

## Addressing the Productivity-Inclusiveness Nexus

MAKING ECONOMIC GROWTH DELIVER FOR ALL

- ▶ Mexico is an unequal country and labour productivity is weak (see Figure).
- ▶ The income share held by the top 20% of the population was 10-times higher than of the bottom 20% in 2016 (compared to 5-times higher share for the OECD average), with 17% of Mexicans living in poverty (OECD average stood at 12%), and about a quarter of Mexican children are poor.
- ▶ More than 40% of the population is vulnerable, jobs are of low quality and many of them are informal, and access to social protection is limited. In addition, there is a significant gap in salaries across firm sizes, in particular between micro and medium firms on the one hand, and medium and large ones on the other.
- ▶ Gender inequality remains an issue in Mexico, with a labour income gap between men and women of 59% in 2014, above the average 40% in OECD. When women do work, half are in the informal sector and they perform over 75% of the unpaid housework and childcare.
- ▶ Informality remains high by international standards, estimated to involve 60% of all workers, and about one quarter of Mexico's GDP.
- ▶ Mexico's economic development needs to become more inclusive through pre-market distribution (increasing social mobility by levelling access to quality child-care, education and healthcare, housing and public services), in-market distribution (promoting good working conditions and inclusive workplaces, diffusion of innovation, and business dynamism) and re-distribution (focusing on the overall progressivity of tax and transfer systems and reducing loopholes).

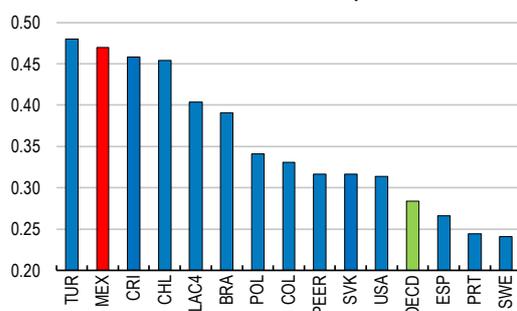
### What's the issue?

While the 2013-2018 National Development Plan has increased social spending and improved targeting of government transfers, it has not yet made growth significantly more inclusive. Inequalities loom large on several dimensions of the OECD Inclusive Growth framework, including education, health and security, while regional development remains uneven.

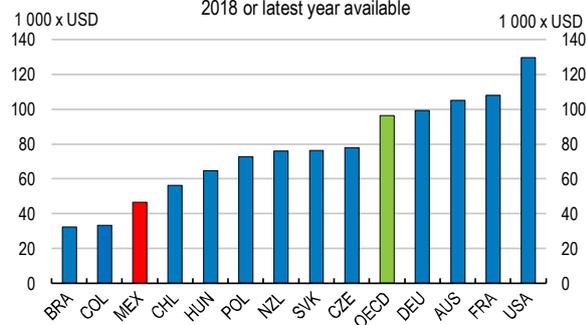
Inequalities limit opportunities and hamper social mobility, as one out of two Mexicans born into poverty remain there for life. Living in a poor family undermines access to quality education, health and labour opportunities, leaving vulnerable children and youth behind, as evidenced by the OECD report *Changing the Odds for Vulnerable Children*. Disadvantaged pupils are two-and-a-half years behind in

### Mexico combines high income inequality and low productivity growth

**A. Gini index after taxes and transfers**  
2016 or latest available year



**B. Labour productivity levels**  
2018 or latest year available



Notes: Data for Mexico refer to 2014. LAC4 is an unweighted average of Brazil, Chile, Colombia, and Costa Rica. PEER is an unweighted average of the 10 non-Latin American OECD countries with the lowest PPP-adjusted GDP per capita: Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovak Republic, Slovenia, and Turkey. The Gini coefficient for market income refers to income before taxes and transfers; however, data for Greece, Hungary, Mexico and Turkey refer to income after taxes and before transfers. Labour productivity is GDP per hour worked.

Sources: OECD Income Distribution and Poverty Database; OECD Productivity Database.

their education by age 15, compared to the middle-class children in Mexico.

While measures such as the social programme “Prospera” or the “Cruzada Nacional Contra el Hambre” have supported low-income groups, more than 23% of young Mexicans (18-24 year olds) are still without employment, education or training (NEET).

## Why is this important for Mexico?

Low productivity puts a downward pressure on wages and limits the scope for improvements in Mexicans material well-being. Existing social inequalities imply that many Mexicans accumulate disadvantages, perpetuating a circle of exclusion, wasted talent, weaker productivity and greater inequalities.

High inequalities and low productivity are highly interrelated with high informality. Informal workers lack social protection and suffer from low job quality. Informality also erodes the tax base and partly explains Mexico's low tax revenue ratio. By reducing fiscal revenues, informality also reduces the quantity and quality of public services, hampering the ability to boost social spending and investment in education and infrastructure. It also reduces access to pensions and their financing.

Inequalities are being further reinforced by divides between a more productive and modern economy in the north and centre, and a more traditional economy in the south. Living in one of the poorest states can mean being four times as likely to be at risk of poverty, seven times as likely to abandon school, and seven times more likely to work longer hours for lower pay than people living in the wealthier states.

There is also a strong productivity divide between micro and small companies, on the one hand, and large companies, on the other, which partly reflects the regional divide (the north hosts a larger proportion of small companies). Informality is also more common in micro and small companies. Far from receding, the productivity gap between SMEs and large companies has further widened.

## What should policy makers do?

Growth needs to become a mechanism for reducing inequalities of outcomes and opportunities, and ultimately improving the well-being of all. For that to happen, a coordinated action is needed across the main principles of the OECD *Framework for Policy Action on Inclusive Growth* to:

- ▶ Create opportunities for all by investing in people and places to increase social mobility by levelling the playing field in education and training especially in early childhood education and care; and promoting gender parity including by having more women at managerial positions and supporting education of girls in STEM disciplines.
- ▶ Prepare for the future of work by improving labour market regulations with a focus on supporting workers rather than jobs, introducing an unemployment insurance scheme, and reducing regulatory gaps between different types of employment. Social security contribution system would need to be more prone to formality, with sustained efforts to improve the quality of health services and pension systems.
- ▶ Support business dynamism by improving regulations – particularly at the subnational level – to increase firms', and in particular SMEs' access to digital infrastructure and skilled human capital, reduce barriers to competition and shape regulatory frameworks in support of a dynamic business environment.
- ▶ Encourage productivity growth in SMEs through enhanced access to finance and skills upgrading opportunities for both workers and managers.
- ▶ Strengthen governance to regain trust by tackling corruption and crime, and enhancing redistribution with tax reforms to broaden the tax base, to tackle tax evasion and avoidance, and to improve the VAT system.



## Further reading

OECD (2018), *Opportunities for All: The Framework for Policy Action on Inclusive Growth*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264301665-en>

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

OECD (2018), *The Productivity-Inclusiveness Nexus*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264292932-en>

OECD et al. (2019), *Latin American Economic Outlook 2019: Development in Transition*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9ff18-en>

OECD (2019), *Changing the Odds for Vulnerable Children: Building Opportunities and Resilience*, OECD Publishing, Paris, <https://doi.org/10.1787/a2e8796c-en>