This means different types of violation (e.g. no paid leave, no sick leave) were grouped into weighted dimensions (e.g. leave, wages).

As a result of this conceptualization of violation, we have been able to tighten our understanding of the relationship between violation and determinants such as firm size, and particularly, local labour market conditions. We also find that These non-wage indicators are in turn positively correlated with minimum wage violation in level terms – there is a higher probability of non-wage violation if the minimum wage is violated by employers.

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4. What are the wider policy implications of these findings?

The implications are that more attention should be paid to non-wage violation. Non-wage violations levels are on par with minimum wage violation and when they occur, are often more intensely violated than the minimum wage. Our modelling of the determinants of labour law violation offers insights into where attention should be paid most keenly. Examples are small firms and district councils with high levels of unemployment.

The publication of the study is forthcoming.

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