

Why Peru Has Not Graduated?: From Trickle Down to Middle Out Economics

Over the last three decades, Peru has achieved significant economic progress. GDP per capita doubled and income-based poverty fell from 56% to 22%, between 1990 and 2016. Peru's salient economic performance has resulted from first generation reforms –price and trade liberalization, and sound fiscal and monetary policies– but particularly from a trickle-down dogma: the State unconditional support for big capital, most of it allocated in natural resource oriented sectors. However, in spite of those undeniable achievements, Peru's social challenges remain huge. 43% of all children under five have anemia and 14% are malnourished; average national education achievements rank at the lowest in Latin America with a 14% high school drop out rate; a barely functioning public health system; and 75% of Peruvians work in the informal sector. This presentation points out that this “lights and shadows” situation urges the adoption of a new approach building on the attained progress but focusing on the current social challenges at the heart of globalization and the technological era, by the implementation of second generation reforms –human capital, innovation, science and technology, connectivity, anti corruption and anti-trust policies, and the protection of economic, social and political rights to build citizenship– and the adoption of middle out economics (economic growth comes from peoples capabilities) as a progressive replacement of the trickle down dogma. Based on objective data and empirical evidence, the presentation offers three conclusions regarding the case for Peru. First, economic growth has not translated into development; “trickle down” policies are not a magic act. Existing bottlenecks and high inequality prevent the country transiting from growth to development. Second, economic growth, complemented by social safety nets, will neither translate into development. Social safety net implementation is urgent and necessary but it does not lead countries out of poverty. Social safety nets reach modest coverage, creates the risk of producing second-class citizens, and are financially unsustainable. Finally, economic growth, complemented by temporary social safety nets, but matched with second generation reforms could lead Peru to a path of development in the next three decades. First generation reforms are exhausted in terms of wealth creation and cause “fatigue” in the population; they “graduate” countries and generate shared progress. Second generation reforms have been absent from the policy agenda in Peru and require leadership, a clear strategy and vision.