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I Z A
World of Labor
Evidence-based policy making

Enforcement of labor regulations in developing countries

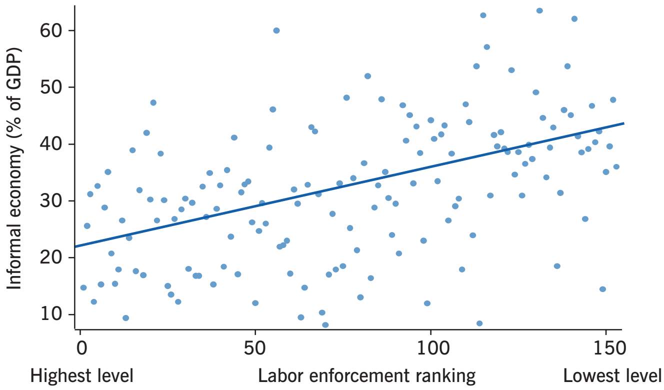
Enforcement improves legal compliance, but its impact on welfare is country specific and unclear

Keywords: labor, enforcement, informality, regulation, inspections, fines

ELEVATOR PITCH

More than half of private sector employees in the developing world do not receive legally mandated labor benefits. These regulations have typically been enacted by democratically elected governments, and are valued by both formal and informal workers. Increasing public enforcement (e.g. inspections, fines, and workers' access to the judiciary) can be a powerful tool to reduce violations (e.g. increase the number of employees earning above the minimum wage). Which factors determine enforcement, and whether enforcement produces more social benefits than costs, are, however, unanswered questions.

Informality is higher in countries with less enforcement



Note: The plots represent 153 countries.
Source: Author's own compilation based on [1].

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KEY FINDINGS

Pros

- Enforcement reduces violations of labor regulations, improving the rule of law.
- Workers who have access to legally mandated benefits are more likely to trust the state, and hence, to comply with their civic duties.
- When labor regulations are adequate, enforcement can increase efficiency, thereby reducing market failures, leveling the playing field, reducing work-related injuries, and improving the income distribution.

Cons

- Labor inspectors can be corrupted by lobby groups, particularly in countries that lack an autonomous civil service.
- Enforcement can be politicized in countries that lack constraints on presidential power, serving as a tool to reward political allies and punish enemies.
- When labor regulations are inadequate, enforcement can destroy productive employment and investment, particularly among low-skilled workers in small firms.

AUTHOR'S MAIN MESSAGE

More public enforcement can help reduce violations of labor regulations. Domestic and external factors have been identified in the literature as determinants of public enforcement; but, mainly because of lack of data, there is only partial understanding of the political economy of enforcement in the developing world. Furthermore, the potential simultaneous relationships between *de jure* labor regulations, enforcement, and economic outcomes is debated with strong opposing opinions and little empirical support. Policymakers have to understand local institutional particularities if they aim to design feasible welfare enhancing policies.