

The informal sector in Mexico, a burden or an engine for economic growth?

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Abstract

Labor informality in Mexico is an economic phenomenon that affects both the productive structure and the social welfare of the country. The informal unemployment rate reaches 54.6% of the employed population; this sector is presented as a refuge for those who cannot access formal employment, but at the same time represents a challenge for sustainable economic growth. Although the informal sector contributes to absorb fluctuations in the labor market, its presence limits productivity, reduces tax collection and generates imbalances in access to social security and other public services. This paper seeks to quantify the impact of the informal sector on Mexico's Gross Domestic Product (GDP), through a linear regression between the number of people employed in informality and GDP in millions of pesos and to reflect on whether informality is an obstacle to overcome or a temporary engine for the Mexican economy.

Key Words

Informal Sector, Economic growth, Informality, Unemployment, Labor market, Productivity.

JEL Classification: E24, J01, J02, J41.

Introduction

Employment informality in Mexico represents a complex and enduring issue firmly embedded in the nation's economic framework. Beyond its direct effects on informal workers—such as lack of social protection and job security—it poses significant challenges to economic growth. The informal economy's prevalence can skew economic data, shrink the tax base, and hinder the state's capacity to allocate resources toward critical infrastructure and public services. As Loayza (2009) notes, elevated informality levels indicate inefficient resource distribution and inadequate government services, which jeopardize a nation's growth potential. In Latin America, for example, informality rates exceed 70 percent of the workforce in several countries, while the International Monetary Fund and World Bank project growth rates of only 1.8 and 1.3 percent, respectively, for 2024.

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Accordingly, this paper seeks to explore the effects of labor informality on Mexico's economic development.

Why focus on economic growth rather than economic development? While both concepts are similar and interconnected, this study emphasizes economic growth. Economic growth is understood as the improvement in a country's productivity over a defined period, with Gross Domestic Product (GDP) serving as the primary indicator for its measurement. In contrast, economic development, though equally crucial for assessing a country's living conditions, is more complex to measure due to the difficulty of quantifying the factors that influence it. It is worth noting that both concepts are closely linked: economic growth—marked by an increase in national income—often leads to economic development, manifesting in improved living standards through enhanced infrastructure, stronger legal frameworks, greater access to education, and higher quality public services, among others.

Labor informality in Mexico stems from multiple causes. According to Lara (2020), exogenous rural-to-urban migration during the 2010–2015 period led to an increase in informality within Mexico's metropolitan areas. Lara also suggests that the informal sector plays a critical role in absorbing short-term variations in labor supply, albeit at the cost of potentially reducing substitute workers' wages. Conversely, El Financiero (2024) argues that labor informality rises primarily due to contractions in secondary sector industries and growth in the primary agricultural sector and tertiary services, such as tourism. The publication further notes that the manufacturing and extraction industries eliminate the most formal jobs, while the construction industry contributes the largest number of new jobs to the economy. Both perspectives offer valid explanations: Lara focuses on migration as a root cause, whereas El Financiero attributes informality to structural shifts in industry. While there is no definitive consensus on the origins of labor informality, its consequences are evident and will be examined later in this study.

To define the scope of this research, several key questions are proposed: 1) What are the causes of high labor informality in Mexico?; 2) What are the consequences of labor informality on the country's economic growth?; 3) Which sectors of the economy require greater attention to reduce labor informality?; and 4) Considering that Mexico's economy heavily relies on informality, is addressing this issue in the short term beneficial for the country's economic growth?

Labor informality in Mexico is, unfortunately, deeply entrenched in the nation's economic structure. Data from the National Institute of Statistics and Geography (INEGI) reveal that, as of August 2024, the labor informality rate was 54.3%. This prompts a critical question: what is the extent of the informal sector's impact on the growth of Gross Domestic Product (GDP)?

In response to this question, we applied a linear regression analysis between two variables: the size of the informal sector workforce and the Gross Domestic Product (GDP) in millions of pesos. This method aims to determine the extent of the informal sector's contribution to Mexico's economic growth. Moreover, we will evaluate the feasibility of addressing labor informality from a short-term perspective for the nation's economic advancement.

The structure of this investigation is as follows: in addition to this introduction, a review of the relevant literature on the informal sector in Mexico will be conducted, including its primary causes and consequences. Subsequently, the construction of the linear regression model will be presented to determine the impact of labor informality on economic growth, with a specific focus on its relationship to the administration of Andrés Manuel López Obrador (AMLO). Before concluding, we will briefly discuss our findings.

Literature Review

The definition of labor informality serves as our starting point. As stated by the International Labour Organization (ILO), informal employment refers to "a work arrangement that operates outside the scope of national legislation, is exempt from tax obligations, lacks social protection, and provides no employment-related benefits" (ILO, 2024).

Different approaches exist for addressing informality. The first focuses on the worker, suggesting that a lack of training restricts access to formal jobs, compelling many to resort to informality to meet their needs. Levy (2016) observes a negative correlation between levels of informality and national development, asserting that in Mexico, increased educational attainment does not necessarily lead to greater formality. According to theory, higher education levels should promote greater formal employment, as education boosts economic productivity, allowing both businesses and workers to cover social insurance costs, a defining characteristic of formal work. This should, in theory, attract large companies to the country, expanding job opportunities for skilled workers and creating a positive cycle that strengthens the formal sector.

The second approach emphasizes government institutions, proposing that the incentives to formalize are undermined by deficiencies within the public sector. Bosch (2013) contends that the increasing rates of informality are the result of market failures and distortions in fiscal, labor, and social policies. This perspective argues that many people working informally do not find sufficient motivation in the benefits of formal employment or social insurance to make the switch. In Mexico, it is clear that many workers in the informal sector do not seek formalization. Formal employment entails costs such as paperwork, tax payments, and regulatory compliance, while its benefits include access to the judicial system in cases of theft or abuse, conflict resolution, access to credit, and expanded market opportunities. The cost-benefit analysis of formalization is affected by the poor quality of public services, legal services, and access to financing, causing small and medium enterprises to remain in the

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informal sector. Consequently, informality is more widespread when the legal framework is burdensome, law enforcement and conflict resolution are weak, and public and governmental services are of low quality.

Considering the lack of access to formal jobs, the weak educational sector, the poor performance of public services, the burdensome legal system, and the high cost of formalization, what are the consequences of labor informality? Legorreta (2017) identifies two major consequences of labor informality: first, for workers, it results in low wages, limited social security coverage, and a lack of labor rights protection; second, none of these workers contribute to the payment of taxes. This perspective, focusing on worker protection and the impact on tax revenue, aligns with Trillo's (2010) view that social backlogs and public infrastructure deficiencies, alongside the significant challenges faced by the tax collection authority, are the main reasons why Mexico has one of the lowest tax collection rates worldwide.

From a macroeconomic standpoint, labor informality also influences the overall productivity of the economy. The lack of access to training, technology, and financial resources restricts the ability of informal workers to boost their productivity. According to Ibarra-Olivo (2021), businesses operating informally tend to be smaller, adopt less productive technologies, and divert resources to conceal their activities from the government. Moreover, labor informality has negative consequences for human capital investment. The absence of incentives to invest in education and training diminishes the accumulation of skills and knowledge within the workforce, creating an inefficient labor market that reduces the quality of employment and perpetuates poverty and inequality, as informal workers generally have less access to opportunities for career growth and social mobility.

Another significant consequence is the pressure on social security systems. The lack of contributions from a large portion of the informal workforce reduces the resources available to finance pensions, healthcare services, and other social benefits. This can lead to a deterioration in the quality and availability of these services, affecting both formal and informal workers. In this regard, Rosenbluth (1994) argues that informality is a determining factor of poverty and greater social inequality. Finally, labor informality has a considerable impact on the planning and implementation of public policies. The existence of a broad informal economy complicates the collection of accurate and reliable data on the labor market, making it difficult to formulate effective policies. Additionally, lower tax revenue limits the government's ability to invest in infrastructure, education, and public services necessary for inclusive and sustainable economic growth.

Given the consequences of the informal sector on the economy, we will now address the question: Which sectors need the most attention?

According to data from the National Employment Service (SNE), by the third quarter of 2023, the commerce sector accounted for the highest number of employed individuals in the country, with 10.8 million people, followed by the manufacturing sector and personal services with 9.4 million and 6.5 million people, respectively. It is worth noting that, in the commerce sector, 49.5% of the workers have only completed education up to the secondary school level. Additionally, according to figures provided by El Financiero (2024), in April 2024, the secondary sector of manufacturing eliminated 774,000 jobs, while the extractive industry saw a decrease of 31,000 jobs. On the other hand, the construction sector added 390,000 jobs. Analyzing this data, we can highlight several important points: 1) The sector with the highest number of employees in the Mexican economy, commerce, does not require advanced education, as basic education is sufficient; 2) The sectors where most jobs are lost, such as manufacturing and the extractive industry, are directly related to sustainable economic growth; and 3) The construction sector, which has added the most jobs, is primarily driven by government spending on infrastructure projects, with many of the jobs being temporary during the project duration.

En resumen, podemos concluir que los sectores donde más empleos se pierden son sectores claves para el crecimiento económico; por lo tanto, es importante prestar atención y desarrollar políticas específicas para fortalecer la formalidad laboral en estos sectores, especialmente en aquellos que contribuyen significativamente al crecimiento económico del país.

Hasta ahora, hemos establecido un contexto amplio de la informalidad laboral en México y su importancia para el crecimiento económico del país. A continuación, trataremos de cuantificar, a través de una regresión lineal, la relación entre la informalidad laboral y el crecimiento económico en México medido en términos de PIB.

Methodology

This study aims to establish a link between labor informality and Gross Domestic Product (GDP) in Mexico. In order to do so, it will be essential to define key econometric concepts, as well as the necessary statistical inference methods for the analysis.

Econometric Methodology

In econometric analysis, the goal is to demonstrate the influence of the independent variables, represented by the number of people employed in the informal sector, on the dependent variable, which in this study will be the quarterly GDP in millions of pesos. This relationship must fulfill two conditions: i) the intuitive component, reflecting the expected theoretical analysis, and ii) statistical significance, which shows the minimal explanatory error made by the independent variable in relation to the dependent variable.

To address both conditions (i) and (ii), we rely on the following linear expression,

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$$Y_i = a_0 + a_1X_{1i} + a_2X_{2i} + \dots + a_kX_{ki} + U_i \quad (1)$$

Where, Y_i represents the dependent or explained variable and X_1, X_2, \dots, X_k are the k possible independent variables. The coefficients a_j represent the effects of changes in the independent variables on the dependent variable expressed as $\frac{\partial Y_i}{\partial X_{ji}} = a_j$, para $j = 1, 2, \dots, k$. U_i , on the other hand, represents uncontrollable and random variables, referred to as disturbances. Classic examples of these disturbances include crises, wars, diseases, and others. Expression (1), which considers the effects of the independent variables on the dependent variable, along with the disturbance factor, represents an econometric model.

In order to find the value of the coefficients a_j ($j = 1, 2, \dots, k$) ordinary least squares are applied, which estimate the average behavior of Y_i based on observations X_1, X_2, \dots, X_k , that is,

$$\widehat{Y}_i = E(Y_i|X_1, X_2, \dots, X_k) = \widehat{a}_0 + \widehat{a}_1X_{1i} + \widehat{a}_2X_{2i} + \dots + \widehat{a}_kX_{ki}$$

To verify whether the variables X_1, X_2, \dots, X_k , are individually significant to Y_i , the following hypothesis test is proposed,

$$H_0: a_j = 0 \quad \text{vs} \quad H_a: a_j \neq 0, \text{ para } j = 1, 2, \dots, k \quad (2)$$

To assess this, p-values (probability of error) are employed. A $p_{value} < 0.05$ shows that the variable X is statistically significant for explaining the behavior of Y_i , with at least 95% confidence.

In contrast, the explanatory variables in (1) are quantitative. However, in some instances, it is important to include qualitative variables, such as income differences by country, region, economic size of the country, gender, marital status, and so on. To consider the effects of the independent variables on the dependent variable, while accounting for the different attributes mentioned, we can modify the econometric model as follows.

$$Y_i = a_0 + a_1X_{1i} + a_2X_{2i} + \dots + a_kX_{ki} + a_{k+1}D_iX_{1i} + U_i$$

Where D_i it is a dichotomous variable that represents the characteristics described above. In particular,

$$D_i = \begin{cases} 1 & \text{if the country is from Central America} \\ 0 & \text{other case,} \end{cases}$$

In this way, if Y_i represents a country's migration level. The effect of X_{1i} on migration in Central American countries can be estimated as follows,

$$\widehat{Y}_i = E(Y_i|X_1, X_2, \dots, X_k \text{ and } D_i = 1) = \widehat{a}_0 + (\widehat{a}_1 + \widehat{a}_{k+1})X_{1i} + \widehat{a}_2X_{2i} + \dots + \widehat{a}_kX_{ki}$$

Likewise, we can calculate the impact of the variable X_{1i} on migration in non-Central American nations as follows,

$$\widehat{Y}_i = E(Y_i | X_1, X_2, \dots, X_k \text{ and } D_i = 0) = \widehat{a}_0 + \widehat{a}_1 X_{1i} + \widehat{a}_2 X_{2i} + \dots + \widehat{a}_k X_{ki}$$

Lastly, to determine if the country-specific characteristic has a significant effect on migration levels, it is necessary to perform a hypothesis test on the coefficient of the dichotomous variable, as shown below,

$$H_0: a_{k+1} = 0 \quad \text{vs} \quad H_1: a_{k+1} \neq 0$$

Results and analysis

This work seeks to evaluate the link between labor informality in Mexico and the Gross Domestic Product. To this end, we outline the equation below:

$$Y_i = A + bU_i, \text{ con } b < 0$$

Alternatively, in logarithmic terms, one would expect,

$$\ln(Y) = a + b \ln(X_i) + U_i$$

In this context, Y_i stands for the GDP in millions of pesos for each observation, and U_i represents the number of individuals engaged in informal employment. Utilizing INEGI (2024) data, the following variables are defined:

- Y = Quarterly GDP in millions of pesos at 2018 constant prices
- X = The number of people in the informal sector on a quarterly basis.

It is worth mentioning that the quarterly GDP data is available from 1980; however, the data for the number of people in the informal sector begins only in the first quarter of 2005. Consequently, the results of this analysis may not be significant for earlier periods or may not accurately reflect the historical relationship between these variables. Additionally, it is important to acknowledge that the data may be influenced by the effects of crises, wars, pandemics, and other factors. Thus, our analysis uses quarterly data for both variables from the first quarter of 2005 to the first quarter of 2024.

Based on this, the following estimation is provided.:

$$\begin{aligned} \widehat{Y} &= 4.91 + 0.73 \ln(X) & (3) \\ P_{valor} &= 0.000 \end{aligned}$$

It should be noted that, in expression (3), as the number of people employed in the informal sector increases, the Gross Domestic Product also increases for each observation. This is because, in the expression, we can observe that the number of people in the informal sector impacts GDP by 73%. This could superficially suggest that labor informality in Mexico has a positive effect on the economy. However, it is crucial to clarify that this positive relationship does not mean that informality is beneficial for economic growth and the improvement of quality of life. In fact, informality is generally associated with long-term negative effects, such

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as lack of social security, low wages, and lower productivity. The observed positive relationship suggests that, while informality contributes to GDP in the short term, in the long term this contribution does not translate into sustainable economic growth or broad economic benefits for the population.

Beyond the significance displayed in equation (ver $P_{valor} < 0.000$) a relationship between informality and GDP growth is substantiated. To further this analysis, a dummy variable was included to examine labor informality and economic growth during Andrés Manuel López Obrador's administration. As previously noted, changes in political leadership in the country raise questions about how national issues will be addressed, with the employment sector and labor informality being key concerns. AMLO has emphasized social support for the most disadvantaged classes in the country and given that this population is primarily linked to informality, it is worth exploring whether his policies have contributed to reducing informality. The dummy variable we introduced is as follows:

$$D_i = \begin{cases} 1 & \text{if the administration is form MORENA} \\ 0 & \text{other case,} \end{cases}$$

The equation, therefore, would be:

$$\hat{Y} = a + b \ln(X) + cD_i \ln(X) + U_i$$

By implementing the dummy variable, we obtain the following estimation:

$$\hat{Y} = 1.418 + 0.943 \ln(X) - 0.004 \ln(X) \quad (4)$$

$$P_{value} = \quad 0.000 \quad 0.0009$$

From expression (4) we can interpret the relationship between the Gross Domestic Product and the political party in power. That is, if $D_i = 1$, the estimation between Mexico's quarterly GDP and the ruling political party, MORENA, is:

$$\hat{Y} = 1.418 + 0.943 \ln(X) \quad (5)$$

The relationship for the political party other than MORENA, when $D_i = 0$ in (4), would be:

$$\hat{Y} = 1.418 - 0.004 \ln(X) \quad (6)$$

From the above, we can observe that, if the ruling party is MORENA, the number of people employed in the informal sector increases by 94%; whereas, if the ruling party is not MORENA, the number of people in the informal sector decreases by 0.04%. Additionally, we can observe that, under AMLO's administration, as the number of people in the informal sector increases, the Gross Domestic Product also increases. In other words, different administrations, regardless of the political party, modify the relationship between informal employment and the country's Gross Domestic Product.

Discussion

The results of our research show a positive relationship between informal employment and the Gross Domestic Product in Mexico. This surprising finding underscores the complexity and entrenched nature of informality in the Mexican economy. Initially, a negative relationship between these variables was expected—that is, greater informality would correspond to a lower GDP level—based on previous literature which indicates that informal employment brings negative consequences for workers in the form of low wages and limited social coverage. This “paradoxical” result might reflect the complexity of the informal economy in Mexico. Loayza (2009) notes that informal production in Mexico accounts for 30% of the total GDP, indicative of high informality in the country. Therefore, the interpretation of this work is that the observed positive relationship should not be interpreted as an indication that informality is beneficial for the economy in terms of sustainable growth and overall well-being in the long term; in the short term, the informal economy serves as a way to address gaps in the country's employment sector and allows small and medium enterprises to be productive and provide income to their workers. Again, this phenomenon reflects how informality is deeply intertwined with the economic dynamics, providing income and employment to a significant part of the population while also perpetuating low productivity, lack of social security, and inequality. In this regard, Puyana (2012) notes that informal employment is a result of the functioning of developing economies, where there is an unlimited labor supply at a given equilibrium wage.

Addressing labor informality holds the potential for a significant impact on Mexico's economic growth. Transitioning to a more formal economy could bring several benefits, including increased tax collection, which would allow the government to invest in infrastructure, education, and public services that can enhance productivity and, in the long run, improve the standard of living of the population. However, the formalization of the economy also faces substantial challenges. In the short term, efforts to formalize employment may encounter resistance from both employers and workers who currently benefit from the lower costs and flexibility associated with informality. Furthermore, the transition needs to be managed cautiously to avoid the risk that the loss of informal jobs leads to a rise in unemployment.

The situation in the Mexican labor market is precarious, as efforts to combat informality have historically been criticized for expecting immediate results. This is primarily due to the weakened public trust in the government, stemming from the limited effectiveness of policies applied over time, which has led to dissatisfaction and a lack of confidence in the government's ability to resolve socio-economic problems. As a result, implementing deep measures that address these issues at their roots becomes challenging. Prud'homme (2015) offers an interpretation of the Mexican people's dissatisfaction with political changes and points out that only 23% of Mexicans are satisfied with the functioning of democracy. Public

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trust in the government is an essential factor in the formulation and execution of socio-economic policies aimed at addressing structural issues; this trust plays a vital role in the government's ability to implement solutions that, while potentially unpopular or causing short-term negative effects, are necessary for long-term benefits. The distrust in democracy, as described by Prud'homme (2015), stems from the perception that political leaders act in the general interest rather than the interests of specific groups. The legitimacy of the government is bolstered by this perception of trust, facilitating the implementation of complex and sometimes unpopular policies.

To address problems such as informality, economic policies require profound reforms that alter the labor market dynamics at their root, which would directly influence the social, economic, and labor conditions of those involved. However, if citizens trust that the government is acting responsibly and that the measures will lead to a net benefit for them, they are more likely to accept temporary disruptions to their daily lives. In general, there is a direct link between the level of trust in the government and the effectiveness of the policies implemented. In societies where trust in public institutions is high, cooperation between citizens and the government flows more smoothly, making it easier to carry out deep reforms. On the other hand, in settings marked by widespread distrust, government policies tend to face strong resistance, which hinders their implementation and often leads to their failure.

Rivera (1991) provides an insightful analysis of the communication between governments and their transnational corporations from both Korea and Mexico, emphasizing that such communication is key to long-term success in achieving the countries' economic growth goals. The trust between the government and citizens depends heavily on several factors: I) The transparency of the government in its decision-making and communication with both private and public institutions; II) The involvement of citizens in the decision-making process; III) The consistency and commitment with which the government aligns and implements its actions in accordance with societal demands. The trust in democracy is a complex process, but when handled properly, it allows the long-term economic and social policies of the government to succeed and resolve underlying issues. In summary, clear and transparent communication allows citizens to grasp not only the goals and benefits of proposed policies but also the sacrifices and challenges that may arise in the short term. Furthermore, when the government communicates proactively and continuously, it can address concerns and resistance ahead of time and demonstrate openness to dialogue.

In Mexico's context, the previous point is particularly significant, as the level of distrust in institutions, as previously mentioned, is high. A government that makes an effort to communicate through accessible channels and maintain transparency with both the private sector and its citizens strengthens its legitimacy, fosters cooperation, and helps counteract the misinformation that could otherwise lead to unwarranted resistance.

Niño (2008) comments that understanding and addressing informality largely depend on how the methodologies to quantify it are applied and how useful they are in formulating practical solutions tailored to the economic reality. The obstacles that perpetuate informality would lead to a better application of theories on the informal economy and a greater understanding of what informal activity means. At the same time, this would lay the foundation for formulating more effective public policies that eliminate the problem of informality. One concept that can help us better understand this phenomenon is occupational mobility. Occupational mobility refers to the change of jobs by workers, both formal and informal, in a market. Ruesga S. (2014) analyzed this concept applied to the Brazilian market and its impact on workers' wages. It is interesting that, from their research, they conclude that workers in informality are the most flexible in terms of occupational mobility, but this flexibility does not improve their socio-economic condition in the long term.

One of the objectives of this text is to address the issues of labor informality and highlight the need for approaches to combat this phenomenon that will enable long-term economic growth. Similar phenomena in the Brazilian market can be extrapolated to our country, as the results show that the policies designed must be more comprehensive and tailored to the different realities and contexts experienced in various labor markets. It is not enough to simply seek dynamism in labor markets, as it is shown that this does not improve the situation of those operating within informality.

Conclusion

The authors previously referenced in this study argue that, over time, the formalization of employment could result in positive effects such as increased economic stability, reduced poverty, and more inclusive economic growth. Workers in the formal economy tend to be more productive and better protected by labor laws, which can lead to a healthier and more skilled workforce. This virtuous cycle may attract more foreign direct investment, as businesses tend to prefer environments with clear regulations and a stable labor force. Likewise, formalizing employment is a key factor for sustainable economic growth and improving social well-being. Employees in the formal sector have access to social security, pensions, health insurance, and other benefits that provide essential long-term stability and security, while also ensuring they are paid a fair minimum wage and protected by labor laws. Additionally, labor formalization can lead to higher productivity, as mentioned earlier, boosting the competitiveness of companies. When workers have access to training and job security, they are more likely to develop skills that enhance their job performance. This, in turn, motivates companies to invest in staff training and improve working conditions, which results in a more efficient and capable workforce. From a fiscal standpoint, formalization has a positive impact on public finances, as businesses and workers contribute more to the tax system, providing the government with necessary resources for social programs,

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infrastructure, and public services such as healthcare and education. The formal labor market is also an effective tool for reducing poverty and inequality, as informal workers, who often lack stable income and access to essential services, face economic vulnerability that can perpetuate poverty and push them into informal or illegal activities to meet their needs.

It is also important to mention the various policies that have been implemented in the country regarding the labor sector. One example of this is the constant increases to the minimum wage, increases that, although initially intended to strengthen the labor market, can end up causing the opposite effect. These types of policies with negative effects may result in the loss of jobs for thousands of people, particularly formal sector jobs, leading more individuals to turn to the informal sector in search of work. In this regard, Andrade (2024) notes that the effects of raising the minimum wage can have negative consequences on employment. This can be further explained by the fact that any presidential administration has social agendas that focus on the commitments it must fulfill. As Andrade et al. (2024) mention, policies help address inflationary problems, indirectly preventing social protests and increasing trust in the government. Addressing these issues is essential for ensuring that policies are inclusive and aim to reduce existing inequalities. Similarly, it is necessary to strengthen the public institutions responsible for implementing these policies, ensuring they adapt to the diversity and specific needs of each region. Likewise, public policies in Mexico must address the root causes of problems and align with the historical, cultural, social, and economic context. Public policies should not only focus on short-term economic growth but also on the equitable redistribution of resources and the creation of new opportunities for all sectors of the population, with particular attention to vulnerable groups. All of this implies designing policies and programs that promote equal access to education, health, and employment.

Based on the linear regression performed using INEGI data, the results show that labor informality in the country has a positive relationship with the Gross Domestic Product (GDP). These results, far from being an exact snapshot of the labor situation in Mexico, demonstrate how deeply entrenched informality is in the economic dynamics and how the informal labor market sustains a large portion of Mexican families. While labor informality is a setback for any economy, we cannot overlook that many workers rely on informality to support their families and generate income. This is the reality of the country's economic dynamics.

Throughout this investigation, the authors contend that informality arises from the lack of incentives for informal workers to enter the formal sector. Other perspectives suggest that the shortage of companies generating jobs in the country is due to workers' insufficient skills, which makes investing in the country's human capital unprofitable for businesses. Addressing informality is an urgent matter, but it must be viewed from a perspective that acknowledges that informality enables millions of families to secure an income. While

informality is an economic hindrance in the long term, in Mexico, we can argue that it plays a role as a driving force for the country's economy in the short term.

Labor informality is driven by a lack of technical skills and insufficient training among workers, which makes it difficult for them to enter formal employment. Consequently, international companies find it challenging to locate the talent they require within the Mexican labor market, which contributes to the limited availability of formal jobs. López (2011) notes that the educational variable does not have enough explanatory power to account for wage inequality in Mexico, which leads to informality in businesses and job positions. The second perspective suggests that informal businesses do not find sufficient incentives within public policies to formalize, due to a lack of trust in public institutions and the inefficiency of public services, which obstruct the expansion of the formal labor market. Addressing labor informality in Mexico necessitates a comprehensive understanding of the economic and social dynamics of those working in the informal sector and incentivizing them to transition to the formal economy through public policies that offer access to credit, tax relief, and other economic benefits.

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