

DEVELOPMENT

Wealth and Poverty in Latin America

by Maiah Jaskoski

“Peruvian workers are saying: ‘Listen, I watch CNN; I can use the Internet. You are telling me that we are doing so good. How come, if we are doing so good, I don’t have a job? How come my children don’t have access to a good quality of health and education?’”

— **Alejandro Toledo**, President of Peru (2001–06)

Recent years have brought remarkably steady economic growth to Latin America, but this growth has not translated into a significant reduction in poverty or inequality. For former Peruvian president Alejandro Toledo, this outcome is more than just a policy puzzle; it is a recipe for potential political instability.

In his address given at UC Berkeley’s International House, Toledo noted that the 40 percent of Latin Americans who live on less than \$2 a day are increasingly connected to the rest of the world through television, radio and information technology. This exposure to first-world lifestyles has served to increase impoverished Latin Americans’ discontent with their own economic status and fuel impatience for broad economic gains to reach them in their daily lives, thus posing a potential threat to democracy in the region.

Issues of marginalization, exclusion and poverty are not mere abstractions to Toledo. He was born into a poor family of 16 children in the mountains of Peru’s Ancash region. Toledo described himself as “a simple Indian that after 500 years finally became president,” adding that his path from poverty to the presidency was “the result of an accident” in a country where state institutions do not encourage upward mobility. It was with the help of two Peace Corps volunteers that he came to the United States in 1965 to pursue a bachelor’s degree at the University of San Francisco. He was able to build on this initial break out of poverty, receiving a Ph.D. in Education from Stanford University in 1993 and going on to work at institutions such as the World Bank, the Inter-American Development Bank and the United Nations. During a stint as a visiting scholar at Harvard University, he decided to return to Peru to enter politics. In 1996 he led the opposition to President Alberto Fujimori despite the administration’s reputation for discouraging, and even repressing, anti-government mobilizing. In 2001

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Photo by Peg Skorpinski.

President Toledo speaks with Maiah Jaskoski.

Toledo won the presidential election, taking office in July of that year.

During his administration, Peru experienced an economic recovery, yet poverty and inequality remained stagnant. Between 2001 and 2006, Peru's annual exports tripled, and growth in annual GDP was at 7.5 percent, by far the highest rate since the country's 1980 democratic transition. According to Peru's national statistics bureau (INEI), between 2002 and 2006 Peru's accumulative growth in GDP was 30.1 percent, as compared with Belaúnde's 1980–85 government (-12.6 percent), García's 1985–90 government (-18.4 percent), and Fujimori's first and second terms during the 1990s (19.5 percent and 12.7 percent, respectively). Peru's central bank records show that net international reserves were also higher under Toledo's government than during the other presidencies.

Within this context of economic prosperity, Toledo's administration implemented various social policy programs in an attempt to combat the country's poverty. Over 110,000 houses were constructed for the poor during 2006, a dramatic increase from the 4,722 built in 2001. Toledo also increased the national health and education budgets, and teacher's salaries were greatly improved in real terms. In part, this effort worked: poverty in Peru decreased from 54.2 percent in 2001 to 44.5 percent in 2006, and extreme poverty, from

26 percent to 18 percent (World Bank, INEI). However, Toledo soberly described this decrease as unacceptable given the nation's high level of economic growth.

Contrary to what he referred to as "this mysterious theory of trickle-down," in which it is assumed that overall economic growth will be sufficient to reduce poverty, Toledo presented an alternative, inverse depiction of the relationship between economic growth and poverty. Not only can poor people not afford to wait for prosperity to trickle down, high rates of poverty and inequality can actually prevent sustained economic growth because people who are dissatisfied are more likely to protest against the government. As Toledo stated, "when you have economic growth and there is noise in the street, that's not a very good means to attract capital investment." For this reason, fighting poverty is an essential component of ensuring both economic and political stability.

In order to alleviate poverty in Latin America, Toledo recommended careful investment in small businesses, especially those run by impoverished women. He elicited applause and cheers when he recounted a recent conversation with a former prime minister of Norway, in which he asked, "When are you going to give a Nobel Prize in economics to the poor women of the world?" Toledo admitted that in and of itself, microcredit can be counterproductive.

However, he proposed two ways to ensure that microcredit programs have a greater chance of success. First, prior to giving microcredit, he advocated training women in work such as weaving or crafts, without moving them out of their familiar settings. Then, following the distribution of the microcredit, he said it was important to help women bring their wares to the marketplace.

Toledo also identified four trends which suggest that Peru is in a position to make a “qualitative jump” to a strong position in the world economy in 15 years, thereby allowing for long-term investment in human capital. First, he predicts continued economic growth, for both the region as a whole and Peru in particular. Peru is also diversifying the composition of its exports, moving beyond mining into products such as textiles, asparagus and paprika. In addition, Peru is opening up its markets through agreements with the European Union and the United States. Finally, Peru has the potential to increase human capital by luring home citizens who have studied internationally.

In closing, Toledo urged Latin American politicians to have the courage to invest in human capital, particularly education. Economic growth represents a perfect context

for capitalizing on the resources, talents and skills of the people of the region. Instead of waiting for economic growth to “trickle down,” this is the perfect time to provide a few stepping stones, so that all of Latin America’s people have an opportunity to realize their potential.

Alejandro Toledo, President of Peru (2001–06), is President of the Global Center for Development and Democracy; Stanford University’s Payne Distinguished Visiting Lecturer with the Freeman Spogli Institute for International Studies’ Center on Democracy, Development and the Rule of Law; and Distinguished Fellow at Stanford’s Center for Advanced Studies in the Behavioral Sciences. He spoke for CLAS and the Blum Center for Developing Economies on March 10, 2008.

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A July 2007 protest against land seizures in Cuzco, Peru.



Photo by Sara Lamson.