

# **The Poor Majority: Inequality in Mexico and Peru**

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## ***Abstract***

*This article reviews inequality in Mexico and Peru. Despite various social assistance programs in Mexico and Peru, inequality remains high compared to most other countries. Income inequality has plagued Mexico and Peru for years. In both countries, income and wealth are concentrated by a small fraction of ultra-rich people, while the poor majority is left with small percentages of national income to fight over. Geographic disparities, class division, and underlying racial and gender discriminations perpetuate overall inequality in Mexico and Peru. This article analyzes the causes of inequality in both Mexico and Peru regarding socioeconomic policies and geography, along with how the two countries have attempted to become more equitable yet failed to do so at a significant level. In order to reduce inequality in the long-term, Mexico and Peru must restructure their socioeconomic policies as well as their governance system.*

## **I. Introduction**

Oxfam International (2014) reports that contrary to the traditional view, extreme inequality undermines economic growth. Oxfam International (2014) also states that inequality is a serious issue that is driven by market fundamentalism and the capture of power by economic elites. As a result, inequality within most countries has generally increased (Oxfam International, 2014). Over the past few decades, inequality has gained a central role in terms of analysis and measurement. Inequality may be defined by different dimensions such as income, wealth, education, capabilities, and more. We differentiate between horizontal inequality (i.e., inequality across different groups such as ethnic groups) and vertical inequality (i.e., inequality within a group).<sup>1</sup>

This article examines vertical inequality in Mexico and Peru (i.e., inequality across individuals within each country) as well as horizontal inequality by comparing inequality across Mexico and Peru. It focuses on income inequality, geographical inequality, class inequality, and educational inequality. In both countries, these inequalities are also heavily influenced by racial and gender discrimination, especially towards indigenous populations. These subsets of inequality are all intertwined with each other and perpetuate high levels of overall inequality in both countries.

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<sup>1</sup> Unless otherwise stated, this paragraph is based on Stewart and Samman (2014).

This article is structured into six sections. Following this Introduction, Section II provides a literature review that discusses two articles related to each country and one article related to both countries. Section III summarizes the socioeconomic background of the two countries, which is followed by an analysis of inequality in Mexico and Peru in Section IV. Section V lays out an ethical discussion on the origins of inequality in general and ties it to both countries. Section V also outlines some differences and similarities between each country, and the way forward for a more equitable future. The final section (Section VI), offers conclusions.

## **II. Literature Review**

The literature surrounding inequality in Mexico and Peru is extensive. It has become exceedingly more prevalent in recent years as researchers conduct more studies on the underlying causes of persistent inequality despite supposedly helpful socioeconomic policy initiatives. The literature compiled shows that both countries suffer from inequality and its effects, but the causes differ regarding policy, geography, race, and education. Ramos, Gibaja-Romero and Ochoa (2020), along with Delajara and Graña (2017), focus on inequality in Mexico. Meanwhile, Crabtree and Durand (2017), along with Pasquier-Doumer and Risso Brandon (2015), focus on inequality in Peru. Telles, Flores and Urrea-Giraldo (2015) analyze inequality in diverging contexts in both nations. In each of these publications, the authors look at inequality, its breadth of causes, and why it has remained a persistent issue in Mexico and Peru.

- Ramos, Gibaja-Romero and Ochoa (2020) describe how the public policies implemented fail to reduce poverty and income inequality in Mexico, a nation with one of the highest inequality levels globally. The highest levels of inequality are found in the South of Mexico. In the North, inequality is significantly lower. Additionally, geographical locations with higher inequality have higher gender-based inequality in Mexico. Ramos, Gibaja-Romero and Ochoa (2020) conclude that the income concentrated on the wealthiest 10 percent in Mexico is 2.25 times higher than the income of the poorest 40 percent of the population. The authors found that women in Mexico are the most vulnerable group regarding economic issues. The authors suggest that new public policy should focus on salaried and self-employed workers to improve these issues. Diminishing income inequality in these groups has a significant impact on decreasing inequality and poverty.
- Delajara and Graña (2017) also find that inequality is concentrated in the Southern region of Mexico. They notice that social mobility in terms of wealth occurs more frequently in the Northern and Central regions of Mexico than in the South. Additionally, they discuss the impact of social mobility in education on inequality and conclude that there is lower social mobility in education in the Southern and North-Central regions of Mexico. This indicates that education inequality is slightly correlated to inequality. Delajara and Graña (2017) claim that there is less data on regional entities in Mexico than at the federal level; thus, more research is required to fully understand how geography plays a role in perpetuating inequality at higher levels in some regions than in others.
- Crabtree and Durand (2017) discuss how the political agenda failed to satisfy the needs of the poor majority in Peru and only serves the few wealthy's interests. Despite campaign promises to end the legacy of wealthy investors determining the political agenda, most presidents have continued to appoint key economic elites to the highest government positions. As a result, wealthy elites have dominated decision-making processes in terms of

social and economic policies. This, in turn, mainly reflects the interests of an elite who owns the highest concentration of income and wealth, while the political system is unable to defend the interests of the wider Peruvian society. Additionally, the authors conclude that due to widespread political apathy in Peru, excluded social groups' interests are not represented in government.

- Pasquier-Doumer and Risso Brandon (2015) claim that aspirations are a channel of inequality especially prevalent between ethnic groups of Peru. They conclude that non-indigenous children in poverty do not limit their aspirations, while impoverished indigenous children are more likely to limit their ambition. According to the article, aspiration is linked to unequal socioeconomic status and unequal educational achievements. This may result in a niche version of racial inequality found within the greater context of Peruvian society. Aspiration failure commonly found among indigenous children in Peru is a contributing factor to the permanence of poverty, lack of social mobility, and thus overall inequality.
- Telles, Flores and Urrea-Giraldo (2015) discuss how both class and race play a role in perpetuating and predicting inequality not only in Mexico and Peru but in the whole of Latin America. Race and class are often intertwined in Latin America because the effects of class origins are often the result of racial privileges favoring Whites and Mestizos, while discriminating against indigenous communities and people of color. The researchers concluded that class origins and skin color powerfully shape life outcomes and inequality in Mexico. In Peru, however, the authors conclude that national ideologies and class origins play a more significant role in shaping identification and income than privileges based on skin color. While non-indigenous communities in Peru experience less inequality than indigenous populations, national ideologies are the most powerful identity builders. According to the authors, the focus on national ideology indirectly disguises inequality and its causes in Peru.

The literature presented above only presents a brief snapshot of inequality in Mexico and Peru. Yet, it is evident that inequality has a plethora of underlying causes, including class origins, race, gender, education, geography, and policy, which can be summarized as follows:

In Mexico, inequality is linked to geography, as inequality is primarily concentrated in its Southern region. Mexican women are the most vulnerable group to adverse economic outcomes. Additionally, education inequality plays a role in the persistence of widespread inequality in Mexico. Race inequality and class origins are very powerful instigators of inequality as well in Mexico. Racial privileges favoring Mestizos and Whites in Mexico have contributed to higher class origins and status.

In Peru, white privilege and geography play less of a role in inequality than national ideology and policy. Indigenous populations are more likely to limit their social mobility aspirations and experience more inequality than non-indigenous communities. However, white privilege takes a backseat to national ideologies and class origins in influencing inequality and identity in Peru. Additionally, the government in Peru fails to represent and preserve society's wider interests, focusing only on the few wealthy elites.

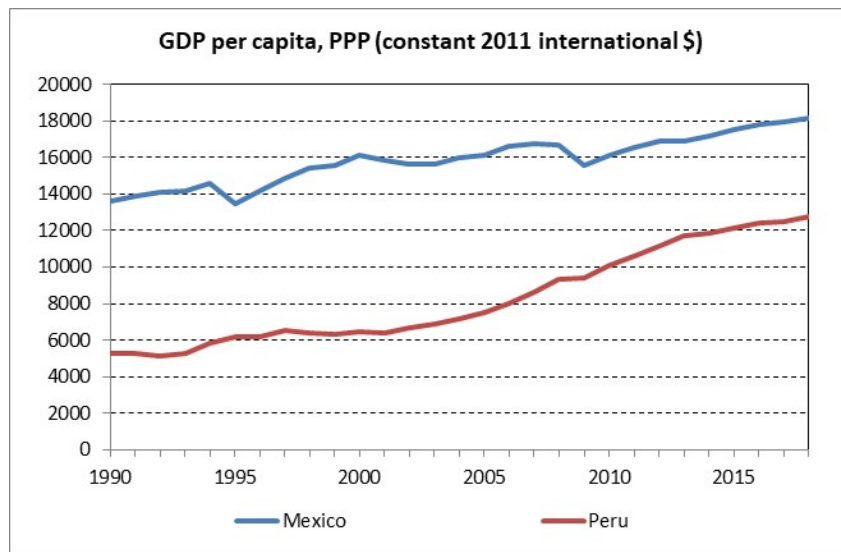
In any case, despite these diverging causes of inequality, they need to be adequately addressed by the Mexican and Peruvian governments.

### III. Socioeconomic Background

Mexico and Peru became independent nations, respectively, in 1810 and 1821. In the past two centuries, Mexico and Peru have developed into upper-middle-income countries. In the following paragraphs, three key indicators of socioeconomic development (GDP per capita, life expectancy and literacy rates) will be presented and examined for both countries.

Figure 1 displays GDP per capita in constant international dollars (purchasing power parity (PPP) adjusted) for Mexico and Peru from 1990 to 2018. During this period, Mexico's GDP per capita has experienced periods of growth as well as declines. In 1990, Mexico's GDP per capita stood at \$13,580 and steadily increased to \$14,595 in 1994. However, Mexico's GDP per capita declined sharply in 1995 due to the Mexican financial crisis (also called the "Tequila Crisis") after Mexico devalued the peso in December 1994.<sup>2</sup> Between 1996 and 2000, GDP per capita continued to grow steadily until it fell slightly to \$15,840 in 2001. After 2001, Mexico's GDP per capita increased steadily until the great recession of 2008, but then increased again, reaching \$18,134 in 2018, which is \$4,354 higher than it was in 1990. While increasing significantly from 1990-2018, Peru's GDP per capita is significantly lower than Mexico's. In 1990, Peru's GDP per capita was \$5,254, and by 2011, it had doubled to \$10,626. After 2011, it steadily increased each year, and as of 2018, Peru's GDP per capita was \$12,793, which is \$7,539 higher than it was in 1990.

**Figure 1: GDP per capita, PPP (constant 2011 international \$), 1990-2018**



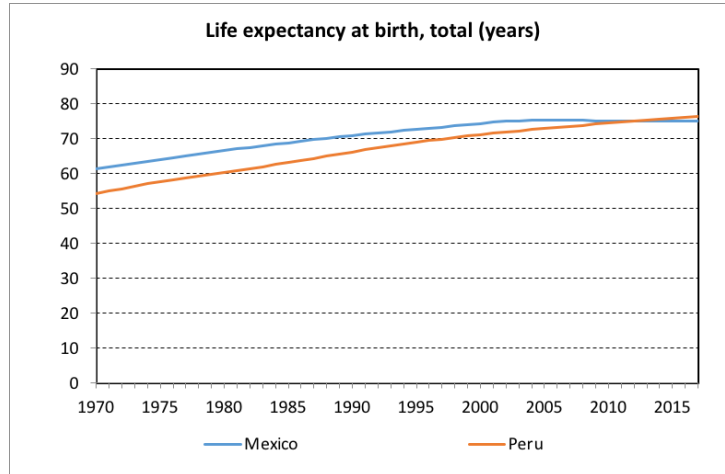
Source: Created by the author based on World Bank (2020).

As displayed in Figure 2, in 1970, Mexico had a higher life expectancy (at birth) than Peru, respectively, 61 years and 54 years. Both Mexico and Peru's life expectancy increased steadily into the 2000s. However, in 2008, Mexico's life expectancy began to decrease slightly and hence, in 2012, life expectancy in both countries were the same: 75 years. After 2012, Mexico's life expectancy continued to slightly decrease, while Peru's continued to increase steadily. In 2017

<sup>2</sup> Musacchio (2012).

(which is the last year such data is available), Peru’s life expectancy at birth was 76.2 years, while Mexico’s was 74.9 years.

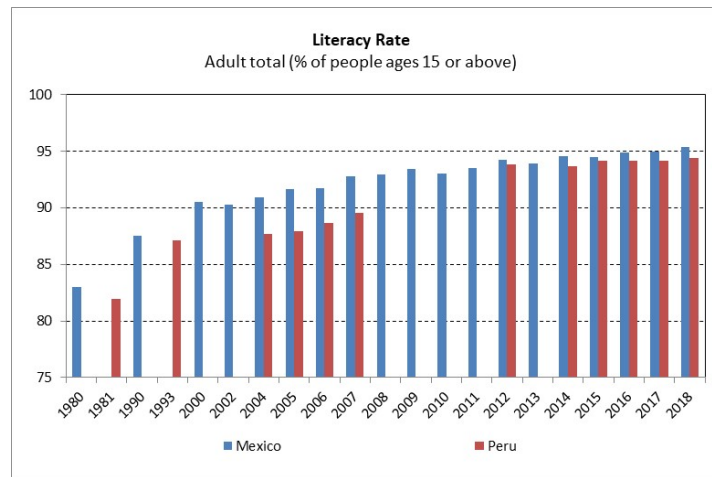
**Figure 2: Life Expectancy at Birth (years), 1970-2017**



Source: Created by the author based on World Bank (2020).

As is evident in Figure 3, reliable data for literacy rates has been limited, especially for Peru. However, it is clear that Mexico’s literacy rates have always been higher than Peru’s. The first year such data is available for Mexico is 1980, when the literacy rate was 83.0 percent, about one percent higher than for the first year (1981) such data is available for Peru. Both countries’ literacy increased during the 1980s, reaching 87.6 percent in 1990 in Mexico, and 87.2 percent in 1993 in Peru. While Mexico’s literacy rate continued to increase to 90.5 percent in 2000, Peru’s literacy rate stayed nearly the same during 1993 and 2004, hence, creating a significant gap between the two countries during the early 2000s. However, by 2012, Peru had nearly caught up with Mexico, and literacy rates remained close to each other subsequently, reaching 95.4 percent in Mexico and 94.5 percent in Peru in 2018.

**Figure 3: Adult Literacy Rates (percent of population over age 15), all available years**



Source: Created by the author based on World Bank (2020).

There are some interesting observations that emerge from comparing the three figures above to each other. First, Peru’s GDP per capita remains lower than Mexico’s despite Mexico experiencing three periods of declining GDP per capita. Hence, based on GDP per capita, one would argue that Mexico is the more developed country. However, based on Peru’s now slightly higher life expectancy, Peru could be considered the more developed country. Finally, while Mexico’s literacy rates have been consistently higher than Peru’s, Peru’s literacy rates are nearly equal to Mexico’s in recent years, and hence, the two countries could be considered to be at the same level of development.

**IV. Analysis of Inequality in Peru and Mexico**

**IV.1. Income Inequality**

Although income inequality has generally fallen in both countries in recent years, Latin America remains one of the most unequal regions in the world according to Ibarria and Byanyima (2016). Figure 4 shows the Gini coefficient for income inequality for most countries in Latin America and the Caribbean in 2016 (data for the white-colored countries were unavailable). This map shows that Mexico and Peru are highlighted in the darkest blue shade, indicating the highest level of inequality (a Gini above 43.7 percent).

**Figure 4: Mapping Inequality in Latin America and the Caribbean, 2016**

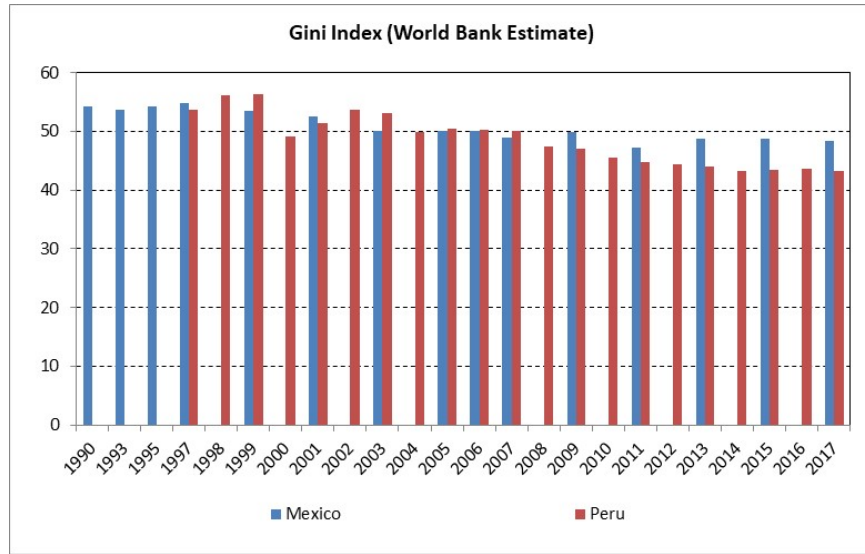


Source: World Bank (2016), country names for Mexico and Peru added by author.

Despite limited data available for income inequality, Figure 5 shows that while inequality in Mexico and Peru have somewhat declined since the 1990s, inequality in Mexico has increased since 2011. From 2011 to 2012, Mexico’s Gini coefficient jumped 1.5 percentage points (from 47.2 percent to 48.7 percent), and then decreased marginally to 48 percent as of 2017. Mexico and Peru had similar Gini coefficient levels in 1997 (53.7 percent in Peru and 54.8 percent in Mexico), but from 1997 to 2007, Peru had higher levels of inequality than Mexico based on this indicator. Starting in 2009, however, Mexico’s Gini coefficient has been higher than Peru’s, indicating higher levels of income inequality.



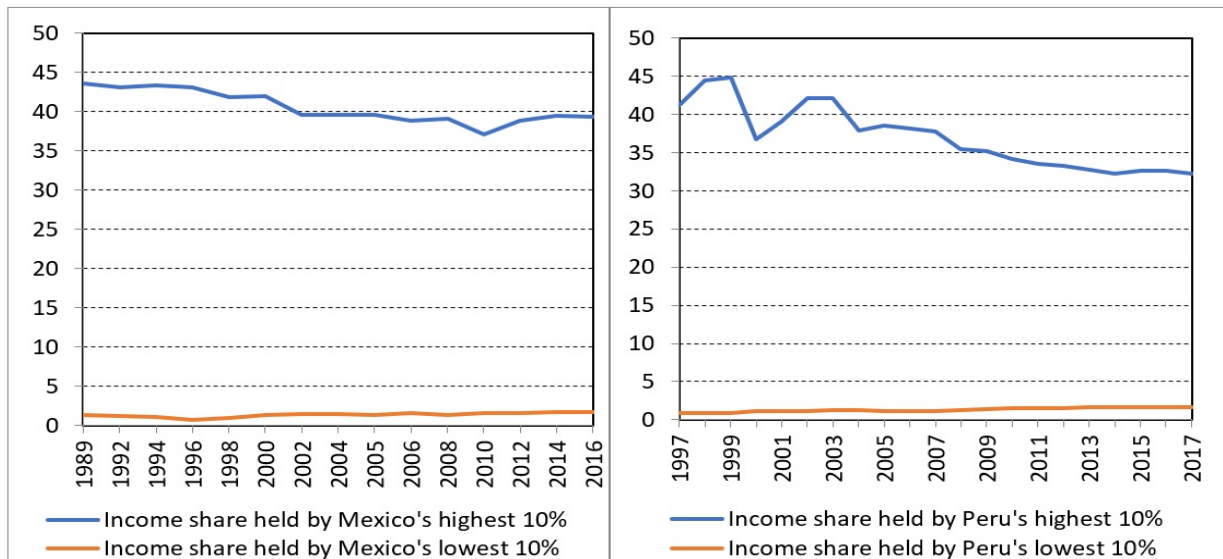
**Figure 5: Gini Coefficient for Mexico and Peru, all available years**



Source: Created by author based on World Bank (2020).

Figures 6 and 7 show the income shares of the richest and poorest 10 percent of the population for Mexico and Peru, respectively. This data highlights the fact that there is a clear disparity between the wealthy and poor classes in both countries. In fact, the income shares of the lowest 10 percent in both countries were never higher than two percent. Figure 6 shows that income disparity has slightly increased in Mexico since 2010, after a period of relatively steady declines from 1998 to 2008. In 2016 (the most recent year with available data), the highest 10 percent earned 39.3 percent of the total income, while the lowest 10 percent earned 1.8 percent of the total income.

**Figures 6 and 7: Income Shares of the Richest and Poorest Ten Percent, all available years**



Source: Created by author based on World Bank (2020).

Figure 7 shows an interesting trend for the income shares held by Peru's highest and lowest 10 percent. From 1999 to 2001, the income share held by the highest 10 percent drastically decreased, and then jumped up in 2003. However, despite fluctuations in the income share held by Peru's highest 10 percent, the income share held by the lowest 10 percent has remained relatively stable during 1997 to 2017, though it increased from 0.9 percent to 1.6 percent. As of 2017, the income share of the richest 10 percent was 32.3 percent.

While income disparity is a serious issue in both countries, the data indicate that the highest ten percent in Mexico have typically held a higher percentage of income than Peru's highest 10 percent. Meanwhile, Peru's lowest 10 percent generally have slightly lower income shares than the lowest 10 percent in Mexico.

## **IV.2. Mexico's and Peru's Rural-Urban Divide**

Inequality in both countries is partially attributed to high levels of rural poverty in Mexico and Peru. In both countries, rural poverty is significantly higher than urban poverty. This is supported by Figures 8 and 9, which highlight the rural and urban poverty headcount ratios at national poverty lines for all available years in Mexico and Peru, respectively.

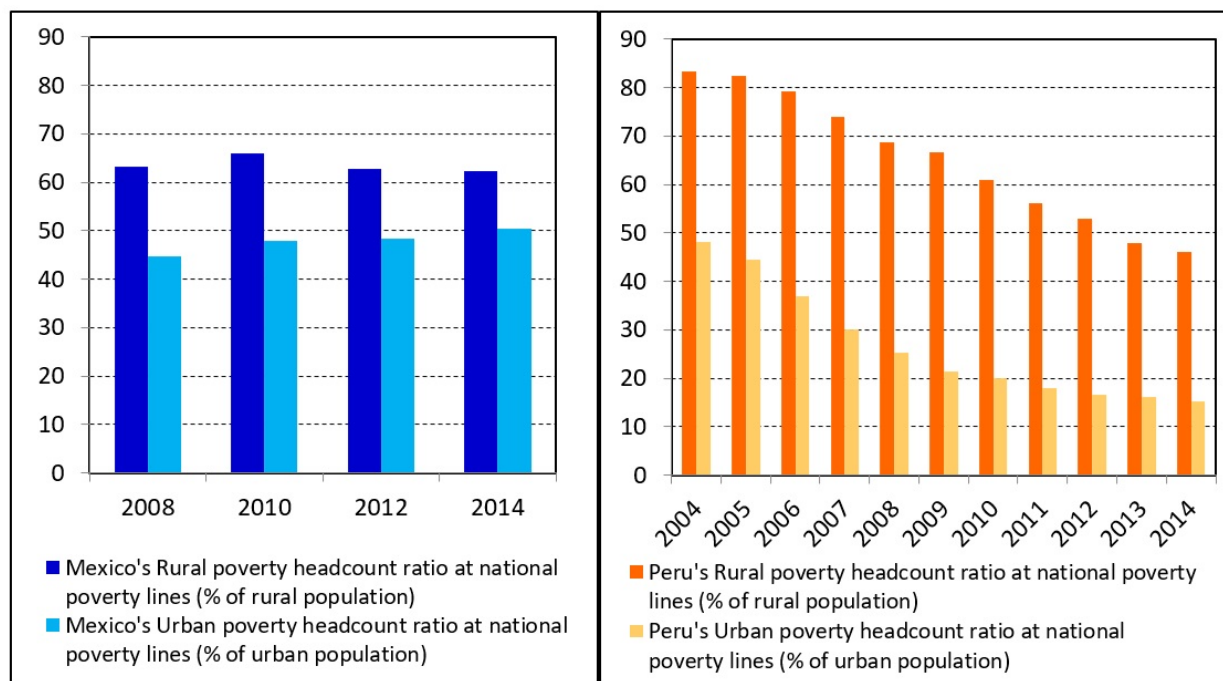
Inequality at the rural level is a serious issue in Mexico, as the data of Figure 8 show that a majority of those in rural communities are living in poverty. Despite the limited data available comparing Figure 8 (for Mexico) with Figure 9 (for Peru) shows that Mexico's rural poverty headcount ratio has been much higher than Peru's in recent years. Interestingly, from 2008 to 2010, the rural poverty headcount ratio in Mexico jumped from 63.3 percent to 65.9 percent. Mexico's rural poverty headcount ratio then decreased to 62.8 percent in 2012 and to 62.4 percent in 2014. Meanwhile, the urban poverty headcount ratio in Mexico has been steadily increasing during all available years. In 2008, the urban poverty headcount ratio was at 44.8 percent, and jumped to 47.8 percent and 48.3 percent in 2010 and 2012, respectively. In 2014, the urban poverty headcount ratio reached 50.5 percent.

Figure 9 shows that Peru's rural poverty headcount ratio has decreased by nearly half in ten years, from 83.4 percent in 2004 to 46 percent in 2014. However, despite this promising decline, income inequality and rural poverty in Peru is still a serious issue, since nearly half of the rural community lives impoverished. Meanwhile, the urban poverty headcount ratio followed a similar decline from 48.2 percent in 2004 to 15.3 percent in 2014. However, for all years available, the urban poverty headcount ratio remained significantly lower than the rural poverty headcount ratio. In 2014, the most recently available year, the urban poverty headcount ratio was approximately three times lower than the rural poverty headcount ratio. This data indicates that inequality in Peru is more concentrated in the rural parts of the country, highlighting a rural-urban divide.

Despite the increase in the urban poverty headcount ratio and a decrease in the rural poverty headcount ratio, the rural poverty headcount ratio remained significantly higher than the urban poverty headcount ratio for all four years such data is available for Mexico. This data indicate that rural poverty is still a significant issue in Mexico; however, urban poverty is also becoming a more prevalent issue in the country, with more than half of Mexicans in urban areas living in poverty in 2014.



**Figures 8 and 9: Rural and Urban Poverty Headcount Ratios at National Poverty Lines (percent of rural and urban population) (all available years)**



Source: Created by author based on World Bank (2019) for Mexico and World Bank (2020) for Peru.<sup>3</sup>

There are some interesting conclusions to draw from comparing the rural and urban poverty headcount ratios at national poverty lines in Mexico and Peru. In Peru, there is a larger gap between the urban and rural poverty headcount ratios. This data indicates that the rural-urban divide is starker in Peru than Mexico. However, for all available years, both variables remain lower than Mexico's. The gap between rural and urban poverty in Mexico is closing. As of 2014, there was only a 12 percent difference between the two indicators. The fact that Mexico's overall poverty rates are higher than Peru's indicate that urban and rural poverty are both significant factors of inequality in the country.

### IV.3. Inequality in Educational Attainment

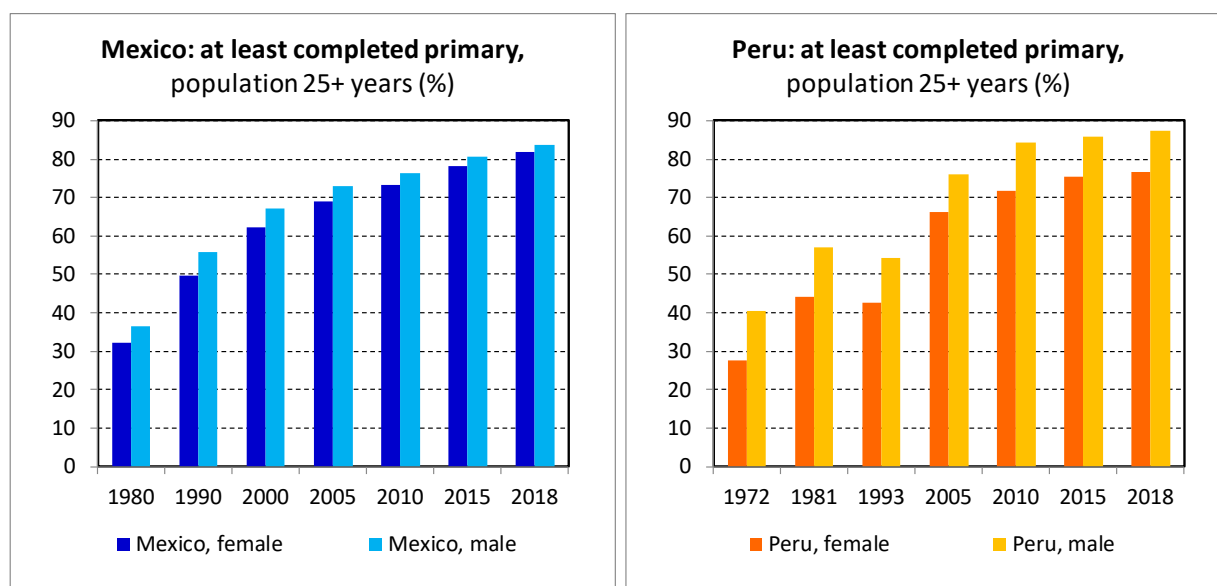
Figures 10 and 11 explore gender inequality for educational attainment, at least completed primary for men and women 25 years and older for selected years, respectively in Mexico and Peru. While both countries have experienced high growth in educational attainment and fairly high rates for both genders, it is important to acknowledge various gender disparities. Both graphs indicate that more men in each country completed their primary education than women.

In Mexico, the percentage of women who completed their primary education rose from 32.2 percent in 1980 to 81.8 percent in 2018, while the percentage of men who completed their primary education rose from 36.7 percent in 1980 to 83.8 percent in 2018. Hence, the primary education completion gap in 2018 is half of what it was in 1980, indicating a positive shift towards gender

<sup>3</sup> The World Bank's (2019) data was used for Mexico as the World Bank (2020) did not report any data on rural or urban poverty for Mexico.

equality in the context of primary education in Mexico. Peru has been on a similar upward trend for both genders when it comes to primary education attainment. The percentage of women who completed their primary education rose from 27.6 percent in 1972 to 76.8 percent in 2018, while the percentage of men who completed their primary education rose from 40.6 percent in 1972 to 87.2 percent in 2018. Hence, Peru's primary education completion gap was lower in 2018 than it was in 1972, though the reduction of the gender gap has been far lower than in Mexico. With still 10.4 percent more men than women having completed their primary education in Peru in 2018, gender inequities in education are a perpetuator of overall gender inequality.

**Figures 10 and 11: Educational attainment, at least completed primary, population 25+ years, male and female (percent) cumulative, respectively in Mexico and Peru**



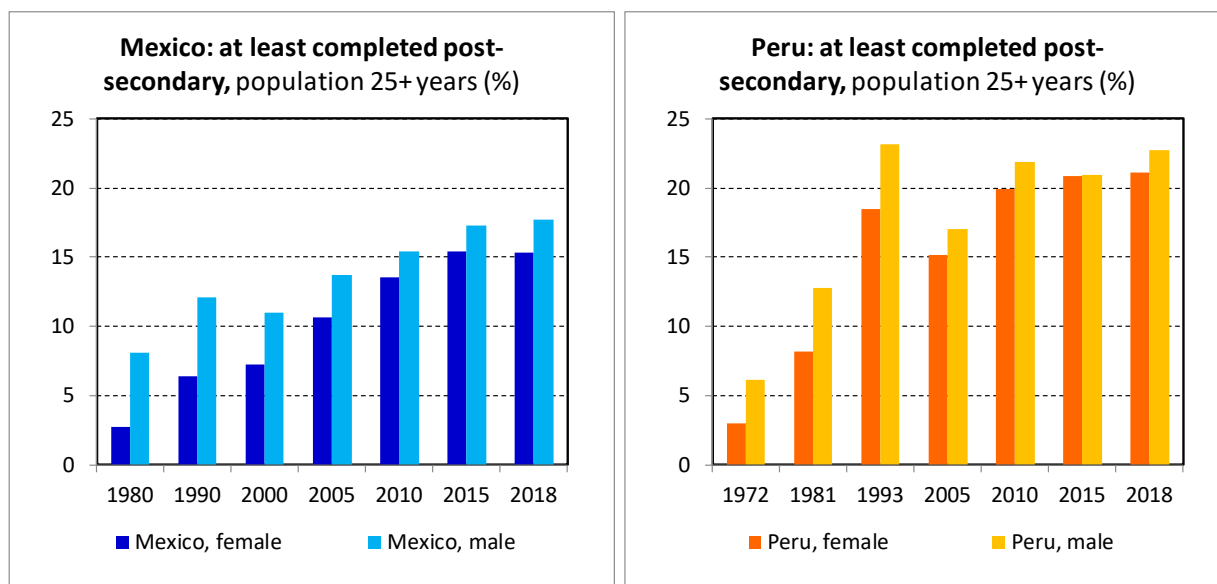
Source: Created by the author based on World Bank (2020).

Like the two previous figures, Figures 12 and 13 also explore educational attainment for men and women in Mexico and Peru, respectively, but this time looking at women and men having completed at least post-secondary education. These figures highlight some interesting trends.

- First, these percentages are fairly low in both countries, especially in Mexico, where only 15.3 percent of the women and only 17.7 percent of the men had completed at least secondary education in 2018 (compared to 21.1 percent of Peru's women and 22.7 percent of Peru's men).
- Second, as was the case for primary education, there are considerable gender gaps between women and men having completed at least secondary education, with the gender gaps becoming smaller over time. However, while Mexico was more successful than Peru in reducing the gender gap in primary education, Peru has been far more successful than Mexico in reducing the gender gap in at least secondary education. Indeed, in 2015, Peru had basically eliminated the gender gap in at least secondary education, though it then reemerged in 2018.

- Third, though Mexico’s level of at least completed post-secondary education is overall lower than Peru’s Mexico displays more steady progress for both genders, while Peru’s evolution has been more volatile, especially for Peruvian men. Indeed, based on the available data, the highest percentage of Peru’s men completing at least post-secondary education was in 1993.
- Forth, comparing the latest available data of 2018 with the data for 2015, we can see that the educational attainment has stagnated for women in both countries, while the numbers for men improved, hence, increasing the gender gap for completing at least post-secondary education from 2015 to 2018 in both countries, which is inconsistent (and disappointing) to what we have seen for the narrowing gender gap in having completed at least primary education in Figures 10 and 11.

**Figures 12 and 13: Educational attainment, at least completed post-secondary, population 25+ years, male and female (percent) cumulative, respectively in Mexico and Peru**



Source: Created by the author based on World Bank (2020).

## V. Ethical Discussion

The first subsection of this ethical discussion lays out the origins of inequality in general and then specifically in Mexico and Peru. The second subsection analyzes inequality in both countries, noting the similarities and differences as well, and summarizes the efforts to eradicate inequality. The third and final subsection provides a brief overview of how Mexico and Peru can accomplish a more equitable future through financial and institutional reform.

### V.1. Ethical Origins of Inequality

Several famous philosophers have reached diverging conclusions about inequality. Stewart and Samman (2014) provide a snapshot of several claims John Locke, John Rawls, Immanuel Kant, and Jean-Jacques Rousseau make regarding inequality. John Locke, for instance, argues that inequality is justified as long as wealth is acquired legitimately. On the other hand, John Rawls

concludes that inequality is justified if the poorest in society are doing better than they would with equality. Meanwhile, Immanuel Kant's approach argues that all humans share the right to be treated equally by virtue of being human beings. Additionally, Jean-Jacques Rousseau's *Social Contract* offers an interesting approach to the question of inequality. He claims that the *Social Contract* implies equality since people would not sign up to it if it involved inequality.

In terms of economics and ethics, economists usually justify inequality if it maximizes the total utility, output, or income of a country. The traditional efficiency argument adopted by most economists is that a certain amount of vertical inequality may be necessary to encourage people to work hard and use their talents in a way that maximizes the output of society. However, too much inequality is bad because it reduces societal human capital. Therefore, the size of domestic markets is reduced, which leads to under-consumption and unemployment, diminishing society's output.<sup>4</sup>

Based on this information, one conclusion to the question of inequality's consequences is that the objective of equalizing initiatives should not center around equality of outcomes but equality of opportunities. Nonetheless, less progress has been made in identifying equalizing policies and even less progress has been made in obtaining political support for equality. In short, extreme inequality is bad for economic growth. To use the words of Oxfam International (2014, p. 7), "today's extremes of economic inequality undermine growth and progress, and fail to invest in the potential of hundreds of millions of people." Thus, there is a moral obligation for the global order and domestic countries alike to eliminate inequality.

Solutions to end inequality range from simply working hard to more complex policy initiatives. It is important to note, however, that the world's poorest people cannot escape poverty just by working hard.<sup>5</sup> Therefore, it is imperative for the global order as well as each country to amend inequality globally and within each country's borders. The two most common policies to reduce vertical inequality are those that affect primary distribution and policies directed towards secondary distribution.<sup>6</sup> There are several policy options for eliminating inequality countries can explore. Some of these solutions include implementing a universal social protection floor, limiting executive's salaries, promoting women's rights, and filling holes in tax governance.<sup>7</sup> In Mexico and Peru, there are limited options for eliminating inequality via existing minimum wage laws:

- In 2020, the minimum wage in Mexico increased by 20 percent to 123.22 pesos (US\$6.85) per day, which is still less than US\$1 per hour. Additionally, the minimum wage does not take into account the fact that 60 percent of the Mexican workforce is not in the formal economy. Therefore, the increase will unlikely change things for workers who cannot find jobs in Mexico's large informal economy. The minimum wage increase, while directly benefitting 3.4 million Mexicans, will not improve poverty rates. To improve worker's conditions in Mexico, it is necessary to complete structural improvements such as shifting more people from the informal economy to the formal economy, requiring them to pay social security taxes, and enhancing education.<sup>8</sup>
- Peru increased its minimum wage to 930 soles (approximately US\$284) per month in 2018. Similar to Mexico, however, a large amount of Peru's workforce is represented in the

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<sup>4</sup> This and the next paragraph are based on Stewart and Samman (2014) and Oxfam International (2014).

<sup>5</sup> Oxfam International (2014).

<sup>6</sup> Stewart and Samman (2014).

<sup>7</sup> Oxfam International (2014).

<sup>8</sup> Most of this paragraph is based on information provided in Sheridan and Agren (2020).

informal sector. Therefore, many employers are able to circumvent the minimum wage. As a result, the number of Peruvians who actually benefit from a rise in the minimum wage is highly subjective and most likely minimal at best.<sup>9</sup>

Neither Mexico nor Peru offer unemployment insurance, however, they do offer limited social protection programs:

- The most effective anti-poverty policy directed at eradicating inequality is Mexico's *Prospera*, which is a conditional cash transfer program targeted at poor families (World Politics Review, 2017). The Mexican government requires employers in the formal sector to pay dismissed employees a lump sum of three months per year of service (Office of Retirement and Disability Policy, 2017). Additionally, the Mexican Social Security Institute (IMSS) provides pensions to unemployed workers in the formal sector depending on the number of years they have worked (Office of Retirement and Disability Policy, 2017). However, IMSS fails to support the majority of the Mexican workforce since they are in the informal economic sector.
- Similarly, in Peru, unemployment benefits are not legally required.<sup>10</sup> However, severance pay is distributed in the event of wrongful labor contract termination that are usually funded by the employers.<sup>11</sup> Peru also has a program known as Compensation for Time of Service (CTS).<sup>12</sup> Other forms of social protection that Peru offers to the formal sector include pensions and cash transfers through the program called JUNTOS, which serves 37,000 impoverished families in need.<sup>13</sup>

Despite the availability of minimum wage laws and some social protection programs, inequality in both countries remains high. Additional analysis of inequality in both countries and the inefficiency of solutions to eradicate it at a structural level will be analyzed in the following subsection.

## V.2. Further Analysis of Inequality in Mexico and Peru and its Causes

Latin America is one of the most unequal regions in the world. In Peru, extreme inequality is exacerbated by lack of services, poor roads, and inadequate educational opportunities.<sup>14</sup> According to Kyriacou (2009), a lack of access to these critical public services perpetuate economic disparities. Additionally, inequality in Peru is based on geography and race. For instance, in the coastal region of Ica 15 percent of people live below the poverty line; meanwhile, in the adjacent region of Huancavelica, a region where many indigenous populations of color live, 85 percent of the people live below the poverty line.<sup>15</sup>

The MDG Achievement Fund (MDG-F), an organization funded by the United Nations system working to eradicate inequality to help advance the Millennium Development Goals (MDGs), is

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<sup>9</sup> Most of this paragraph is based on information provided in Dunnell (2018).

<sup>10</sup> Office of Retirement and Disability Policy (2011).

<sup>11</sup> As detailed in de Yzaguirre, Sanz Bas and Cebolla (2015), CTS is a method of forced savings or funds put away by employers that hire workers to work four or more hours a day; it is distributed as the result of termination.

<sup>12</sup> As detailed in de Yzaguirre, Sanz Bas and Cebolla (2015), CTS is a method of forced savings or funds put away by employers that hire workers to work four or more hours a day; it is distributed as the result of termination.

<sup>13</sup> United Nations Children's Fund (UNICEF) (2012).

<sup>14</sup> MDG Achievement Fund (2020).

<sup>15</sup> MDG Achievement Fund (2020).

currently working in Peru to decrease inequality. The MDG Achievement Fund implemented a program called “*Improving Nutrition and Food Security for the Peruvian Child: A Capacity Building Approach*” to assist the Peruvian government in meeting anti-poverty MDGs. To help decrease inequality in Peru, the MDG Achievement Fund finances Peruvian programs to improve nutrition, manage climate change, increase youth employment, and develop culture and gender equality in order to boost household incomes. It is no secret that gender inequality has an effect on inequality in the nation as well.<sup>16</sup>

Despite Peru’s economy progressing tremendously with regards to GDP per capita within the last two decades, socioeconomic inequality continues to plague the nation. The Peruvian government’s exclusive institutions that guide its branches, political parties, and military also perpetuate extreme inequality in the nation. One of the two most powerful drivers of inequality, the capture of power by economic elites,<sup>17</sup> is maintaining Peru’s unequal income and wealth distribution. According to Crabtree and Durand (2017), corporate interests have gained formidable power in Peruvian politics through processes of economic deregulation and privatization.

Kyriacou (2009) finds that the corruption that plagues the government and limited access to resources by the Peruvian population at large, perpetuate inequality. The capture of power by economic elites in Peru has resulted in the maintenance of policies of exclusion that benefit solely the interests of the nation’s wealthiest. As a result of this phenomenon in Peru’s state institutions, socially representative political parties cannot gain enough traction to pressure the government to be more representative of Peruvians’ interests at the level necessary.<sup>18</sup> Essentially, the capture of political elites maintains extreme inequality in Peru. The corruption of the Peruvian government, along with a lack of institutional reform accomplished at the state level, are responsible for maintaining inequality at an intersectional level.

Meanwhile in Mexico, policies directed towards secondary distribution in the form of cash transfers such as *Prospera*, while contributing to the country’s macroeconomic stability and decline in general inequality, failed to eliminate income inequality (Ramos, Gibaja-Romero and Ochoa, 2020). As of 2016, Mexico is one of the ten countries with the highest inequality index globally and is also the country with the highest inequality level within the OECD (Ramos, Gibaja-Romero and Ochoa, 2020). According to Ramos, Gibaja-Romero and Ochoa, inequality affects women much more than men. The lowest inequality for women, the report finds, is greater than the lowest inequality for men, which supports the fact that women are the most vulnerable group concerning economic issues (Telles, Flores and Urrea-Giraldo, 2020). These factors indicate that gender inequality is an underlying factor in overall inequality in Mexico, despite the relatively small gender gaps in educational attainment shown in Figures 10 and 12 above.

There are some interesting similarities and differences observed when comparing Mexico and Peru to each other. One similarity is the fact that rural poverty and inequality is significantly higher than urban poverty and inequality in both countries. Geographic disparities worsen the unequal state Peru is currently in, as was shown in Figure 9 above. The rural and urban divide in Peru is a serious contributor to inequality in the nation. The concentration of poverty and inequality in Peru’s most rural regions has contributed to immigration that has perpetuated underdevelopment and thus, inequality (Kyriacou, 2009). Similarly, in Mexico, low-skilled immigration to the United States of

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<sup>16</sup> Most of this paragraph is based on MDG Achievement Fund (2020).

<sup>17</sup> Oxfam International (2014).

<sup>18</sup> Crabtree and Durand (2017).



much of its citizenry have played a role in rising inequality in the nation (Orrenius and Zavodny, 2018). According to Ramos, Gibaja-Romero and Ochoa (2020), inequality is much higher in the poorer, rural Southern region of Mexico than in the wealthier, more urbanized federal states in the North. Geography shapes class origins in Mexico, and it is difficult to escape one's station in life from birth (Telles, Flores and Urrea-Giraldo, 2015).

Racial inequality is also a serious problem in both countries that perpetuates overall inequality. Racial humor reinforces systems of domination and inequality in Mexican and Peruvian society. Citizens in both countries allow racist humor towards those with darker skin, and through this 'acceptance,' they allow these attitudes to remain commonplace. As a result, eradicating racial inequality is not a high priority on the political agenda, and systems of racial domination favoring light-skinned Mexicans and Peruvians persist.<sup>19</sup>

Indigenous groups in Peru were highly disadvantaged in relation to whites, and attitudes towards dark skin color largely account for these disadvantages. Meanwhile, in Mexico, skin color has a powerful effect on educational attainment. Indigenous populations of color have lower primary and secondary educational attainment in both countries.<sup>20</sup> Interestingly, in Mexico, racial inequality is more heavily tied to class inequality than in Peru. Whiteness is a valued source of symbolic capital in Mexico as a result of pro-mestizo (mixed) and white rhetoric in the 20<sup>th</sup> century. Mestizo is generally used throughout Latin America to describe people of mixed ancestry with a white European and an indigenous background. Light-skinned mestizos were often placed on nearly the same level of white Spaniards and granted economic advantages such as inheriting property that dark-skinned natives were excluded from.<sup>21</sup> Lower status people in Mexico still tend to identify as white or mestizo in efforts to gain socioeconomic capital. Additionally, indigenous and non-indigenous populations are highly segregated, mainly based on geography, while racial inequality is tied to educational inequality (Villarreal, 2014). This is perpetuated by the rural-urban divide of poverty shown in Figure 8 above.

While racial inequality does persist in Peru, national ideologies indirectly disguise these issues. National ideologies shape identification and as a result, racial inequality cannot be accurately recorded. Although indigenous groups experience more inequality at all levels in Peru, including educational attainment, national identification and attitudes influenced by humor and the absence of representative political parties indirectly disguise racism's role as a perpetrator of inequality. Current solutions have failed to do enough to eradicate inequality in Mexico and Peru based on societal issues of class origin, white domination, and political apathy.

### **V.3. A More Equitable Future for Mexico and Peru**

Despite internationally financed relief programs in Peru and cash transfers in Mexico, widespread inequality persists in both countries. The democratization of Peru and deregulated economic systems did not provide economic inclusion to Peruvian citizens. The existing government corruption, due to the capture of power by economic elites, suggests that complete institutional reform is necessary for equality to be achieved. To fundamentally eradicate inequality in Peru, political parties must be required to have a national presence to make them more representative of

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<sup>19</sup> This paragraph is based on Sue and Golash-Boza (2013).

<sup>20</sup> Unless otherwise noted, this and the subsequent paragraph are based on Telles, Flores and Urrea-Giraldo (2015).

<sup>21</sup> Bruhl, Henderson, Marvin and Morgan (2020).

excluded groups. Furthermore, corrective legislation for corruption in the government and military as well as broad judicial reforms are necessary.<sup>22</sup>

Meanwhile, in Mexico, wage restrictions and the government's limited redistributive role through tax policies perpetuate income inequality. While Mexico's *Prospera* program has had short-term success, the limitations of conditional cash transfer programs fail to eradicate inequality and poverty in the long-term. Therefore, a more progressive fiscal regime based on higher taxation is necessary, although extremely unpopular. Many Mexicans believe that tax reforms will put government resources in the pockets of corrupt politicians and drug lords, and hence refuse to support the necessary taxation to help alleviate widespread poverty and inequality.<sup>23</sup>

However, in order for redistributive economic policies and an increase in social spending to succeed, tax reform is necessary, and its priority on the political agenda is essential.<sup>24</sup> Additionally, according to Ramos, Gibaja-Romero and Ochoa (2020), new public policy should focus on salaried and self-employed workers, who experience the most income inequality. Diminishing income inequality in these groups has a significant impact on decreasing inequality and poverty.<sup>25</sup> Overall, structural and institutional economic reforms are necessary to reduce inequality for the long-term in both countries. The currently existing domestic and international initiatives have not done enough to reduce inequality in Mexico and Peru to acceptable levels.

## VI. Conclusion

This article analyzed inequality in Mexico and Peru, two countries located in Latin America, one of the world's most unequal regions. Inequality in both countries are derivative of long-standing social class inequalities and severe geographical disparities. Racial inequality has underlying tones in both countries, and contribute to overall inequality, but are more subtle compared to other forms of inequality.

In Peru, inequality is largely perpetuated by a government that does not protect the interests of all Peruvians. This trend often masks sources of inequality such as race, class, gender, geography, and education. Similarly, in Mexico, geographical, gender, racial, class, and educational inequality run rampant. By looking at income inequality through the lenses of geography, class, and educational attainment between males and females in both countries, it is clear that the division between the rich and the poor is vast. This is also made evident when observing the incomes shares of the wealthiest 10 percent and poorest 10 percent in each country outlined in Figures 6 and 7 above.

There are a variety of social policies in Mexico and Peru aimed at decreasing inequalities, but they have not been effective in the long-term. Both countries offer cash transfer programs. Mexico's *Prospera* and Peru's JUNTOS program reduce poverty through cash dispersion with the goal to ultimately eradicate generational poverty. However, based on the evidence and literature, poverty and class inequality, which can be linked to racial discrimination in some cases, highly perpetuate overall inequality in Mexico and Peru.

Additionally, in Mexico, socioeconomic policies fail to recognize and support the majority of its workforce in the informal sector. Peru also has a large informal sector, whose participants are

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<sup>22</sup> This paragraph is mostly based on information provided in Kyriacou (2009).

<sup>23</sup> This paragraph is mostly based on information provided in World Politics Review (2017).

<sup>24</sup> World Politics Review (2017).

<sup>25</sup> Ramos, Gibaja-Romero and Ochoa (2020).

largely unaccounted for. Thus, it is clear that much more can be done for Mexicans and Peruvians to gain more equality in all aspects of their lives. The several inequalities each country faces are intersectional with overall inequality. As a result of the inefficiency of current solutions, structural change in both countries, especially economically, is necessary to decrease inequality in Mexico and Peru.

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