"Non-Contributory Health Insurance and Household Labor Supply: Evidence from Mexico"

Abstract:
A central topic in the global health agenda is universal health coverage (UHC). The primary goal of social health insurance schemes is to protect beneficiaries from the health and financial consequences of adverse health events. While in this sense there is scope for government intervention in providing insurance, the impacts of UHC on labor markets in developing countries are less clear.

We study this issue using the case of Mexico, which introduced in 2002 a non-contributory health insurance scheme directed to the half of the country’s population uncovered by Social Security protection (the Seguro Popular, SP). Since before SP uninsured individuals could only access affordable health care through their employer, the introduction of a non-contributory public health insurance scheme could have resulted in large effects on the labor market.

In practice, SP is a transfer(tax) to the informal(formal) sector workers and to the nonemployed. On the one hand, if the value placed on SP benefits is high, the introduction of fully subsidized health insurance can lead to negative impacts on employment and/or formality. On the other hand, wages in equilibrium might compensate the increase in benefits in the informal sector, in which case the impact on formality and employment is ambiguous. We start analyzing the effects of SP on labor market outcomes by exploiting its staggered introduction across municipalities using a difference-in-differences strategy on the Mexican Labor Force Survey data.

We show that the implementation of SP in a municipality is associated with an increase in informality by 2.5% for low-education families with children, driven by the transition from the formal to the informal sector of the male heads of the household. Then, to study why the policy change had limited impacts on the labor market, we develop and estimate a novel household search model which incorporates the value of SP as well as the pre-reform valuation assigned to the amenities in the formal sector relative to the alternatives (i.e., informal sector and non-employment), in order to understand whether access to free health services is valued by household members when they make their labor market decisions.

Our structural model is able to replicate both the stocks of household types by Social Security coverage and the transitions in and out of employment and between formal and informal jobs in the pre-reform period. The results show that the steady-state marginal willingness to pay for the health insurance coverage provided by SP is very low, amounting to only 1.3% to 4.2% of the mean wage in the informal sector.

Lastly, using the model to simulate counterfactual scenarios of employment and labor formality under different valuations of the new health system implemented in Mexico, we find that the willingness to pay for SP would have had to be significantly greater than it was to have substantial impacts on the economy.