"Universal basic income in the Mexican labour market: Financial sustainability in a context of flexibility, high informality and low-income tax"

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Contents

I. The origins and main theoretical perspective of this research

i. The origins of this research is based on our concern that, despite de amount on social expenditure carried out by the national government (22. 8 billion dollar -2010-2015-), Mexico still faces social and economic problems, such as :

❑ High levels of poverty and inequality

❑ Precarious conditions of employment

❑ Informality

ii. Main theoretical proposal: "Multi-segmented labour markets" (Chen, M. A. 2012; Fields, G. 2005)

❑ Recognizes two labour markets, as a persistent phenomenon

❑ It breaks with the idea that precarity ends with labour inclusion into the formal market

III. Mexican labour market and social protection policy

a. **Globalization and labour market reform**

- **Flexibility**

- **Labour intensive production processes**
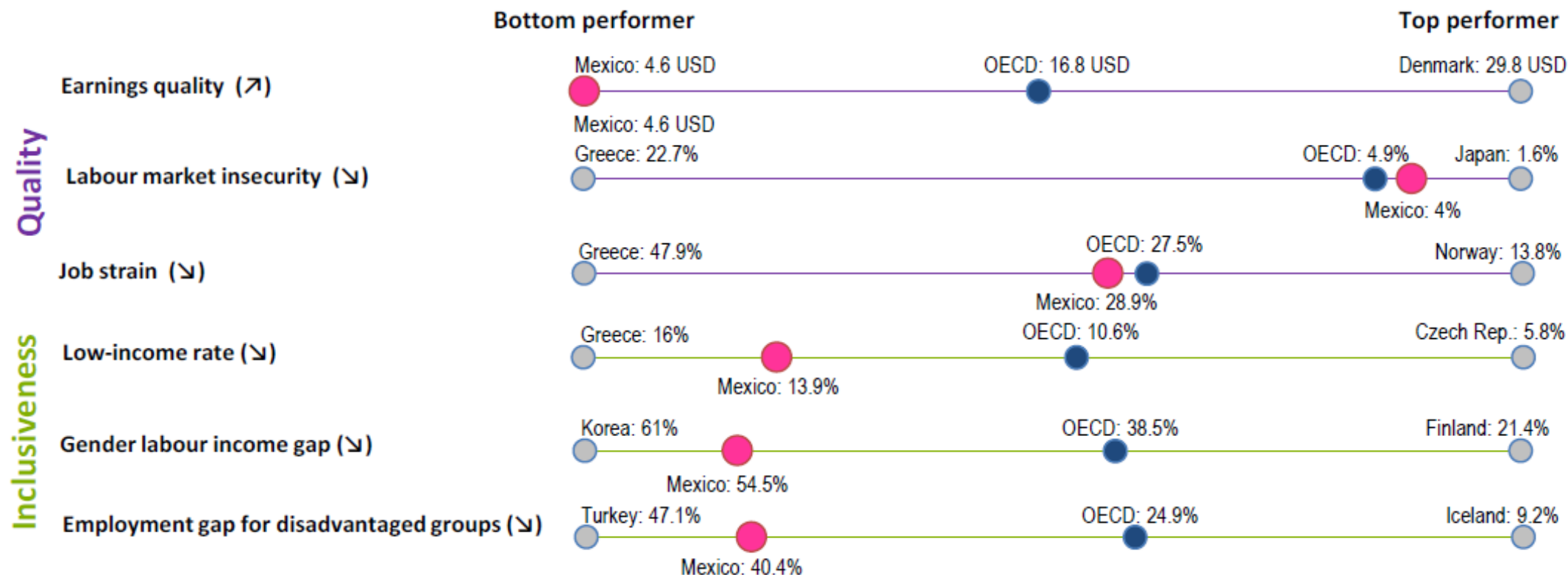
- **Emerging robotization processes**

III. Mexican labour market and social protection policy

Labour Informality and Unemployment Rates in Mexico
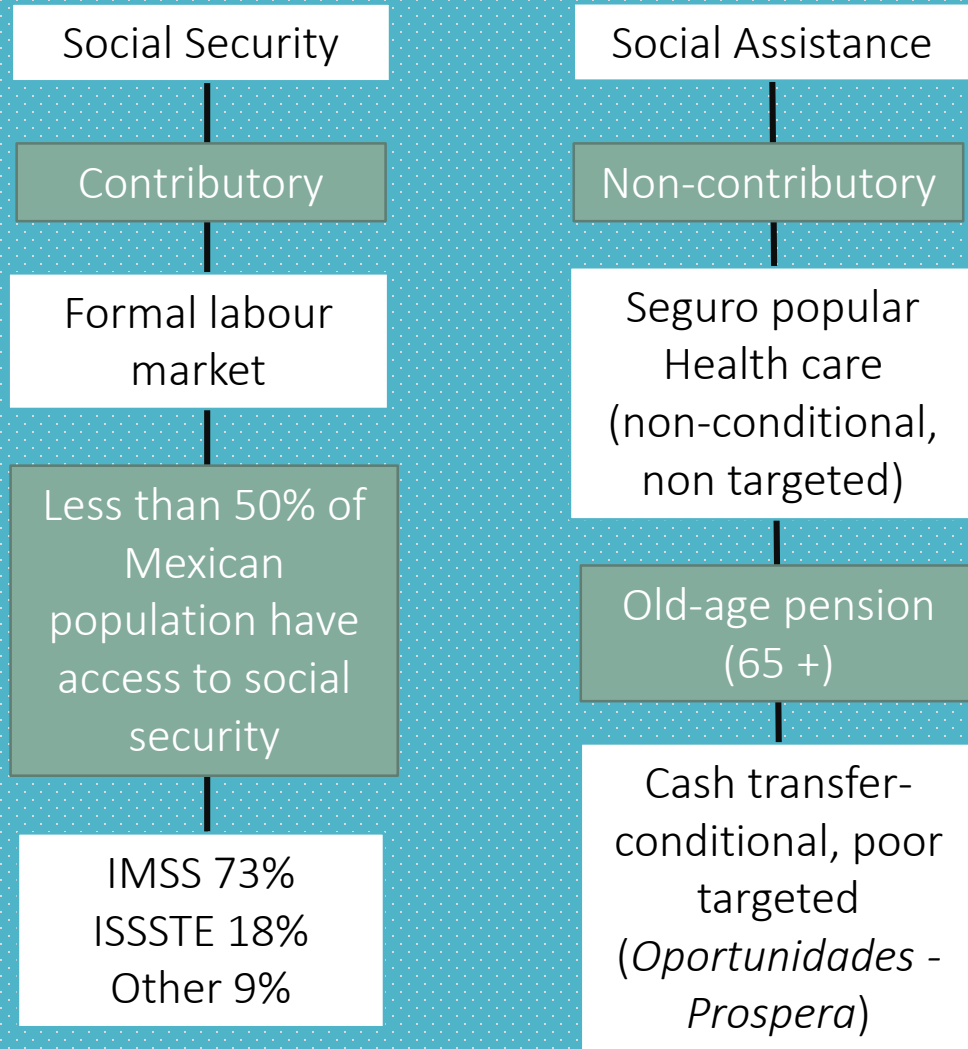### -First quarter 2005 - Fourth quarter 2017-
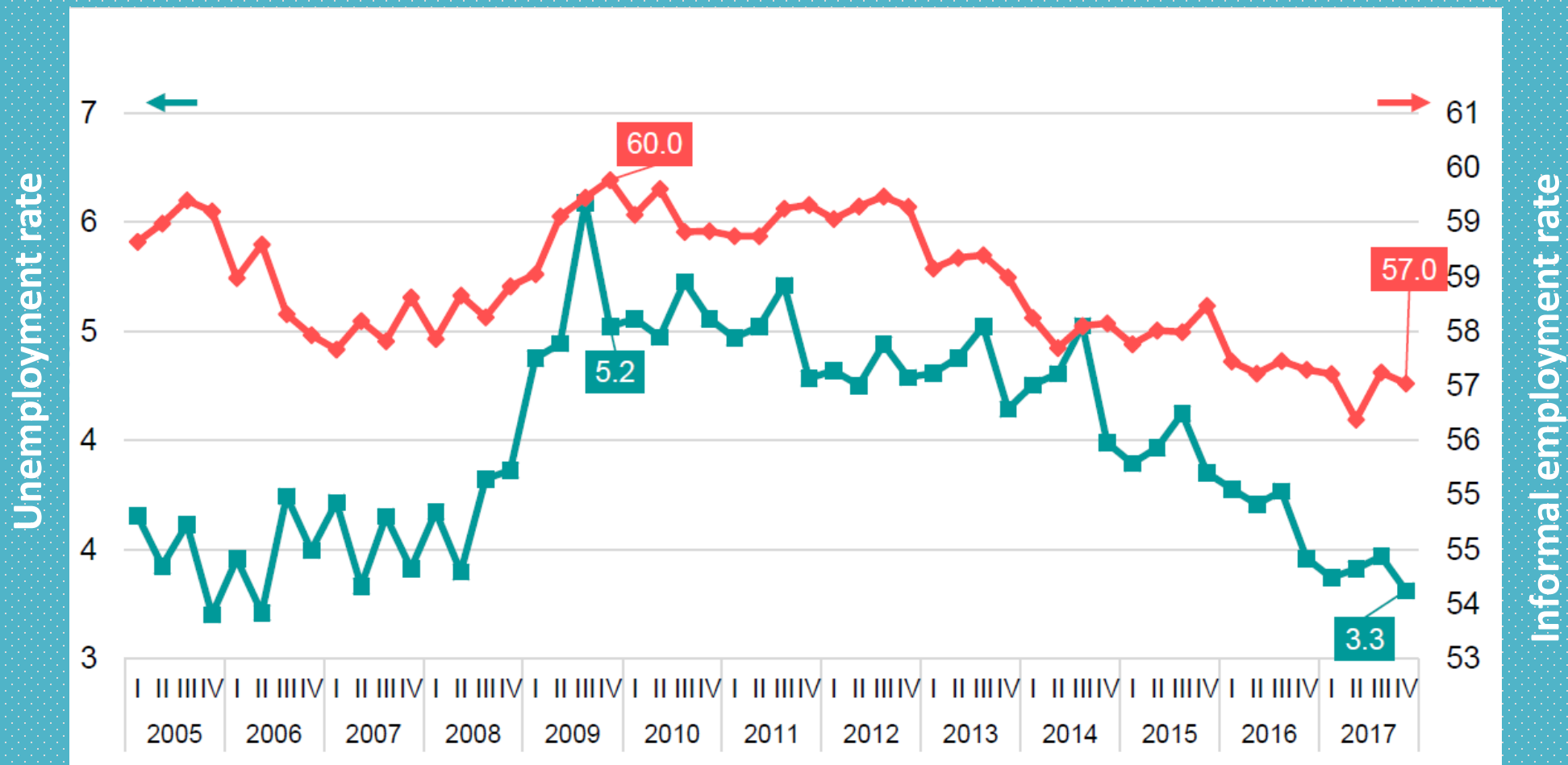
Source: INEGI, National Survey of Occupation and Employment (ENOE)

Job quality and labour market inclusiveness: key indicators for Mexico in 2016-2017

Quality

Earnings quality (↗)
Bottom performer — Mexico: 4.6 USD
OECD: 16.8 USD
Top performer — Denmark: 29.8 USD

Labour market insecurity (↘)
Mexico: 4.6 USD
Greece: 22.7%
OECD: 4.9%   Japan: 1.6%
Mexico: 4%

Job strain (↘)
Greece: 47.9%
OECD: 27.5%
Norway: 13.8%
Mexico: 28.9%

Inclusiveness

Low-income rate (↘)
Greece: 16%
OECD: 10.6%
Czech Rep.: 5.8%
Mexico: 13.9%

Gender labour income gap (↘)
Korea: 61%
OECD: 38.5%
Finland: 21.4%
Mexico: 54.5%

Employment gap for disadvantaged groups (↘)
Turkey: 47.1%
OECD: 24.9%
Iceland: 9.2%
Mexico: 40.4%

Source: OECD calculations using data for 2017 or latest year available from various sources. See *OECD Employment Outlook 2018*, Ch. 1

b. State social protection policy

Social Security

Contributory

Formal labour market

Less than 50% of Mexican population have access to social security

IMSS 73%
ISSSTE 18%
Other 9%

Social Assistance

Non-contributory

Seguro popular Health care (non-conditional, non targeted)

Old-age pension (65 +)

Cash transfer-conditional, poor targeted (*Oportunidades - Prospera*)

❑ Since 1990's, social protection policy relies more on means-tested social assistance programmes.

❑ Currently, 6,491 social programmes implemented at three different levels of government (national (152), state (2,528) and local (3,811):

- Fragmentation
- Duplicity
- Inefficient public spending

❑ 2015 - 2017, 63 % National Government annual budget is expended on social programmes.

❑ Poverty and inequality still remain at high level.

Multidimensional Poverty Measurement
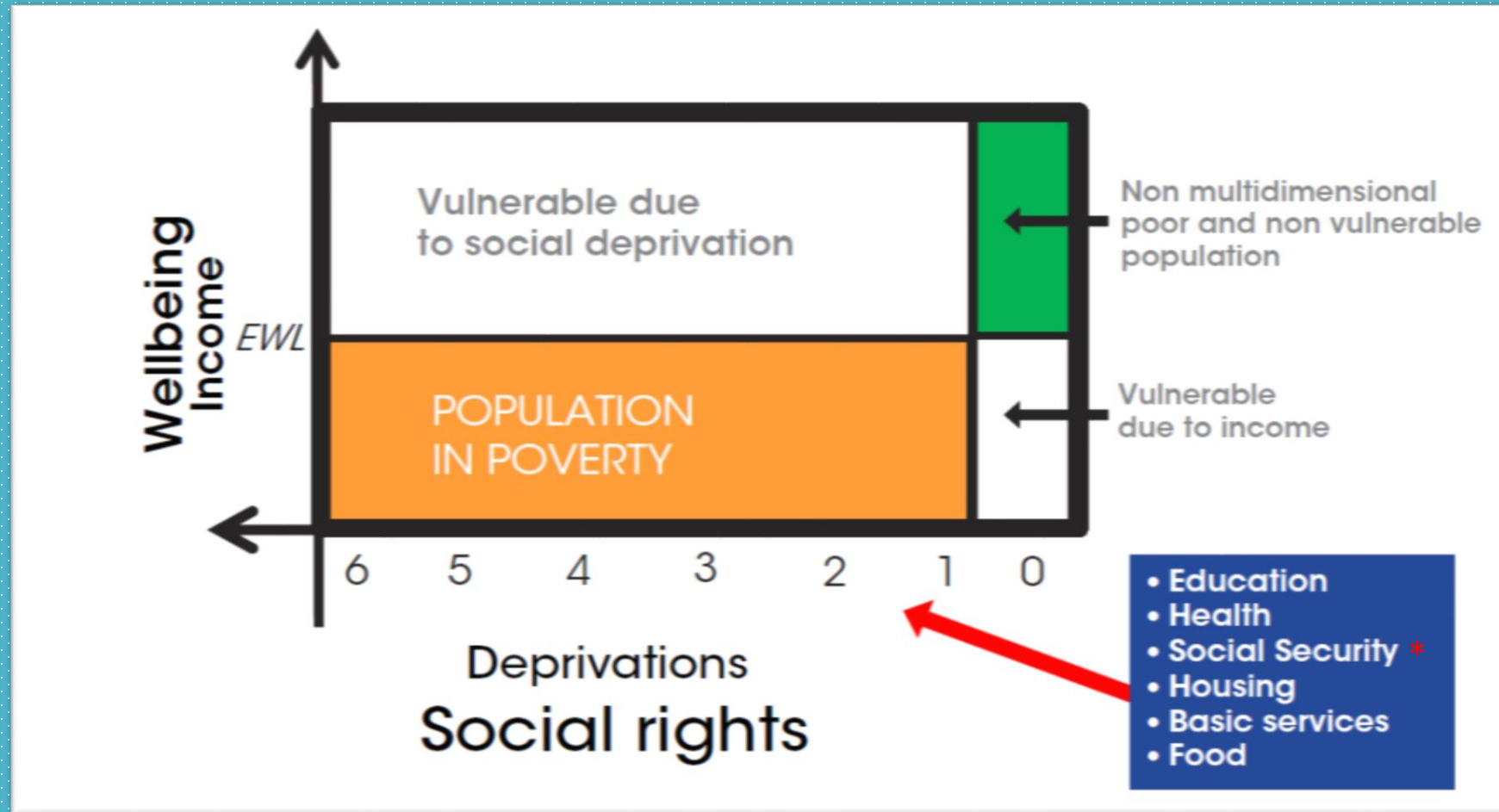
Source: National Council for the Evaluation of Social Development Policy (CONEVAL)

❑ **46 % of the population suffer at least one deprivation**

❑ **11% of the population are living in extreme poverty (3 o more social rights deprivation)**

❑ **55.8% of the population (around 68 million people) do not have access to social security ***

❑ **Mexican labour market: precariousness and high income concentration**

➢ **Formal employment in Mexico: 3.6 millions new Jobs in the last six year, but with extremely precarious income**

➢ **2012 to 2016, the number of people with minim wage increased by almost one million.**

▪ **Around 7.5 million people receive a minimum wage ($ 4.67 US DLL daily/ $142.096 US DLL monthly).**

▪ **While the number of workers with the highest wages was reduced by almost one million in the same period.**

➢ **One the countries with the highest levels of inequality (Gini Coeficient 0.52) (Mokomane, Teruel, and Reyes 2017).**

▪ **The ten richest Mexican people have a wealth equivalent to all income together of 50% of the poorest population.**

All the data so far presented, highlights the need for policies to give access to a more inclusive social protection policy in the country, such as UBI.

R. ANAYA-(PAN – PRD- MC) **Universal Basic Income** (UBI): 4.13% GDP de 2016

- a) Universal: 543 $MX (28.59 $USD) /monthly/per capita
- b) Age adjustment (population of productive age): 732.25 $MX (38.55 $USD) / monthly / per worker

MORENA "Ingreso Ciudadano Universal Alimentario" (ICUA) (*Universal Food Citizen Income*): 8.35% GDP de 2038

1,800 $MX **(94.70 $USD) /**monthly/person = Basic Food Basket + 10%

Progressive implementation (4 X 5 years):
1.1ª. Children (< 8) + old-age people (65 +)
2.2ª. Children + teenagers (8 - 17)
3.3ª. Women at working age (18 - 64)
4.4ª. Men at working age (18 - 64)

Problem: Basic Food Basket costs: 1,700 $MX ($ 89.50 USD) /month
None of them covers the minimum wellbeing line
a) GAP: 1,543 $MX (81.18 $USD)
b) GAP: 968 $MX **(**50.93 $USD)

Required: Amend the Constitution to create the *ICUA* and gradually eliminate CCT´s programmes such as *PROSPERA-Oportunidades*
Goals:
- End extreme poverty
- Strengthen the Welfare State

❑ Two other UBI proposals [4/]

IMF
Universal Basic Income (UBI)

a) 25% median monthly income / per capita = 835 $ MXN (44.00 $USD/monthly) = 510 $MX ($26.87 USD/monthly) (3.5% GDP)

b) 10% median monthly income / per capita= 204 $MX ($10.74 USD/monthly (1.5% GDP)

Expected results:
a) Gini´s reduction on 6 points = 12% poverty

b) Gini´s reduction on 3 points = 6% poverty

Main goal: To improve macroeconomic figures at country level

OXFAM (pilot programme)
Universal Basic Income (UBI)

Focus attention on the idea that Non-conditional cash transfer discourages job searching

a) A little below minimum wellbeing line: avoid leaving the labor market

b) Just above minimum wellbeing

- 6,000 people (50% treatment + 50% control)
- **Target group:** people at working age (15 - 64 year old)
- **Goal:**
  - To assess its impact on labour market
  - To improve workers negotiation terms
  - To avoid to use the programme as part of the political parties agenda

❑ New CCT´s and expansion of Non-conditional cash transfer

Reduction of current public spending, focused on two vulnerable groups: old-age people(65 + year old) and young population

❑ a) Olde-age people (65 +)

- ✓ Universal access

- ✓ Economics supports doubling $ 580 MXN ($32 USD) to $ 1160 ($64 USD)

- ✓ Second stage $1,500 MX ($84 USD)

❑ b) Young population

- ✓ Implemented through private companies

- ✓ National government pays the salary ($ 3,600 MXN ($200 USD)/ month)

- ✓ 2.6 million beneficiaries

- ✓ In addition, 300 thousand educational scholarships with an amount of $ 2,400 MXN ($133 USD)/ month (high school and university)

❏ Challenges on UBI financial sustainability in the Mexican context

a) Tax policy

❏ Tax policy is a key factor on poverty and inequality reduction

❏ While there is not a causal relation among tax income and HDI (Human Development Index)

Year	Tax (% GDP)	HDI
1990	15.80	0.650
2000	16.85	0.723
2007	17.74	0.758
2010	18.87	0.770
2011	19.72	0.773
2012	19.60	0.775

Source: Echenique Romero 2016

❏ Taxes account for only 17.2% of GDP in 2016

❏ Latin America average tax revenues amounted to 22.7% and OECD 34.3% GDP.

❏ The tax structure focused on achieving progressivity on Income Tax (direct tax), to overcome VAT (indirect tax) regressive.

❏ **However, tax policy in Mexico has no significant impact on income redistribution:**

- **Differentiated treatment in terms of tax exemption and tax evasion.**

- **The most privileged groups in Mexico benefit from mechanisms to deduct taxes.**

❑ **Challenges on UBI financial sustainability […]**

b)   **Demographics of ageing**

Mexican population age pyramid 2010, 2050.

New challenges

❑ Increased economic dependency ratio

❑ Increased life expectation (around 79.4 year old - 81.6 women and 77.3 men)

❑ Increased demand on public health and caring services

Source: Estimates based on CONAPO (Mexican National Population Council), Bush (2005).

VI. Conclusion and further research

❑ **Tax policy need to be reviewed**

❑ **UBI was part of the last presidential election agenda: Good but not enough**

❑ **Next federal government administration incorporates new social policy focused on labour inclusion and poverty, but not addresses inequality.**

❑ **Further concerns:**

   ▪ **Universal or targeted on vulnerable groups?**

   ▪ **Other programmes such as PROSPERA-Oportunidades must be eliminated?**

   ▪ **How much the UBI amount should be?**

Many thanks for your attention!

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