

Labor Regulation and Demand for Workers in South Africa

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Location: South Africa

Sample: 1,800 firms, that employ more than 5 employees

Timeline: 2013

Partners:

National Planning Commission of South Africa
UCT Law@Work Club

Firms often think that labor regulations are excessively strict, even in countries with relatively loose labor regulations, and the perceived difficulty of complying with regulations makes them reluctant to hire new workers. In South Africa, researchers are investigating whether providing firms with accurate information about labor regulations can improve their knowledge of the law and ultimately increase their demand for workers.

Policy Issue: Unemployment, especially among disadvantaged populations, has the potential to create social unrest and perpetuate poverty. In some cases, high unemployment persists even in the presence of economic growth. If firms see labor and employment regulations as strict or costly to comply with, these perceptions may affect their staffing choices. If the cost of firing employees seems too high for instance, if firms are required to provide severance payments they may choose not to hire additional employees, even if there is work to be done. This could lead firms to overlook potentially productive individuals who are unemployed and suppress firm growth. However, these perceptions of labor laws may not reflect reality. For instance, South African businesses consistently rate their

country's labor laws as burdensome and costly to comply with. However, objective interpretations of the labor laws do not suggest that South Africa's regulations are particularly stringent relative to other countries of a similar income level. If firms had better information on their country's labor regulations, they might be more willing to hire new employees. This could include those with riskier profiles, such as younger or less experienced workers. There is little evidence on the impact of improving firms' understanding of labor regulations on hiring.

Context of the Evaluation: Unemployment is a problem in South Africa: about 25 percent of adults and out-of-school youth do not have a job. Two thirds of the unemployed are below the age of 35 years and many of them have little, if any, work experience. While other middle-income countries have seen increases in education achieved during the 1980s and 1990s translate into productivity and employment growth, South Africa has not experienced similar gains. Despite modest economic growth, the South African economy has created an insufficient number of jobs to make up for the additional individuals that have entered the labor force over the last 20 years.

Details of the Intervention: Researchers are partnering with a subscription-based labor law website, [UCT Law@Work Club](#), to examine how improved information of labor regulations can change firms' demand for employees. Using South Africa's Unemployment Insurance Fund (UIF) database, 1,800 firms in the manufacturing, construction, retail, and transportation sectors will be randomly selected to participate in the study. Half of the firms selected will be randomly assigned to a treatment group, the other half to a comparison group.

Firms in the treatment group will receive a voucher for 20 weeks of free access to the website which provides businesses with expert labor law support to ensure accurate understanding of the laws. The website's content includes video tutorials on various aspects of key South African labor regulations, as well as a case law library and tips on how to handle common human resources and staffing issues. The website also contains an active forum where labor lawyers will answer questions from businesses about specific staffing issues.

Researchers will use the UIF database to examine how firms which participated in the program changed their demand for labor, relative to firms in the comparison group.

Results and Policy Lessons: Study ongoing, results forthcoming.

Related Papers Citations: *Bertrand, Marianne and Bruno Crépon. "Teaching Labor Laws: Evidence From a Randomized Control Trial in South Africa." Working Paper, January 2019.*

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