RESOURCES RESTRICTING RIGHTS

Fiscal Policy, Inequality and Social Rights in Peru

DECEMBER 2019

EXECUTIVE SUMMARY

CENTER FOR ECONOMIC AND SOCIAL RIGHTS
SOCIAL JUSTICE THROUGH HUMAN RIGHTS

This is the English translation of the executive summary of the Center for Economic and Social Rights report "Un Techo Injusto a los Derechos: Políticas Fiscales, Desigualdad y Derechos Sociales en el Perú". The full report (in Spanish) is available here:
http://www.cesr.org/un-techo-injusto-los-derechos

Executive Summary

In the past two decades, Peru has projected the image of a prosperous and resilient economy, with significant achievements in terms of reducing poverty and inequality, despite recurring episodes of political instability. However, this narrative obscures three important facts.

First, social progress has been very limited in several dimensions and has not reached everyone equally, contributing to structural deprivations for many in the midst of enormous privileges for a small elite. Although some indicators of economic inequality (such as the Gini index) have improved, inequality between groups and regions has increased.

Second, in those human development indicators that go beyond basic access and coverage, such as access to health services for non-communicable diseases or the quality of education (not just attendance rates), progress is questionable and there are enormous disparities between territories and populations along ethnic, racial, gender and class lines.

Third, in recent years, the Peruvian economic expansion and reductions in poverty and inequality have shown signs of burnout, as they have been based on the commodities boom and on unusual conditions in the global economic environment, which are now changing and demand a recalibration of strategy.

A key factor explaining these phenomena is weak state capacity for collecting sufficient resources that allow investment in an equitable, efficient, transparent, sustainable, and responsible way that guarantees human rights, and in particular economic, social and cultural rights. This deficiency not only implies that the Peruvian State is not compliant with its human rights obligations, but also constrains the implementation of more sustainable and inclusive social, economic and development policies. It also distances the country from the standards of the Organisation for Economic Cooperation and Development (OECD), which Peru aspires to join.

For decades, Peru has been one of the Latin American countries with the lowest tax revenue collection rates and, relatedly, among those with the least investment in social policies. The raw materials boom did not change this situation, as the State captured a relatively small percentage of mining revenue in comparison to the regional average; and investment in areas such as health and education experienced only slight increases as a percentage of GDP, placing Peru behind its neighbors. Notably, Peru has a broad swathe of tax exemptions and other fiscal benefits. Also, weak state action in confronting tax evasion and avoidance reinforces the privileged position of actors with greater contributive capacity, further reducing the State's resources and displacing the tax burden on to the rest of the population. In addition, the country's fiscal management is characterized by serious failures of transparency, participation, and accountability that erode tax morale and citizen trust in its institutions.

Although several international bodies and domestic actors have underlined the necessity of strengthening Peru's tax revenue and the State's redistributive capacity, vested interests have stood in the way of the tax reforms the country urgently needs. Failing to implement these reforms would be prejudicial not only to those who have been left behind by the development model of recent years, but also to those who have so far benefited from it, as the progress achieved will not be sustainable over time due to the fiscal weakness of the Peruvian State.

The purpose of this study undertaken by the Center for Economic and Social Rights, in close collaboration with social organizations and researchers in Peru, is to contribute to a broader reflection on the role tax policy should play in reducing socioeconomic inequality and guaranteeing human rights in the country. Its main argument is that the current fiscal policy in Peru is placing an unjustified constraint on the enjoyment of social rights, which also contradicts the constitutional and human rights obligations of Peru. The study focuses on two rights, health and education, and specifically on two main issues: the State's response to cancer, and policies to guarantee the right to bilingual, intercultural education. On both topics, although there are initiatives with good intentions, funding gaps for such policies create significant obstacles to continued progress in the guarantee of these rights.

The case of bilingual, intercultural education is illustrative. Peru as a country has among the greatest cultural and linguistic diversity in the world. It currently has 55 different original or Indigenous peoples and 47 original languages.[1] An estimated four million people speak these languages, of which 1.1 million are children. However, this diversity is at risk, reproducing a pattern of linguistic extinction that is occurring in different places throughout the world. It is estimated that in recent years, 37 original languages have disappeared in the country, and of the 47 languages that still exist, 21 are at risk of disappearing because they are no longer being transmitted from parents to children.

The failure to guarantee Indigenous peoples quality, culturally appropriate education has reproduced racial segregation, reinforced by gender inequalities, which is reflected in enormous gaps in educational indicators regarding access and quality, and the enjoyment of other rights. Policies supporting bilingual, intercultural education are a bold response toward closing these gaps and ensuring Indigenous peoples can exist in conditions of dignity and equality. When such policies are implemented appropriately, they have provided superior results to regular education. However, today, these policies sorely lack financing, leading to retrogressions in the results obtained. The intercultural character of the Peruvian State should be backed up with a genuine fiscal commitment to putting such policies back on track.

The State's policy regarding cancer is another emblematic case of fiscal challenges Peru faces in today's context. With the epidemiological transition, non-communicable diseases have become a priority challenge and cancer, in particular, has become the leading cause of death by illness in Peru. Although its incidence continues to be comparatively low in the international context, the mortality rate for cancer in Peru is relatively high. An estimated 30 men and 37 women die each day in the country as a result of this illness. The divergent experiences of patients with cancer dramatically reflect the costs of inequality. The poorest people tend to be diagnosed in more advanced stages of illness and face greater barriers to accessing adequate and prompt treatment due to unequal integration in the health system, in addition to disproportionate burdens that are transferred to the family and result in reproducing existing inequalities.

Cancer is an expensive illness, but it is more expensive for the society and State to fail to mobilize sufficient resources to prevent it, detect it, and adequately treat it. Peru established *Plan Esperanza* (Plan Hope) only in 2012, a public program for the prevention and treatment of cancer with notable achievements. In 2019, after a period of sustained increases, the total budget for cancer care (including for local governments and decentralized institutes) was cut by was cut by a sixth. The achievements that have been obtained are at risk of reversal if the budgetary commitment to confronting one of the main public health challenges the country faces today is not maintained.

This report shows that the persistence of high levels of inequality in Peru is explained, to a large extent, by the absence of fiscal policies that allow for adequate and equitable financing of programs that are crucial to the guarantee of social rights. In this context, the report concludes with specific recommendations for the Peruvian State, highlighting four urgent tasks:

- Ensure a mobilization of sufficient resources to cover the challenges regarding the provision of quality public services.
- Strengthen the redistributive capacity of both the tax system and public spending, to contribute to closing enormous socioeconomic disparities.
- Use innovative fiscal instruments more broadly, including green taxes and health taxes, which would facilitate the transition toward a more sustainable development model and contribute to guaranteeing human rights.
- Strengthen a fiscal pact that is more just, transparent, and participatory, and contributes to recovering citizen trust in institutions.

The Peruvian State certainly has options available to finance key social policies. Official estimates on the resources lost to income tax evasion indicate that this amount is higher than total public spending on education. With the resources the State loses by granting tax incentives, the budget for the cancer attention program could be multiplied by 12. And the revenue collection potential of direct progressive taxes, such as personal income and wealth taxes, could help to promote sustainable development and reduce the territorial, racial, ethnic, and gender disparities that afflict the country.

The Peruvian case and the issues that arise from it demonstrate the challenges the human rights agenda faces today in addressing fiscal policy and other structural causes of rights deprivations that go beyond minimum essential obligations. These challenges are particularly relevant in countries such as Peru, which faces an array of crucial transitions at its current juncture: the transition from a middle-income to a high-income country; the demographic and epidemiological transition linked to the end of its "demographic dividend"; the transition from commodity dependence toward diversification of the productive sector in a manner aligned with environmental sustainability; and the consolidation of a battered democracy.

1 As of this report's publication, the results of the Third Census of Native Communities 2017 had been published, according to which 2,073 communities were registered, stating they belonged to 44 Indigenous or original peoples, and spoke 40 Indigenous or original languages. However, Indigenous organizations have expressed serious objections regarding the design and implementation of the census. See: Working Group on Indigenous Peoples of the National Human Rights Coordinator, 2018. Alternative Report. Compliance of the Peruvian State's obligations of ILO Convention 169, available at: http://derechoshumanos.pe/wp-content/uploads/2018/10/Informe_Alternativo_2018.pdf

ABOUT CESR

The Center for Economic and Social Rights (CESR) was established in 1993 with the mission to work for the recognition and enforcement of economic, social and cultural rights as a powerful tool for promoting social justice and human dignity. CESR exposes violations of economic, social and cultural rights through an interdisciplinary combination of legal and socioeconomic analysis. CESR advocates for changes to economic and social policy at the international, national and local levels so as to ensure these comply with international human rights standards.

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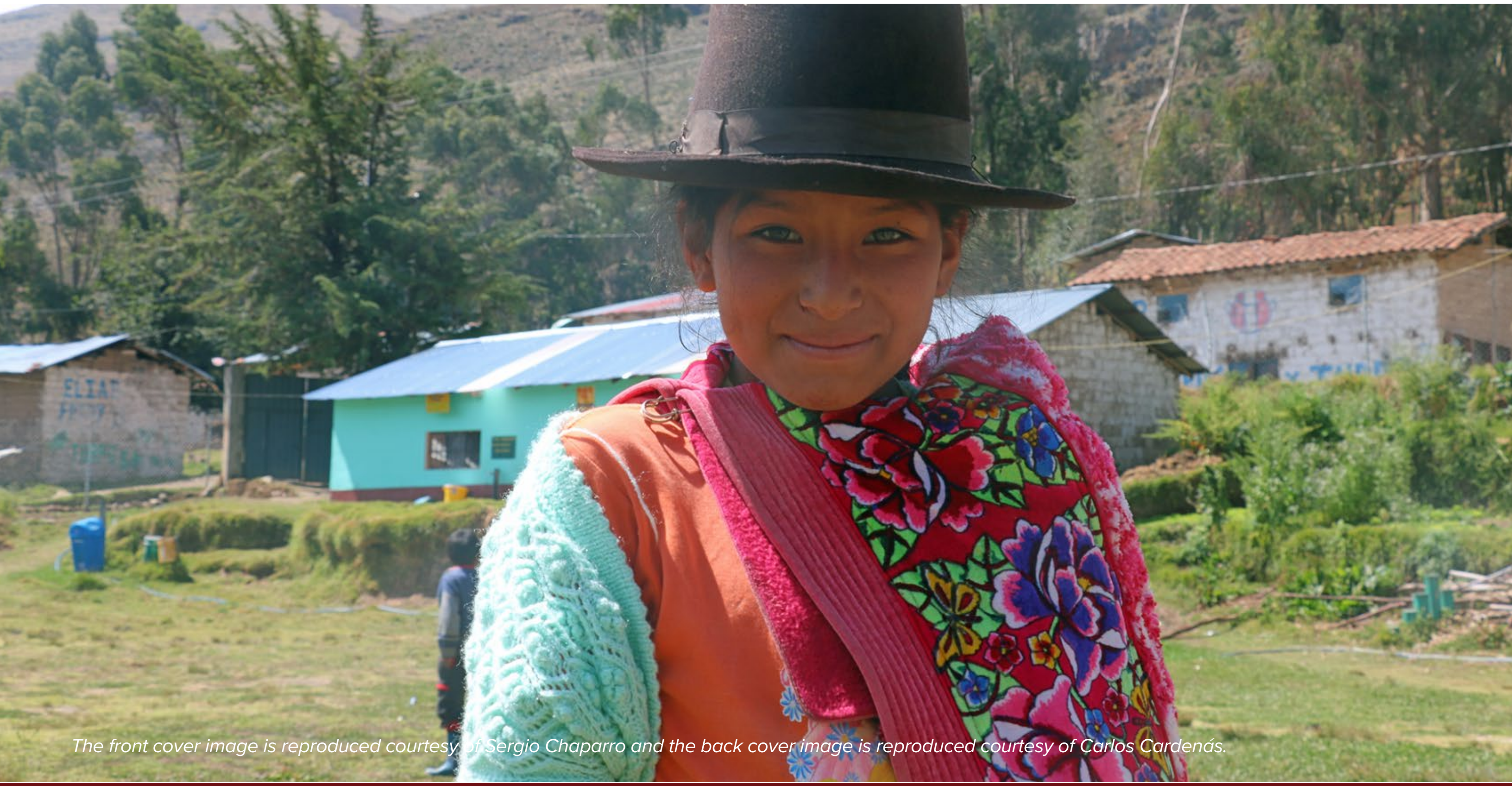

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