

**IMF Working Paper**

Western Hemisphere Department

**Closing Peru's Ethnic Gaps Amidst Sustained Economic Growth  
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**ABSTRACT:** We analyze the recent evolution of ethnic economic inequality in Peru, a major source of social discontent in the country. Household survey data indicates that recent decades of high output growth also witnessed a substantial narrowing of socioeconomic gaps among ethnicities. Most notably, the *Mestizo* ethnic group surpassed the *White* group in income per capita, and *Native American* also experienced a relative improvement. Mincerian regression analysis suggests that the main contributors to these developments were rural-to-urban migration and increased education. Based on our statistical findings, we propose enhancing education and other public services, increasing government revenues, lowering informality, and promoting competition as the main public policies that could accelerate the ongoing narrowing of ethnic gaps.

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WORKING PAPERS

# **Closing Peru's Ethnic Gaps Amidst Sustained Economic Growth**

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## Executive Summary

Peru's social stability has been frequently threatened by resentment over lingering economic ethnic gaps related to its European colonization, which started almost five hundred years ago. The discontent narrative broadly denounces that colonizers, instead of engaging in peaceful welfare-enhancing trade with the established Native American population, violently settled in the Andes, largely tore down its civilization, and seized its most important production factors, leaving behind substantial economic gaps between Peruvians of European and Native American origins. While Peru has experienced substantial economic growth and poverty reduction in recent decades, it is also important that ethnic gaps narrow, else, political support for the macroeconomically prudent policies that have sustained its economic dynamism in recent decades could weaken.

Based on an annual series of National Household Surveys (Peru's ENAHOs), this paper analyzes the recent evolution of economic gaps among the country's three largest ethnic groups (*White*, *Mestizo*, and *Native American*). The analysis concludes that the past two decades have fortunately seen a substantial narrowing of ethnic economic inequalities. In fact, the *Mestizo* ethnic group has surpassed the *White* group in income/expenditure per capita. The paper finds that the *Mestizo* progress mainly resulted from its rural-to-urban migration and more years of schooling. The *Native American* population also experienced a narrowing of its gap relative to *White*, albeit at a slower pace than *Mestizo* partly because of its slower rural-to-urban migration. And the very top of the wealth distribution has a modest but growing presence of the non-*White* group.

Based on our statistical findings, we suggest public policy action in four areas that can accelerate ongoing narrowing of ethnic gaps: expansion of public services, government revenue mobilization, reduction of informality, and enhanced market competition. This could more rapidly allow the country to move on from its historic ethnic related animosities and to fully take advantage of its precious ethnic diversity asset.