



Uruguay's domestic workers boosted by minimum wage policy

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Key messages

- **Minimum wage policy can be a powerful instrument for setting decent wages.**
- **Broad labour policies that include compliance inspections and minimum wages are needed to achieve the desired effects of the policy.**
- **The introduction of minimum wages in Uruguay's domestic work sector helped increase wages for formal and informal workers but led to decreased employment and labour formality.**

Women's work undervalued

In Uruguay, 99% of the people employed in the domestic sector are women and the sector represents 13% of total female employment*.

The predominance of women in the sector, combined with the traditional view that domestic work (such as cleaning, cooking, laundry and child or elderly care) is the responsibility of women, means that this occupation is undervalued and associated with low wages and high levels of informality.

While approximately 25% of all workers in Uruguay do not have social security coverage (considered "informal" workers), this figure rises to 46% for women in the domestic sector*.

Understanding the domestic work sector is therefore essential in any efforts to reduce the gender gap, which persists despite increased female participation in the labour market over the last decade.

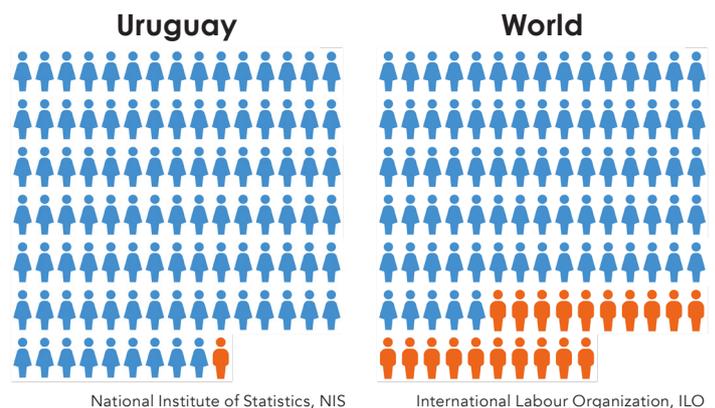
2006 policy introduces rights for domestic workers

With the implementation of labour and social policies to promote the regulation and formalization of domestic workers, Uruguay has positioned itself as a pioneer in Latin America.

In 2006, the approval of Law 18.065, the Labour Code for Domestic Workers, generated a significant change in the regulatory framework.

The new law establishes a range of rights for domestic workers, including collective wage bargaining, regulations on working hours, and mechanisms for inspecting working conditions.

Women in the domestic work sector (%)



The analysis

A team of local PEP researchers set out to **analyse the impact that the introduction of minimum wages for domestic workers had on their wages, employment and mobility from the formal to the informal sector** for the period 2006 to 2016 in Uruguay.

The team also investigated whether the impacts varied to population subgroups (age, geographic region, presence of minors in the household and ethnicity).

The researchers applied a dual-economy density discontinuity methodology (developed by Hugo Jales, 2017), to analyse cross-sectional data from the 2006-2016 National Household Surveys (National Institute of Statistics).

The study focused on domestic workers with lower incomes, for whom the introduction of a minimum wage could have greater effects on their salary and their tendency to be formalized or migrate to other jobs.

* 2016 National Household Surveys (National Institute of Statistics)

Key findings

Consistently, the introduction of minimum wages in domestic work was found to:

- **Have a positive effect on wages.**
 - ◊ Almost 20% of domestic workers increase their wages.
 - ◊ This is the case for workers in both the formal and informal sectors (i.e. including those who are not directly affected by the wage policy).
- **Produce a migration of formal workers to the informal sector.**
 - ◊ However, secondary data indicates that this was likely offset by other policies introduced under Law 18.065 (labour inspections and awareness campaigns) leading to a steady increase in formality during the analysis period.

As other studies have shown, it is very important to analyse policy impacts according to geographic, ethnic and generational characteristics of workers. The team found that:

- **In the capital city**
 - ◊ There was a lower percentage of domestic workers who increased their wages.
 - ◊ Employment decreased more than other areas.
 - ◊ These negative effects can be attributed to greater employment opportunities in other work sectors with better conditions.
- **Mobility from the formal to the informal sector is greater for domestic workers outside the capital city.**
- **Mobility from the formal to the informal sector is greater for young women.**
 - ◊ This trend could be because younger people have less interest in the future benefits of formalisation and social security coverage or lower bargaining power with employers.
- **There are no differences according to educational level and ethnicity of the worker.**

The research team also found that employment in the domestic work sector decreased by approximately 3% over the study period. However, economic growth and improved working conditions mitigated these adverse effects by encouraging worker migration to other sectors rather than generating unemployment.

Conclusions and policy messages

The results highlight the importance collective wage bargaining and social dialogue between the State, workers and employers for promoting changes in Uruguay's domestic work sector.

The success of the policy for increasing the wages of all domestic workers, even those not covered by the policy, indicates that **minimum wages are a powerful instrument for setting decent wage floors.**

However, **it is important to apply minimum wage increases as part of broad labour policies**

Working conditions inspections and awareness campaigns are also vital to achieve the recognition of domestic workers' labour rights and mitigate possible negative effects on formality of wage fixing.

To be more effective, **formalization campaigns should target geographic differences in compliance with regulations, as well as the most vulnerable groups to informality** (young women).

As the results of the study come from a period of sustained economic growth, further research is needed to analyse the possible effects of minimum wage increases during times of deceleration. More research is also needed to understand the effects of wage policies throughout the income distribution, i.e., not only focused on workers with lower wages.



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