Innovation, Inclusion and Integration. From Transition to Convergence in Eastern Europe and the Former Soviet Union[1]
World Bank, 2008, 142 pages.

Washington DC-based bank of the world is full of optimism. Its recently published report on transition and convergence in Eastern Europe and former Soviet Union is titled *Innovation, Inclusion and Integration*. Before reading the report, one would assume that these three catchy buzzwords indicate a distant target toward which the countries concerned should be heading. However, after reading the report, we are left with the impression that the post-communist states are almost there, or at least, well on the way towards reaching this goal.

The volume *Innovation, Inclusion and Integration* is not thoroughly new – it is based on six regional studies produced by the World Bank in the past few years. The reviewed report is aimed to be a "synthesis and culmination" of these studies. They cover a whole range of areas, such as productivity growth, enhancement of job opportunities, trade and integration, migration and remittances, poverty and inequality, and ageing populations. The issues mentioned are indeed pressing in the post-communist region, and each of them – and each of the reports – would deserve a closer scrutiny. This article, however, provides observations only of selected issues, and seeks to discuss the report in more general terms. The reason why particularly this report is important to investigate is its ambition to summarise one chapter of history – to put the full-stop after the sentence of transition from communism to capitalism.

As any other official World Bank publication, even this paper contains a disclaimer that its content does not necessarily reflect the views of the institution[2]. In case of this particular report, however, the Bank administration can sleep soundly. The philosophy of the report is compatible with Bank's long-standing activity. It is the philosophy of economic growth first. Some statements sound almost as declarations of religious faith and speak for themselves: "productivity growth, the only viable route to lasting prosperity…". In this respect – and despite its development and poverty-reduction mission, despite the title of Part I *Innovation*, despite some recent developments in transparency, rhetoric, CSO approach, and other harmless things – the Bank has not moved an inch forward and the authors of the study firmly stick to economic growth as an incontestable priority.

Even in achieving the Bank's alleged mission, a world free of poverty, the recipe prescribed by the authors of the paper is clear – economic growth. The productivity growth as the "main determinant of poverty reduction", together with measuring poverty only by income, form two axiomatic pillars of the World Bank reductionist approach to poverty. Having applied them, the authors proudly state that 50 million people – out of 400 million in the region – moved out of absolute poverty between 1999 and 2006.

The researchers' most interesting observation is that this success happened without notable gains in employment. How was this possible? The paper refers to the trickle-down effect and its authors believe in generosity of public and private transfers. In terms of the former, they say that "social transfers cover the poor quite well", the ground for this statement being the fact that "almost all the poor receive some form of social transfer" (p. 94). Regarding the latter, i.e. private transfers, remittances are identified as a crucial tool of external financing and poverty reduction.

Now, let us imagine for the moment that social transfers are really generous in the post-communist countries and that the remittances are more of a positive than a negative phenomenon. Can one be happy with the results of the World Bank paper? Hardly so. The World Bank methodology of poverty assessment has been for a long time and widely criticised on different grounds and from various angles[3]. Nothing is changing after this report. Just to summarise the major arguments – fixation on

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[1] World Bank (2008): *Innovation, inclusion and integration. From Transition to Convergence in Eastern Europe and the Former Soviet Union.*
http://siteresources.worldbank.org/ECAEXT/Resources/258598-1214317074726/Innovation_Inclusion_Integration_Full_Report.pdf

[2] This is, of course, understandable – the Bank does not want to subscribe to unexpected conclusions that would undermine its authority and legitimacy, as previously made by such leading WB affiliated researchers as Joseph Stiglitz, Branko Milanovic or others.

[3] See for example a brief recent paper of the UNDP's International Poverty Centre *The New Global Poverty Estimates – Digging Deeper into a Hole,* available at:

quantitative data, i.e. income, and inadequacy and international incomparability of the World Bank poverty line constructions. The reluctance of the authors to engage relative indices of poverty, to use qualitative data from household surveys, to admit the subjective aspect of poverty, leaves the Bank somewhere back in the 1980s. And some two general paragraphs on "well-being in transition" (p. 96) cannot really make it any better.

If we move from the *Inclusion* to *Integration* part of the report, we can still sense the same kind of optimism. The report is rich in analysing and classifying the transition countries, for example, in terms of factor composition or nature of their trade. The authors are amazed that the transition countries resemble other countries in their relationship with the international trading system. According to them, "this reintegration into the world economy in barely a decade and a half since the beginning of the transition is worthy of note" (p. 109). It certainly is.

Nevertheless, what is lacking is an analysis – or at least some statement – on the relationship *between* the transition countries and the rest of the world. To state that the transition countries are normally integrated, and to classify them according to selected criteria into groups *among* themselves, may be correct but cannot, on any rigorous terms, be enough. The missing, and at least equally important, part of the picture is the question: what is the nature of this integration? Even the best performers among the transition countries are often in a dependent position towards the more developed economies of the world[4]. Unfortunately, this important fact remains overlooked by the World Bank researchers.

And finally, the authors decided to add Part IV to the report and to the topics in Parts I, II, and III – *Innovation*, *Inclusion* and *Integration* respectively. Namely, the final part concentrates on demographic change or – in the WB trendy language – *The Third Transition*. This short additional chapter is very interesting and important not as much for what it says, but for what it does not say.

Although pensions and pension systems are naturally dealt with in this chapter, there is absolutely no mention of the fundamental pension reforms many of the transition countries have enacted under a policy guidance of the World Bank. Introduction of a private pre-funded pillar (in other words partial privatisation of pensions) – once presented as a flagship of the Bank's policy advice package for the post-communist countries – has not found its way into the reviewed report. Similarly, if we look for a reference to the seminal World Bank report in this field, *Averting the Old Age Crisis* published in 1994, we will not find it in the list of used literature. Why is it so – is it because the Bank is too modest to mention something that was portrayed to be a magic solution for demographic problems only few years ago; or do the authors of the report tactfully keep quiet about something that generates far less enthusiasm, once put into practice?

To summarise, the report reviewed is indeed very rich and complex in its analysis. However, its usefulness consists not so much in the assessment of the post-communist transition, but rather in mirroring the World Bank's ideas about it and its engagement in it. Part I, *Innovation,* is in fact not too innovative – it just refines and repeats the old-school "economic growth as panacea" argument. Part II, *Inclusion*, lags a long way behind the Bank's purported mission of fighting poverty, and not only because it is methodologically questionable. Part III, *Integration,* is limited in its scope and neglects to deal with the nature of the relationship between the transition countries and the rest of the world. And finally, Part IV, *The Third Transition,* on demographic change displays a striking amnesia and inconsistency with the previous World Bank approach to the problem.

And so it is now not so difficult to understand why the report is written so optimistically – as it is about the World Bank perspective rather than about the reality of the transition countries. This is because the effort to "synthesise and culminate" one chapter of historical evolution is performed by an institution that has not only observed this history, but also co-created it.

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http://www.undp-povertycentre.org/pub/IPCOnePager65.pdf

[4] This situation is described by the concept of passive extraversion, coined by Professor Joachim Becker. It refers to a dependence on imports of capital, goods, or technology.