

Universal Social Insurance for Mexico: Modeling of a Financing Scheme

Topic: CGE models for Policy Analysis

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The provision of social insurance (SI) in Mexico and many developing countries is typically uneven in terms of both coverage and financing sources. In particular, contributory SI financed through payroll taxes generally covers a wider range of services but it is only available to formal workers. This paper examines the economic effects of introducing universal coverage for health, disability, and retirement in Mexico, where the sources of financing are not payroll taxes but general revenues. Through the lens of a dynamic computable general equilibrium model, we evaluate the effects of increasing the value added tax and/or eliminating subsidies to energy as alternative revenue sources for the provision of universal social insurance. After carrying out several sets of simulations, we find that a combined fiscal program with a 1 percentage point increase in the current level of the VAT (excluding the taxation of some sensitive goods such as food and medicines), and the elimination of energy subsidies, generates enough resources to finance the USI package.

Keywords: Universal social insurance, value added tax, energy subsidies, Mexico

JEL: C68; E62; H20; Q43