

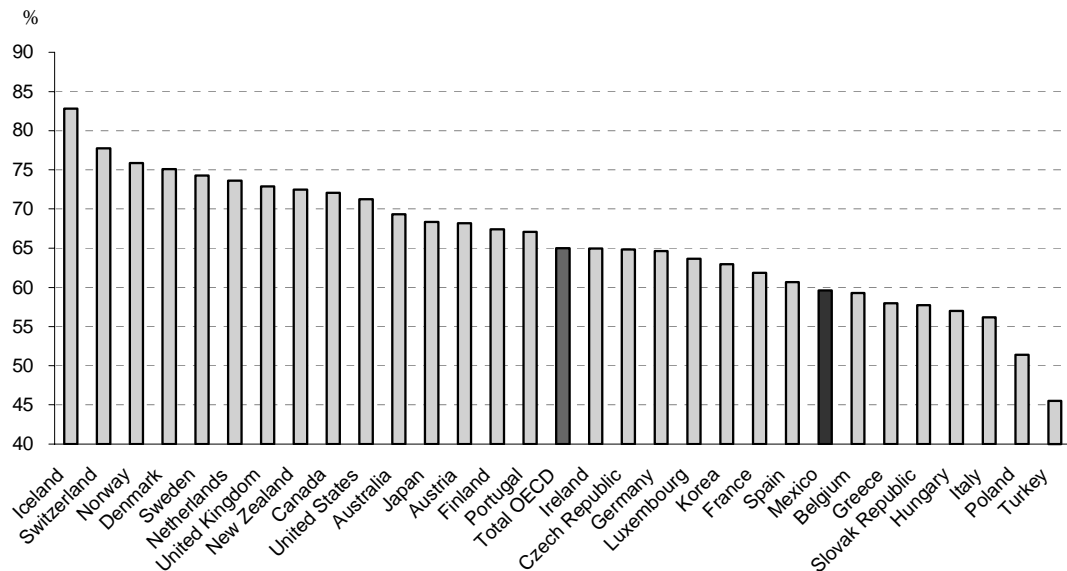
OECD Employment Outlook 2004

How does Mexico compare?

1. Mexico's labour market is starting to recover after several years of slow economic growth. The unemployment rate according to national sources rose above 3% in 2003, but is expected to stay below 4%. However the OECD's latest review of labour market trends and issues, *OECD Employment Outlook 2004*, shows that the employment rate – the proportion of people of working-age who have a job – is also relatively low. In 2003, it dipped below 60%. The employment rate for males at over 80% is fairly high, but this is offset by an employment rate for females which has progressed only slowly since 1990, and has stuck around 40% over the last five years.

Proportion of people of working age who are employed, 2003

Employment as a percent of population aged 15-64



Source: OECD Employment Outlook 2004.

Certain employment protection regulations may damage the employment prospects of women and youth

2. The combination of strict employment protection regulations for permanent workers and looser rules governing temporary employment may make it difficult for women and youth to enter the labour market. According to the OECD's summary measure for employment protection legislation, employment protection in Mexico is the third strictest in OECD countries, after Turkey and Portugal. However, this average hides important differences in the regulation of permanent and temporary forms of employment. Permanent workers do not benefit from particularly strong protection against individual dismissals, mostly because procedures for employers who want to dismiss a worker are not as cumbersome as in many other countries. But regulations discourage temporary work arrangements – the use of fixed-term contracts is restricted, and temporary work agencies are not allowed to operate.

Informal employment is important in the Mexican labour market

3. Mexico has one of the highest levels of informal employment among OECD countries, though not out of line with levels in many non-OECD countries. There are no reliable international comparative data. However OECD research based on comparisons of actual receipts of social security contributions with what would be expected on the basis of wages and salaries in the National Accounts suggests that about one third of the country's wage and salary payments escape social security contributions (more than a half in the private sector).

Informal employment linked with patterns of tax administration and employment regulation

4. Undeclared work among employees is to some extent explained by the weak tax assessment regime for the self-employed. Mexico has many self-employed people, often with low earnings. The tax authorities find it difficult to directly check the sales and accounts of all small businesses, and instead use simplified tax declaration regimes. Small businesses are able to expand by increasing their sales and at the same time hiring employees who are paid in cash without facing a significant tax burden.

5. To reduce such undeclared work, two approaches are possible. One involves direct detection and taxation of work – for example, visits by the labour inspectorate to workplaces, in order to check the identity of all the people at work and enforce the payment of social security contributions. But this approach works best on the assumption that employees in the formal sector have permanent full-time jobs. The other main tax enforcement strategy used in OECD countries focuses on the accounts of small businesses. When their sales are being recorded, businesses need to declare wages and salaries in order to reduce their taxable profit. In this way, the business sector can drive the transition to a salaried economy where employees are systematically declared to the tax authorities. This is a long-term developmental process which can be promoted by public policy.

6. In general, a well-staffed national tax administration is one key factor. State and local governments have little incentive to enforce the collection of national taxes on their local businesses, and the national tax administration must be able to operate as an independent authority at the local level.

Informal employment and social and labour market policies

7. The Progres/Oportunidades programme of Mexico is a good example of what can be done to adapt social and labour market policies to the reality of informal employment. The programme is targeted using a combination of criteria – first identifying poor localities, then identifying the poorest households within those localities, and making the assistance payments to families conditional on children attending school. Effective administration and delivery mechanisms for social and labour market programmes are key factors in promoting social welfare and economic development.

OECD Employment Outlook 2004 is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on Mexico, journalists are invited to contact David Grubb (tel: +33 1 45 24 91 76 or e-mail: david.grubb@oecd.org) or Raymond Torres (tel: +33 1 45 24 91 53 or e-mail: raymond.torres@oecd.org) in the OECD's Employment Analysis and Policy Division.