

Labour market inclusion

PROMOTING GOOD JOBS FOR ALL IN MEXICO

- ▶ Mexico's employment rate is low compared with other OECD countries. Women, youth and older workers in particular face many challenges in the labour market.
- ▶ Informal employment is the highest among OECD countries and remains a key structural challenge in Mexico. Informal workers accounted for 57% of the Mexican labour force in the fourth quarter of 2018.
- ▶ Mexico is the only OECD country lacking a public system of unemployment benefits and its spending on active labour market policies is very low.

What's the issue?

Mexico's labour market continues to be marked by key structural challenges, including high levels of informal employment, poor job quality, and insufficiently developed social protection systems. The employment rate of prime-age men (66.6%) is low in comparison with other OECD countries. The average employment rate of disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and the disabled) was only 40% of that of prime-age men in 2016, the second highest gap among OECD countries.

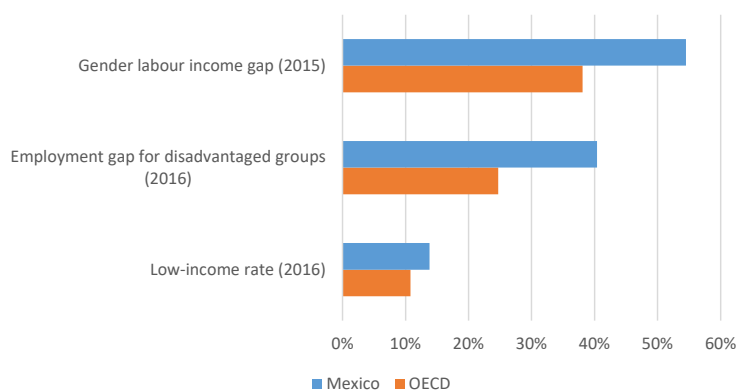
Women in particular face many challenges in the Mexican labour market and are at a clear disadvantage relative to their male peers. In 2015, the gender labour income gap stood at 54.5%, reflecting low employment rates and labour market participation among women, as

well as a large gender pay gap. Youth and older workers also face challenges. At 56%, labour force participation among people 55-64 is lower than the OECD average (64%). 21% of youth were not in employment, education or training (NEET) in Mexico in 2018, well above the OECD average (13.2%).

Poor job quality remains an especially pressing policy concern in Mexico and informality remains widespread, at close to 57% of total employment in the fourth quarter of 2018. Informality harms vulnerable workers by offering lower wages and fewer opportunities for career progression and by excluding them from coverage by social protection systems. Informality is also a significant hurdle for the up-skilling of the Mexican workforce.

Mexico is the only OECD country that lacks a public

Labour market inclusion is low in Mexico



Notes: Gender labour income gap: Difference between per capita annual earnings of men and women (% of per capita earnings of men). Employment gap for disadvantaged groups: Average difference in the prime-age men's employment rate and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and the disabled; % of the prime-age men's rate). Low income rate: Share of working-age persons living with less than 50% of median equivalised household disposable income. Low-income rate data for Mexico from 2014.
 Source: OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy (Mexico country note)*, OECD Publishing.

system of unemployment benefits. This means that many formal sector workers who fall into unemployment cannot afford a lengthy search for a suitable new job and must take the first option available, possibly by taking up informal employment. Spending on active labour market policies is also limited.

Why is this important for Mexico?

Despite some progress in recent years, Mexico remains a country with high levels of inequality and poverty. In 2016, inequality of disposable income, as measured by the Gini coefficient, was 0.46. While down from the levels of the mid-1990s, inequality is still over 40% higher than the OECD average. The decline in relative income poverty since the late 1990s has slowed and stands at a level that is still high in comparison to other OECD countries. One in seven working-age people live with less than half the typical household income compared to one in ten on average across the OECD. While tackling poverty and high inequality will require a multi-pronged response, including implementing reforms to strengthen the tax system and better harness its redistributive potential, achieving greater labour market inclusivity will be critical to any efforts to address these pressing challenges. The new OECD Jobs Strategy provides policy recommendations that can help Mexico address these challenges in a changing world of work, by going beyond job quantity and considering inclusiveness and job quality as central policy priorities.

What should policy makers do?

- ▶ Reduce informality through a multi-pronged approach comprising lower social security contributions for low wage earners, sufficient resources for labour inspectorates and other enforcement agencies to work effectively, lower administrative burdens for doing business, reduced dismissal costs and enhanced social protection.
- ▶ Protect workers with a national system of unemployment insurance rather than jobs with stringent employment protection, and by investing in effective skills policies. Improve the targeting of social benefits (e.g. conditional cash benefits) and reduce duplications to expand access to ensure that those individuals most in need receive social protection.
- ▶ Support innovative forms of social programme design and delivery (e.g. by promoting local and community participation) and consider the use of well-being metrics to assess these programmes.
- ▶ Encourage more labour market activation, including through targeted reductions in employer social security contributions (SSCs) and well-designed earned income tax credits (EITCs).
- ▶ Ensure that men and women have equal time to combine work and family responsibilities by reducing Mexico's labour market culture of excessively long working hours and enabling access to flexible work arrangements.



Further reading

OECD (2018), *Getting it Right: Strategic Priorities for Mexico*, OECD Publishing. <https://doi.org/10.1787/9789264292062-en>.

OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing. <https://doi.org/10.1787/9789264308817-en>.

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OECD (2019), *OECD Economic Surveys: Mexico 2019*, OECD Publishing, Paris. <https://doi.org/10.1787/a536d00e-en>.