APPLICATION OF DEFINITION AND METHODS IN MEXICO

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Why informality matters so much in Mexico

Mexico is a heterogeneous country, with different modes of production (automobile, air & space industry, vigorous manufacturing export sector coexisting alongside subsistence agriculture, street vendors, cottage industries and the like).

Mexico was one of the first countries to be fully incorporated in the wave of globalization in the nineties; big pressure to make as flexible as possible intra-industry labor relationships.

Mexico historically has had problems in terms of making effective the rule of law: on one hand this means the state has a rather weak fiscal/tax base; on the other that vast numbers of the population cannot make effective labor and social rights enshrined in the constitution.
Why informality matters so much in Mexico

- Many transactions are undetected; thus individuals so involved operate without contractual guarantees.
- A society moving faster towards aging demographics poses the imminent problem of all those who have been operating outside pension schemes and whose families are no longer large enough to function as a de facto social protection net, as before.
- The unemployment rate as the leading labor indicator clearly is not the key signal to understand what is going on in Mexico’s labor market.

On what follows, the strategy adopted by Mexico in measuring informality and its impact on policies, triggering a sequence of measures and reforms.
CONCEPTUAL FRAME
The 17th ICLS sets a classification mechanism which identifies the part of employment that is formal, the part informal and the modalities of the latter cases to achieve a holistic classification of the labor landscape with no exceptions. That mechanism is the H matrix.
The underlying logic of the Matrix is to apply operational criteria depending on the status of employment.

- Independent workers are classified under an enterprise based approach (informal sector).

- Dependent workers (either jure or de facto) are classified based on their current employment relationship, i.e. whether it provides them (in law or in practice) basic or standard employees guarantees.
The key unifying factor

If not explicit in the 17th ICLS or in the Manual, the informal concept in its broadest sense encompasses those forms of labor market insertion where risks are personal *stricto sensu*; not diffused nor buffered by any institutional way of protection.

Therefore the concept points to situations where certain economic insertion modalities do not provide persons with the basic or standard guarantees relating to either their transactions or labor relationships.
The key unifying factor

While informality is a diverse phenomena, the final outcome or situation ought not to be confused with whatever causes it (breaking the law; not knowing the law; blind spots in the law; ways to circumvent the law; new realities not yet covered in law, etc.).

Another point is that the informal concept becomes a practice or set of practices that in principle might be widespread throughout the economy and no longer takes place only in a part of it.
Measurement objectives and methods of data collection

- Household surveys (i.e. LFS)
- Establishment surveys and censuses
- Mixed household and enterprise surveys
  - Mixed modular surveys
  - Mixed independent surveys
- Methods of indirect estimation
  - Residual balance techniques
  - Macro-economic estimation techniques
The LFS approach: Mexico’s strategy

Chapter 4.
Household surveys on informal sector employment and other types of informal employment

The LFS approach: Mexico’s strategy

- Three elements of the INEGI (Mex) approach in its LFS (ENOE).
  - Sample size (120 thousand dwellings).
  - Continuity (Quarterly basis).
  - Special design of its section 4, which has questions on certain characteristics of the economic unit the person is working for, to give some inkling of its nature.
Strengths

◎ Fills out the H Matrix cells in one stroke, each Quarter.
◎ Yields statistical series amenable to both short term and structural data analysis.
◎ Makes easier any contrast with formal employment.
◎ Gives the sociodemographic context of the individual as well his household.
◎ Supplies the labor matrix input needed by national accountants to calculate the informal economy size (share of GDP) on an annual basis.
◎ No additional costs in collecting and disseminating data available at national level (including rural areas) as well at states (provinces) level.
Weaknesses

- Proxy respondents (in some cases the person may not know or answer inaccurately questions on characteristics of the economic unit).

- The Industry structure of the Informal sector in particular at certain levels of disaggregation (i.e. beyond two digit level) should be taken with caution, because the LFS sample was not designed to take into account that specific structure.
DATA ON EMPLOYMENT
## Matrix H

**Second Quarter 2017 (millions)**

<table>
<thead>
<tr>
<th>Classification according to type of economic unit</th>
<th>Classification by status in employment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Paid dependent workers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Salary workers</td>
<td></td>
</tr>
<tr>
<td>Informal sector</td>
<td>Informal</td>
<td>Formal</td>
</tr>
<tr>
<td></td>
<td>3.92</td>
<td>0.79</td>
</tr>
<tr>
<td>Paid domestic work</td>
<td>2.27</td>
<td>0.07</td>
</tr>
<tr>
<td>Corporations, Government and Institutions</td>
<td>5.72</td>
<td>18.84</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.41</td>
<td>0.38</td>
</tr>
<tr>
<td>Subtotal</td>
<td>14.32</td>
<td>19.29</td>
</tr>
<tr>
<td>Total</td>
<td>33.60</td>
<td>2.08</td>
</tr>
</tbody>
</table>

*Note: Totals may not match with their components sum due to rounding.*
Mexico’s informal employment rate, 2005-2017

- **TIL (Total employment)**
- **TIL2 (Non-farm employment)**

**Key Events**:
- Federal and state government agreement on employees regularization
- Labor reform
- Fiscal reform stage one
- Fiscal reform stage two
Mexico’s informal sector employment rate, 2005-2017

TOSI (Total employment)  
TOSI2 (Non-farm employment)
## Absolute figures


### Employment distribution by sociodemographic & socioeconomic characteristics

**Second Quarter, April-June, 2017**

#### National

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Total employment</th>
<th>Formal employment</th>
<th>Informal employment</th>
<th>Other forms of informal employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Subtotal</td>
<td>Non-farm</td>
</tr>
<tr>
<td><strong>Employed population by</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>52,198,611</td>
<td>22,702,104</td>
<td>29,496,507</td>
<td>14,077,063</td>
</tr>
<tr>
<td><strong>1.1 Age groups</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 15 to 24 years</td>
<td>8,779,146</td>
<td>2,901,612</td>
<td>5,877,534</td>
<td>2,246,365</td>
</tr>
<tr>
<td>From 25 to 44 years</td>
<td>24,889,199</td>
<td>12,334,843</td>
<td>12,654,366</td>
<td>6,129,225</td>
</tr>
<tr>
<td>From 45 to 64 years</td>
<td>15,731,535</td>
<td>6,844,806</td>
<td>8,886,729</td>
<td>4,691,918</td>
</tr>
<tr>
<td>65 onwards</td>
<td>2,665,504</td>
<td>602,567</td>
<td>2,062,937</td>
<td>1,002,655</td>
</tr>
<tr>
<td>Not specified</td>
<td>33,227</td>
<td>18,276</td>
<td>14,951</td>
<td>6,900</td>
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<tr>
<td><strong>1.2 School attainment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-finished grammar school</td>
<td>6,077,270</td>
<td>822,685</td>
<td>5,254,585</td>
<td>2,211,509</td>
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<tr>
<td>Grammar school</td>
<td>9,563,994</td>
<td>2,210,678</td>
<td>7,353,316</td>
<td>3,646,743</td>
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<tr>
<td>Junior high school</td>
<td>17,758,190</td>
<td>7,261,449</td>
<td>10,496,741</td>
<td>5,399,941</td>
</tr>
<tr>
<td>High school and College</td>
<td>18,753,036</td>
<td>12,388,178</td>
<td>6,364,858</td>
<td>2,804,762</td>
</tr>
<tr>
<td>Not specified</td>
<td>46,121</td>
<td>19,114</td>
<td>27,007</td>
<td>14,108</td>
</tr>
<tr>
<td><strong>1.3 Status on employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>52,198,611</td>
<td>22,702,104</td>
<td>29,496,507</td>
<td>14,077,063</td>
</tr>
</tbody>
</table>
How to find data on Mexico’s informal employment:

DATA ON INFORMAL ECONOMY
GDP: informal shares

How to find data on informal economy

http://www.inegi.org.mx
How to find data on informal economy

http://www.inegi.org.mx/est/contenidos/proyectos/cn/
How to find data on Mexico’s informal economy

Medición de la Economía Informal, 2015 preliminar. Año Base 2008

| Participación de la economía informal en el PIB  
Serie 2003-2018 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AÑO</td>
<td>2003</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>VAB Economía total 1</td>
<td>7,302,821</td>
<td>8,299,895</td>
<td>9,028,809</td>
<td>10,120,003</td>
<td>10,962,144</td>
<td>11,941,190</td>
<td>11,568,456</td>
</tr>
<tr>
<td>VAB Economía informal 1</td>
<td>1,984,233</td>
<td>2,199,161</td>
<td>2,373,403</td>
<td>2,590,500</td>
<td>2,793,589</td>
<td>3,017,060</td>
<td>3,105,229</td>
</tr>
<tr>
<td>Contribución (%)</td>
<td>27.2</td>
<td>26.5</td>
<td>26.3</td>
<td>25.6</td>
<td>25.5</td>
<td>25.3</td>
<td>26.8</td>
</tr>
</tbody>
</table>

*Cifras revisadas.
*Cifras preliminares.
VAB: Valor agregado bruto.
*Cifras en millones de pesos a precios constantes.

Presentación

El Instituto Nacional de Estadística y Geografía (INEGI) pone a disposición del público en general la medición de la Economía Informal, Base 2008, la cual se presenta en una serie de cuadros y tabulados por sector de actividad económica de acuerdo al Sistema de Clasificación Industrial de América del Norte 2007 (SCIAN 2007).

La aportación más importante que hacen estas mediciones al Cambio de Año Base 2008, además de la amplia implementación del SCN 2008, consiste en la incorporación de las hojas de balance y cuentas de otras variaciones en el volumen de los activos, en las que se han incorporado mediciones de stocks de activos no financieros y financieros, por sector institucional. Siendo esta la primera vez que se ofrecen mediciones de este tipo dentro del marco contable del SCNM, aportándole una mayor congruencia a las transacciones que se registran o calculan como flujos y como saldo, al inicio y al final de cada período de estudio.

Atendiendo la demanda de información, reconociendo la necesidad de contar con nuevas...
Summing up

Mexico (INEGI) produces regular data on informal employment and its components with national coverage, distinguishing urban from rural areas and also state-regional levels. All are disseminated on a quarterly basis.

Both sample size and special design of Mexico’s LFS (ENOE) provides this information and also supply the national account system with the labor base required to achieve completeness and infer the size of the informal economy within GDP.
Summing up

It is easier to identify the size of informal employment than its composition. Informal Sector still remains the most challenging segment to delimitate within the realm of informal employment.

There are many measurement approaches to the phenomena. All in all there always will be some trade-offs between scope and timeliness and accuracy (especially in structural terms).
The future

Given the conceptual frame, a key point for this statistic is the outcome of the ILO expert group updating the classification of status in employment (ICSE). That is because certain labor market insertion modalities such as dependent contractors could be classified as informal, insofar as they are seen as *de facto* employees (thus lacking labor rights). However if they are considered as independent workers or self-employed, then in the H Matrix, they will be part of formal employment.

*De Jure and de Facto* distinctions becomes more than ever a hot issue to deal with, creating an explicit tension between legalistic and non-legalistic ways of understanding informality.
Thanks' for remaining awake!
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