

**SOCIAL COHESION, PUBLIC POLICY, AND ECONOMIC GROWTH:  
IMPLICATIONS FOR COUNTRIES IN TRANSITION**

Jo Ritzen  
Vice President for Development Policy  
The World Bank

Michael Woolcock  
Social Scientist, Development Research Group  
The World Bank

Address prepared for the

*Annual Bank Conference on Development Economics (Europe)*

Paris, June 26-28, 2000

We gratefully acknowledge helpful comments from  
William Easterly and an anonymous referee.

## **Introduction**

How do individuals create, change and sustain social order? How helpful is the concept of social cohesion in understanding how different societies manage the transition from one social order to another? How might social cohesion help practitioners, policymakers, and citizens bring about more equitable and effective change?

I was a member of the Dutch Cabinet when the Berlin Wall fell and subsequently other Central and Eastern European countries liberated themselves from communism. The general feeling among Western European governments and economists was one of happiness with the removal of oppression, and confidence that the newly won freedom for individuals would soon translate into greater prosperity for all.

The mood was especially optimistic regarding the economic aspects of the transition. Some help from the outside might be needed, but most observers presumed it would be a relatively quick and painless process. The Central and Eastern European countries were, after all, relatively advanced in terms of both their physical as their human capital infrastructures. To be sure, there were observers who predicted a slower transition, as market behavior and economic competition had to be acquired after decades of life under detailed plans, stringent quotas, fixed prices, and guaranteed employment. But no-one predicted output falls of more than 50% (as observed in the 1990s in Armenia, Azerbaijan, Georgia, Moldova, Tajikistan, Turkmenistan, Ukraine – all parts of the CIS) or more than 20% (as occurred in Bulgaria, Croatia, Estonia, Macedonia, Latvia, Lithuania, Romania). At the end of ten years of reform, the harsh reality is that only Poland (117), Slovenia (104), and Slovakia (100) have similar or higher living standards in 1998 than 1989 (=100). Why were our predictions so wrong? What lessons has hindsight taught us?

Perhaps the most important lesson is that a change in the social order is far more complicated than was originally thought. Such changes essentially require new ways of defining relations between groups of people, including the degree of inclusiveness of the

society<sup>1</sup>. Another important lesson is that these shifts in social relations require complementary institutions to manage new forms of conflict, opportunity, rights, transactions, and information, all of which in turn are important determinants of a society's prosperity. It is this relationship between social inclusion, political institutions, and economic performance in transition countries that we seek to examine through the lens of social cohesion.

The idea of social cohesion draws on a fascinating body of literature from across the social sciences that is gradually coalescing into a more or less coherent framework for understanding social order and its effects on economic life. This body of knowledge has been pioneered by academic scholars such as Dani Rodrik, Peter Evans, Robert Putnam, and Amartya Sen. My colleagues in the Development Research Group at the World Bank, especially Paul Collier, David Dollar, William Easterly, Aart Kaaray, and Michael Woolcock, play a prominent role in the current research. An overview of their work is represented in the forthcoming *World Development Report 2000*, on poverty, and will feature more prominently in *WDR 2001*, on institutions. Importantly, we are also learning from the voices of poor and marginalized people themselves. A key feature of this year's WDR on poverty is that it incorporates the findings of a major study undertaken in 63 countries on how the poor understand the causes, experience, and consequences of poverty.<sup>2</sup> We have learned that listening attentively to the poor, and forming genuine partnerships with them, can make a big difference in terms of how we respond, and how we evaluate our actions. These formulations may appear at first view to be rather academic and philosophical. Yet the approach and intent is highly practical: our goal is to contribute to effective poverty reduction by making complex notions such as social cohesion more accessible to practitioners and policymakers.

---

<sup>1</sup> Social exclusion, dislocation and the displacement of people and whole communities is not a sub-national, or a "third world" issue; indeed, Europe's share of the international refugee crisis is almost as dire as that of Asia and Africa. Where protracted social and political conflict in most of the developing world and in central Europe has resulted in an estimated 21.5 million people being rendered "*population of concern*" for the United Nations High Commission for Refugees, Africa, Asia and Europe are about evenly matched with refugees, asylum seekers etc. (UNHCR Refugee Statistics overview 1998)

<sup>2</sup> See *Can Anyone Hear Us?*, *Crying Out for Change*, and *From Many Lands* (Three Volumes in the 'Voices of the Poor' Series, The World Bank and Oxford University Press, 2000)

This is the second of three papers in which I endeavor to apply the emerging framework around social cohesion to economic development issues around the globe. The first paper concerned itself with the OECD countries (Ritzen 2000), this paper will address transitional countries, and the third the developing countries (Ritzen, Easterly, and Woolcock 2000). I begin by introducing the idea of social cohesion and the various ways in which it has been used (and abused) over the years. I also compare the similarities and differences between its conceptualization in the developed and developing world. I then argue for the importance of adding an institutional context to social cohesion. Next, I provide a summary of the broad evidence in support of the thesis that socially cohesive societies are more likely to pursue pro-poor economic growth strategies. In conclusion, I explore the implications of this evidence for development policy. The practitioner's point of view, which I like to adopt, is derived from my work at the World Bank. An important and recurring theme of this paper is that social cohesion should not be seen as primarily a developing or transition country concern; indeed, too much is made of the distinction between "developed", "transitional" and "developing" countries. Social cohesion, like the problem of order it seeks to flesh out, is as important in the Ukraine as it is in the UK, in Canada as it is in Colombia, in the Netherlands as it is in Nigeria.

The World Bank's primary goal is to uproot poverty and effect long-term, equitable and sustainable development in so-called underdeveloped and transition countries. The touchstone of our work is the Comprehensive Development Framework (CDF) and our Poverty Reduction Strategy Papers (PRSP). The essence of the CDF is the understanding that development entails more than just "getting the macro-economic fundamentals right." Low inflation, balanced budgets, macro-economic stability, etc. are important, of course, but they are not ends in themselves; rather, they are a means to an end, and that end must be to reduce poverty. The CDF and PRSP give countries primary responsibility for devising, implementing, and monitoring development projects; it places individual countries in the driver's seat. We have learned the lessons of aid effectiveness. Development is only achieved under good governance and with a good policy environment. Good governance and the policy environment cannot be "bought", but they can be supported by capacity building, and by the transfer of knowledge and resources.

But how is “ownership” achieved and developed? I argue that the idea of social cohesion provides important insights into this question.

For the purposes of this paper and this conference I want to focus on a conceptual framework of development in the 27 transition countries, one that is both informed by and that shapes the World Bank’s approach to policy and projects. As the title of this paper suggests, I have adopted the term “social cohesion” and placed it at the center of this framework, as I believe it relates closely to the two elements of a country essential for equitable economic growth, namely an inclusive civil society and responsive political institutions. I am aware that many different “social” labels—social capital, capability, exclusion, infrastructure—have recently been coined to capture some of these concerns. My own preference is for the concept of social cohesion, since I believe it comes closer to its relations to these twin features of societal inclusion and political responsiveness.

Does the term social cohesion help us in understanding transition in Central and Eastern Europe? Does it help to order our thoughts? And if so, can that reflection be tested empirically? These are important questions for researchers. They also set the stage for policymakers: is the term “social cohesion” useful for the politician in making decisions? A second set of questions immediately follows from positive answers on the first set. If social cohesion makes sense analytically (and empirically), then we would want to know how social cohesion itself develops, how it grows or declines, and how political decisions can influence social cohesion. It is not so much social cohesion in itself that has captured my interest, then, but rather its potential for helping us understand a *range* of development outcomes.

## **1. Understanding and Applying Social Cohesion**

Other contributions to this field—indeed to this ABCDE conference—use the term social capital. I prefer the term “social cohesion” for a number of reasons. First, I find the term ‘capital’ to be confusing when applied to social issues because many of the characteristics of physical capital do not apply (e.g., divisibility, non-negative, and the possibility for establishing ownership). Second, I use the term social cohesion differently

from social capital. There is a growing literature emphasizing the “dark-side” of social capital (a good example is the possibility that more social capital leads to corruption or cronyism). Just as more physical capital is not necessarily good for everyone, there is an optimal level of social capital. In the way I define social cohesion, more is better. Third, the term social capital has no inherent ambition to be related to inclusion or responsive political institutions, while social cohesion does so (in my use of the word). Fourth, as a former politician myself, I want to use terms that policymakers and citizens alike intuitively understand and are comfortable with. I also want to refer to broader features of society, whereas social capital is primarily concerned with networks and communities. It is true that the term human capital does not satisfy the characteristics of physical capital either, but at least one of the common elements about human and physical capital—as Glaeser (2000) rightly points out—is that *individuals* decide on the investments. With social capital it takes always two to tango; indeed, given the number of people often involved in a network, social capital may be more of a square dance than a tango! In the end, however, the use of a particular term over another matters far less than that the issues they all encapsulate are brought to the table and seriously debated.

My reflection takes as its point of departure missing clues in the mystery of development. Consider the case of Ireland, for example, which emerged from being a relatively poor OECD country to recently overtake the UK in GDP per capita. The explanations for this rise are quite solid: the Irish combined sound fiscal policy and a strong human development policy, with a commitment to the rule of law and peaceful labor relations in an open country environment (Barry, 1999). We need to look behind these explanations, however, since they tell us nothing about *how* the Irish were able to organize these good policies. Conversely, consider Argentina, which fell from being one of the world’s richest countries in GDP per capita in 1920 to developing countries status now, doing so largely because of its poor choice of economic policies. We know in general that good policies matter for development, but we are still looking for clues as to why good policies come about in one country but not in another.

Interestingly and importantly, these longer historical trajectories of developmental success and failure are mirrored in the recent experience of the transition economies in

the ten-year period following the fall of the Berlin Wall. Since 1989, countries such as Poland and Slovakia have done remarkably well, while most of the former Soviet bloc countries (e.g., Ukraine) have declined alarmingly<sup>1</sup>, enduring an economic collapse longer and deeper than the Great Depression in Germany and the United States in the 1930s (Milanovic, 1998). A third group of countries, represented by Bulgaria, have stagnated (see Table 1 and Figure 1). What explains these three different postsocialist growth trajectories?<sup>2</sup>

**Table 1: Comparative Performance of Postsocialist Economies in the 1990s**

| <i>COLLAPSING</i> | <i>STAGNANT</i> | <i>GROWING</i>    |
|-------------------|-----------------|-------------------|
| Azerbaijan        | Armenia         | Albania           |
| Bosnia            | Belarus         | Croatia           |
| Georgia           | Bulgaria        | Czech Republic    |
| Kazakhstan        | Estonia         | (Eastern Germany) |
| Kyrgyz Republic   | Lithuania       | Hungary           |
| Latvia*           | Macedonia       | Poland            |
| Moldova           | Romania         | Slovak Republic   |
| Russia            | Uzbekistan      | Slovenia          |
| Tajikistan        |                 |                   |
| Turkmenistan      |                 |                   |
| Ukraine           |                 |                   |

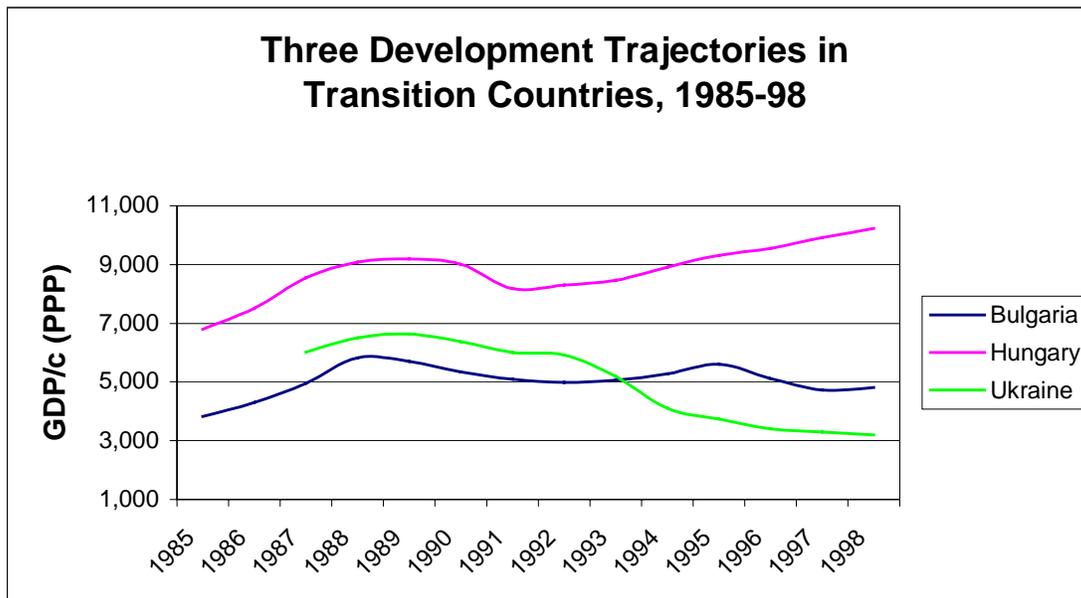
\* Latvia's economy declined alarmingly from 1990-95, but has since recovered quite strongly.

Social cohesion may provide one of those clues. The expectation that it might be *the* clue does injustice to the complexity of development. Moreover, social cohesion may be no more than an analytical concept: helping us to organize our thinking on the complex processes which lead to social or political choices which may serve better short or long term development. But social scientists and politicians alike who are from a Popperian descendent would like to see whether measures can be developed to test empirically the

<sup>1</sup> Poland had a GDP/c of \$5400 in 1989, and by 1998 had increased this by more than 40% to \$7600. Georgia, by contrast, had a GDP/c of \$9650 in 1989, but has endured a growth collapse of more than 60% over the same period to record a level of \$3350 in 1998.

social cohesion hypothesis. Accordingly, we need to be as precise as we can in terms of providing a definition of social cohesion, and as rigorous as we can, in terms of assembling the available evidence. (This latter task is particularly difficult in the transition economies, where time-series data of any quality is hard to come by. Nevertheless, the preliminary results presented here are suggestive.)

**Figure 1**



Social cohesion has many formal definitions (this is exemplified for OECD countries in Appendix 1). Pauline O’Connor (1998), of the Canadian Policy Research Network, for example, states that social cohesion refers to “the presence of basic patterns of cooperation, social action and core sets of collective values.” This definition, like much of the work and thinking on social cohesion, is essentially focused at the community level, but in my deliberations on these matters I have found it necessary to incorporate a macro-political component. This is so because the quality of government—at the local, state, and national level—has a major bearing on the capacity of societies to negotiate solutions to their problems, and to advance collective interests. Whether those problems or opportunities stem from domestic or international sources, the broader legal and

<sup>2</sup> For detailed empirical discussions of economic growth in transition economies, see, among others, Campos and Coricelli (2000) and Fischer and Sahay (2000). On social cohesion and growth in Africa, see Elbadawi (2000).

institutional environment in which they occur shapes and constrains the range of possible actions, and the extent to which any of them can be successfully implemented. A summary of my conceptual framework is outlined in Figure 2. It is my contention that a country's social cohesion—contributing to the inclusiveness of its communities *and* responsive political institutions—has a vitally important role in managing the effectiveness of that country's policy response to the vagaries of the global economy. If social scientists can demonstrate this empirically, then politicians and policymakers should be able to see its significance for their country, and act accordingly.

To this end, I define social cohesion in the following way:

*Social cohesion is a state of affairs in which a group of people (delineated by a geographical region, like a country) demonstrate an aptitude for collaboration that produces a climate for change.*

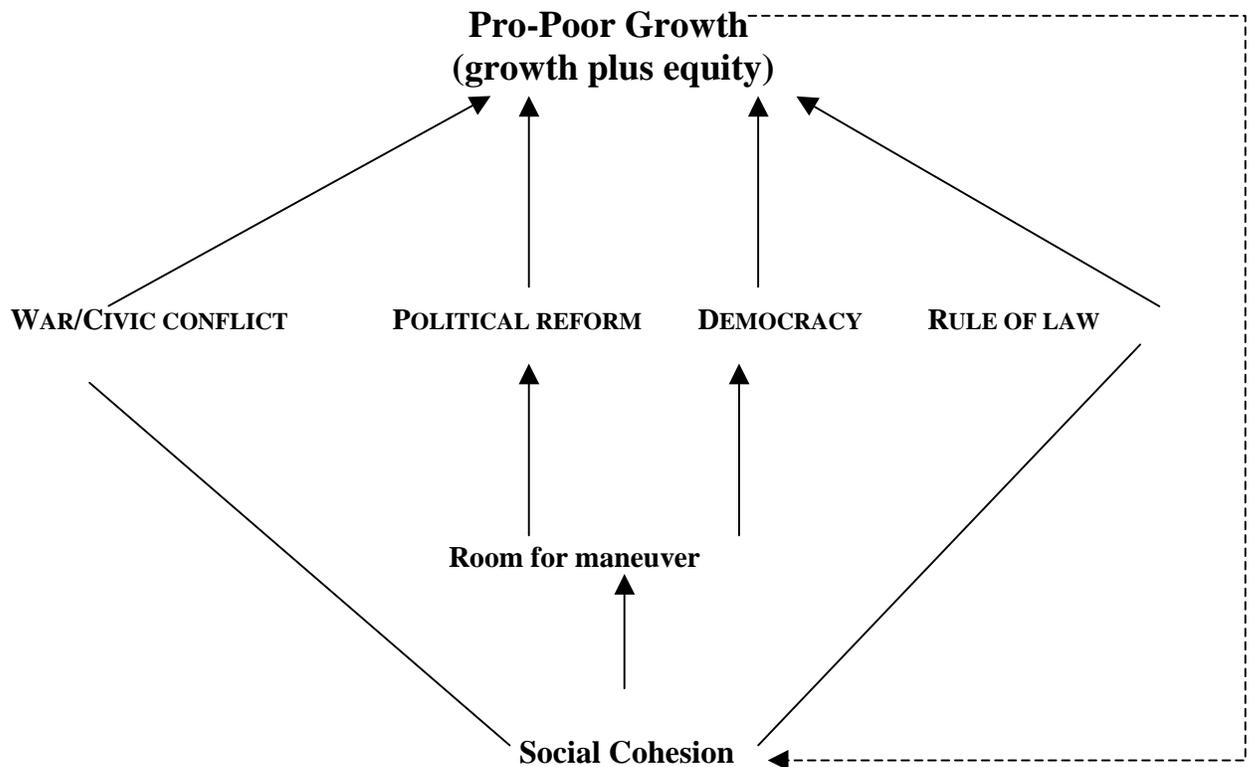
Presumably what some people would define as social capital—i.e., the norms, networks and other related forms of social connection—will be an important basis for this aptitude. At the same time it will matter how, with whom, and on what terms these norms, networks and other connections are made. Linking relations that connect people from different socio-economic and demographic groups are presumably the most important of these, compared to bonding (family, friends) or bridging (colleagues, horizontal ties) relations (Woolcock 2000). The definition also implies that people trust that their collective action - which may entail short run losses - generates in the long run benefits (on average). This is what creates “room for maneuver” for Governments.

In seeking to unpack this notion of social cohesion, let me stress from the outset that I am fully aware of the fact that some political partisans with a narrow—even sectarian—agenda have had an unfortunate history of invoking “social cohesion”-type arguments as the basis for their actions. The desire to cultivate a sense of national unity and “purity” brought us the holocaust and ethnic cleansing, so I am most surely not arguing that social cohesion equals cultural homogeneity or intolerance of diversity; quite the opposite. Nor am I invoking some naive suggestion that social cohesive societies are always harmonious, or without political conflict. Rather, I use the concept of social cohesion to make the point that—whether the entity concerned is a community, a corporation, or a

country—the extent to which those affected will work together when crisis strikes or opportunity knocks is a key factor shaping performance. Graphic scenes on CNN during the 1997 financial crisis in South Korea provided a fascinating case of social cohesion in action, of people tearfully parting with family treasures in the belief that their humble contribution was making a difference. Where this cohesion is lacking—as it was in Indonesia—the response to crisis was far more sluggish, heightening a number of other political tensions. Dani Rodrik (1997) accurately notes that crises of this sort are “not a spectator sport—those on the sidelines also get splashed with mud from the field. Ultimately the deepening of social fissures can harm all.”

In OECD countries, discussions about social cohesion are driven by a concern to maintain an inclusive society able to withstand external shocks and the harsh effects of a global economy. In the developing world, social cohesion is discussed more in terms of reconstructing and developing a sense of shared identity. Avoiding civic conflicts, encouraging effective rule-of-law (especially in post-conflict societies), and developing a new set of formal institutions for managing exchange that complement existing informal institutions (political reform), is a high priority. Pro-poor growth presumably feeds back into social cohesion. These are the elements of the conceptual framework of Figure 2.

**Figure 2: A Conceptual Framework**



Social cohesion in transitional countries is driven by three general concerns. First, to maintain a measure of equality and inclusiveness as free(er) markets reward the skills of some more than others. Second, to forge a sense of trust, confidence, and cooperation where previously there was suspicion, paranoia, and deceit (reinforced by the Secret Police, etc). Third, to construct transparent, accountable, and flexible public institutions for managing new forms of risk and reward. Addressing all three of these concerns in countries as diverse and divided as those of Eastern Europe pose enormous policy challenges for governments, NGOs, and multilateral agencies alike. We are both interested in levels of social cohesion as well as changes (hopefully improvements) over time.

A common set of questions unites the social cohesion literature, however, perhaps the most fundamental being: How do countries keep their societies cohesive (intact) during

times of significant change and transformation, in the face of the harshness of global economic processes? How can governments—in collaboration with other actors—create for themselves the “room-for—maneuver” that enables them legitimately to implement and sustain both political and economic reform? A sub-set of questions includes much more complex (and theoretical) questions, such as: What are the bases for inclusion and exclusion in different types of social groups? How are conflicting interests between different groups negotiated and if required to, how are these conflicts managed?

To understand social cohesion one ought perhaps take a step back and look at social exclusion and its four main causes. In its economic dimension, exclusion is first and foremost linked to poverty. Although in some instances it may be the cause, in general it is understood to be largely the result of poverty. The unemployed are typically excluded from mainstream economic activity and are, therefore, denied access to property and credit. In most of the developing world, especially Africa, long-term unemployment has rendered many people unemployable. The second dimension is social: unemployment does more than deprive one of an income, in most societies unemployment greatly reduces one’s status in society. This has been a particular concern in transitional economies, where memories are still fresh regarding times of full employment, and where exposure to global markets has exposed many painful differences in productivity and living standards. Exclusion takes on a political (third) character when certain categories of the population (women, ethnic, racial and religious groups, especially minorities) are deprived of access to their rights, and/or when they can be blamed as the source of problems being endured by the majority. A fourth dimension is identified as “non-sustainable modes of development”. This is explained as development that compromises the survival of future generations (and which) excludes them from the benefits of feasible, durable development.

There is a very short leap, conceptually, between social exclusion and social cohesion; indeed they can be understood as two sides of a coin. However, addressing exclusion and developing more cohesive societies is a task complicated by lack of coherence in the understanding of what makes a country or a community cohesive, and when the prevailing orthodoxy equates society with economy. The notion of exclusion raises the

point that there are often pockets of disaffected and/or marginalized groups within society—which can cause rupture and stand in the way of development or integration. For instance, whereas cohesive communities are able to identify problems, prepare objectives, develop strategies to meet those objectives and put them into action, distinct pockets of cohesion may fracture and divide the community or broader society and undermine the trust that is essential to collective action. Listening to the concerns of isolated groups, and incorporating them into the broader vision of society, is an important task for politicians.

In the context of globalization, social cohesion enables us to recognize the continuous process whereby individuals and groups are included or excluded from participation within wider society. It can also refer to the measure of shared values, or to a willingness, refusal or indifference to face common challenges in a society. These are influenced, in turn, by any combination of a variety of factors such as, for example, ethnicity, culture, religion, gender, education, class, physical disability and associations of choice.

If social cohesion matters for the well-being of all societies, it becomes necessary to ask, who, or what is the vehicle for creating, or engendering it? Given the vital role the state has in shaping the context and climate within which civil society is organized, it can, in some cases, also actively help to create social capital—this is one of the conclusions of the forthcoming World Development Report (WDR 2000). Can or should the state play a similar a role in the creation of social cohesion? If so, what should the role of the state be? Here we have to move to the policy environment; where international, regional and national efforts have been underway for most of the past ten years to try and identify the problems caused by social exclusion and the range of responses required for greater social cohesion. Learning the lessons from these efforts, and incorporating more reliable and valid measures of social cohesion into our research programs, is an important next step.

Heyneman (1998) sees a special role for education in engendering social cohesion. In his analysis, Heyneman is closely in line with what I have heard EU or OECD ministers of

education express as a prime objective of education, namely that it was to enhance social cohesion. The social capital literature has traditionally stressed the role of communities and parents in school performance, but the causal arrow may also run in the opposite direction. He identifies three ways in which education contributes to social cohesion. First, it helps provide public knowledge about social contracts among individuals and between individuals and the state. Second, education helps provide the behavior expected under social contracts, “in part through the socially heterogeneous experiences students have in the schools themselves.” Third, education helps provide an understanding of the expected consequences for breaking social contracts. As he puts it, social cohesion “constitutes a new challenge for the economics of education. The basic purpose of public schooling from the beginning has been to establish a cohesive, peaceful and, hence, profitable society.” An important implication of this is that measuring human capital simply in terms of “years of schooling” may be missing a vitally important component, namely that the quality of education matters as much – if not more – than quantity.

There are at least four different ways in which education ministers in the EU and OECD countries relate education to social cohesion:

- (a) Equality of opportunity. If participation in higher education is independent of parental background, this presumably engenders more social cohesion.
- (b) The organization of secondary education can be more or less comprehensive. In many EU countries traditionally the secondary education system used to be highly streamed (with the English Grammar School, the French Lycee or the German Gymnasium). The move towards the comprehensive model (like the US - high school) was foremost based on considerations of equality of opportunity, but secondly also thought of as creating more meeting places of kids from different backgrounds and with different abilities.
- (c) The organization of primary and secondary education can be more or less stratified by socio-economic group. Organization by neighborhoods will reproduce the social class distinctions between neighborhoods in schools. Organization of schools across larger geographical areas may give more opportunities for students of different socio-economic classes to meet and to gain respect, despite obvious

differences.

- d) The content of education, in particular through education directed towards values and norms and civic institutions, may help to foster in children a better understanding of the need for cooperation. The curriculum can help to stress tolerance and the understanding of other cultures.

Unfortunately we lack the database for a rigorous assessment of these elements. What we know is:

- Equality of opportunity in the communist education system was high
- The school system was highly tracked
- School quality differences between socio-economic groups were not large and possibly smaller than in OECD countries
- Values and norms were stressed early and often in the context of the communist ideology

The end result might have been a high contribution of social cohesion, if it were not for the systematic and deliberate undermining of community level solidarity, and the suppression of the multitude of religions, labor, political and social organizations. Social cohesion as an aptitude has to be proven by showing that it is working, that it does render social change of the type which benefits long run development.

### **3. Measuring Social Cohesion**

A more rigorous assessment of the effects of social cohesion naturally requires a comprehensive set of data. One encounters in the literature a great number of different measures, both direct and indirect. Among the direct measures are:

- Measures on memberships rates of organizations and participation in organizations
- Measures on trust

Indirect measures are related to structural factors such as class, ethnicity, and gender inequalities, which may undermine the capacity of different groups to work together, like

- Income distribution measures (Gini coefficients, and share of income to middle 60%)
- Ethnic heterogeneity ('ethno-linguistic fractionalization')

Robert Putnam's important work uses membership of organizations as a measure of social cohesion. There are sharp differences, however, between his assessment of the US and that of many European countries, where indeed social cohesion went up as measured in this way. Is this variance in "social cohesion"—as measured by a richness of participatory processes in organizations—related to strong variance in social and economic policy reform? I do not think so. Hence I question whether Putnam's measure is that relevant for social cohesion as I have defined it. The results presented by Steve Knack (2000) seem to support this. He finds that the trust variable does contribute to the explanation of economic growth, but the membership of organization variable is not influencing growth in a statistically significant way.

Social relations have been measured in developing countries by Deepa Narayan and her collaborators (e.g., Narayan and Pritchett, 1999), but mostly on a micro (community) scale. At that level they are shown to be significant predictors of an aptitude for cooperation and trust. Measures of "trust" (see Knack and Keefer 1997) are now widely available through the successive World Value Surveys. These were held between 1981-1984, in 1991, 1995-1998 and are in the process of being collected in 1999 - 2000. The new surveys being conducted around the world, including OECD countries such as Australia and members of the European Union, promise to yield significant new insights, and will allow us to address these issues with much greater confidence. Work in the transition economies is in its infancy, though some early promising work is starting to appear (e.g. Rose, 1998).

In the meantime, one can use a variety of other societal measures to proxy for social cohesion (or its absence). Measures of income distribution, for example, such as the Gini coefficient, have been used by Dani Rodrik (1999) to address issues pertaining to economic divisions in society. William Easterly (2000) seems to find that what he calls the "middle class consensus" (i.e. a social inequality index that includes of the share of income going to the middle 60% of the population) is a better measure. The latter measure has less variation than the Gini in the transition countries (see Figure 3). While it would be difficult to show that differences in Ginis are direct predictors of enormous

differences in aptitudes for change, a plausible case can be made that social cohesive countries will ensure that rich and poor alike share in both the costs and benefits of change, and thus enjoy greater prosperity than those more divided countries where the benefits primarily go to the rich and the costs are borne by the poor. Hence we assume that "middle class consensus" fits the bill of social cohesion better than the Gini-coefficient alone.

[Figure 3 about here]

Transition countries differ markedly from other developing countries in the proxies of social cohesion as table 2 shows.

[Table 2 about here]

Levels of trust in transition countries are markedly lower, while income is distributed more evenly. Of course, the results of the two variables representing the income distribution reflect still strongly the pre-transition period. The low level of trust in the transition countries is associated with an increase in the Gini coefficient (see Jones and Revenga, 2000, chapter 4) and a decrease in the middle class share of income. The low level of trust is presumably also a heritage of the pre-transition period (Stark and Bruszt, 1998).

### **3. Social Cohesion and Political Institutions**

The quality of political institutions will clearly also be an important factor for pro-poor growth (see Figure 2). As the recent literature on corruption (e.g. La Porta et al, 1997) has shown, arguments that corruption "greases the wheels" of growth simply do not stand up to empirical scrutiny (Tanzi and Davoodi, 1997). A central hypothesis emerging from my social cohesion framework is that limited-government's 'room-for-maneuver' translates into weak institutions. In our-framework (of Figure 2) we assume social cohesion translates into "rule of law" or "good institutions". On both, data are available through the World Bank and through the International Country Risk Guide (ICRG). The

World Bank has the so-called CPIA (Country Political Institutions Assessment) data. These are ratings by country officers of the World Bank and do not claim to be more than indicative. Table 3 gives an overview of the difference between transition and other developing countries on these institutional variables. There is a different sign for “rule of law” variables on the one hand from CPIA, ICRG and on the other from Kaufman et al (1999). The quality of the bureaucracy in the transition countries, in contrast, compares unfavorably to those in other LDC’s, no matter which measure is used. Surprisingly, corruption appears to be more rampant in transition countries compared to other LDC’s.

**Table 2: Social Cohesion Proxies in Transition Countries  
Versus Other Developing Countries**

(simple correlation coefficient for dummy transition country)

|                             |          |
|-----------------------------|----------|
| Trust                       | -.29     |
| Gini                        | -.45     |
| Middle class share          | .38      |
| Transition countries:       | N1 = 37  |
| Other developing countries: | N2 = 120 |
|                             |          |
| GDP per capita, PPP         | -.07     |
| GDP per capita growth       | -.52     |

Trust            Percentage of respondents in each nation replying "most people can be trusted". Source: WorldValues Survey.

GINI coefficient    Average 1990-1996 (coverage for individual countries differs) Source: Deininger, Klaus and Lyn Squire. "A New Data Set Measuring Income Inequality" 1996.

Middleclass share    Share of quintiles 2-4, average 1960-1996.

**Table 3: Proxies on Quality of Institutions in Transition Countries  
Versus Other Development Countries**

|  |      |
|--|------|
| Property rights and rule based Governance (CPIA) | .07  |
| Law and Order tradition(ICRG)                    | .16  |
| Quality of bureaucracy (ICRG)                    | -.09 |
| Civil Liberties                                  | .09  |
| Political rights                                 | .06  |
| Governance effectiveness                         | -.21 |
| Regulatory Burden                                | -.20 |
| Rule of law                                      | -.22 |
| Graft  | -.22 |

Property rights and rule-based governance (CPIA): 1998. (scale 1-6, 6 represents best policy)

Law and Order Tradition (ICRG)                      Average 1984-1998 (scale 0-6, Lower point totals indicate higher risk)

Quality of the Bureaucracy (ICRG)                      Average 1984-1998, (scale 0-6, Lower point totals indicate higher risk)

Political rights (Freedom House)                      Average 1972-1998, (scale 1-7, 1 represents most free)

Civil Liberties (Freedom House)                      Average 1972-1998, (scale 1-7, 1 represents most free)

GDP per capita growth

Government Effectiveness                      Scale 2.5 – 2.5, higher values corresponding to better outcomes

Regulatory Burden                      *ibid.*

Rule of Law                      *ibid.*

Graft                      *ibid.*

Source: Kaufmann, Kraay and Soido-Lobaton (1999)

#### **4. Social Cohesion and Economic Performance in the Transition Countries**

In the passages that follow, I wish to briefly review the evidence in support of the general framework proposed here. The most careful work to date has been conducted on developing and OECD countries, and I will present some of it here, but if the arguments hold true across a broader range of cases, we should also expect them to be true of transition countries. Unfortunately economic, social, and political data are hard to come

by for the pre (and even the post) transition period, so we must tread carefully with the evidence that is available.

The central story of economic growth over the last 50 years has been the contrast between the years 1950-74 and 1975-2000. The former was a time of general prosperity, in which all strategies yielded positive outcomes; rich and poor countries, open and closed economies, temperate and tropical countries—everyone did well. The twenty-year period between 1974 and 1994, however, was disastrous for virtually everyone except the East Asian Tigers; the developing world suffered a twenty-year growth collapse, from which it has only recently emerged. While data from (what we now call) the transition economies is only available from the 1980s, it is interesting to note that the median growth rate for these countries was higher even than that of the OECD countries in the mid-1980s. The growth collapse they suffered following the fall of socialism is astounding; however, equally remarkable is the strong overall rate of recovery in the late 1990s. Figure 4 presents the annual median growth rates over this period, and contrasts the performance of OECD, developing, and (what are now the) transition countries. These lines represent the median economy in any given year, so by definition, half the countries at any one time were doing even worse, while half were doing better. What features seem to explain the difference between the successful and unsuccessful reformers?

[Figure 4 about here]

While the causes of the global recession in the 1974-1994 are fairly well-known, it is instructive to examine some of the differences between those countries that weathered the storm, and those that did not. In his study of a large sample of developing countries, Rodrik (1999) finds compelling evidence that weak public institutions and divided societies performed significantly worse than did those with high quality institutions and united societies. Although the sample of transition countries is smaller, it is my hypothesis that a similar story—though perhaps with a different twist—can be told.

Consider first the role of institutions. Using the CPIA dataset, compiled by my colleague David Dollar, it is possible to assess whether high-quality institutions have been important for the transition economies. Figure 5 suggests they have been, that higher quality institutions are positively associated with higher average growth rates over the post-reform period. One mechanism by which this relationship may work is through ensuring greater economic stability. Indeed, as Figure 6 shows, the more stable transition economies (as measured by the standard deviation of the annual growth rates in the post-reform period) have generated higher average annual growth rates.

[Figures 5 and 6 about here]

A complementary aspect to quality institutions is the nature and extent of social divisions. The most widely available measure here is economic inequality, as measured by the Gini Index. Figure 7 shows that high quality institutions are associated with lower levels of inequality in the transition countries. Moreover, lowering inequality is itself good for growth (Figure 8). As Figure 9 depicts, countries with low inequality experienced the growth collapse in the early 1990s less severely, and emerged from it more rapidly, than did their high inequality counterparts.

Together, these general empirical results show that building social cohesion—through the construction and maintenance of high-quality institutions pursuing the common good, and through the lowering of economic (and other) divisions—has been, and remains, a vital task for countries wrestling with one of history’s most devastating economic transformations. A more difficult set of questions, however, pertains to the origins of the variation in capacity to confront this challenge. If social cohesion matters, why does Hungary seem to have a relatively healthy endowment of it, Bulgaria considerably less, and the Ukraine precious little (cf. Figure 3)? How can social cohesion be nurtured where it already exists, and “constructed” where it does not?

Social scientists from various disciplines have recently begun to ponder these questions, but all agree that the search for answers must begin with history. As Bunce (1999)

explains, the popular wisdom on socialism ascribes a degree of homogeneity to a political system that was in fact characterized by considerable variation. Each of the twenty-seven countries considered here emerged from more than two hundred years of history, having assumed political identities ranging from independent states and provinces to rising and declining empire. Following World War II, these socialist countries varied again according to the type of political parties that were formed, the mechanisms for transferring power, the degree of state control of economic life (including property rights), and, importantly, the extent to which dissent was tolerated.

These factors played a large role in shaping the trajectory of change that ensued in the post-reform period. Countries that were able to make a relatively smooth transition, such as Hungary and Poland, inherited a socialist legacy that had tolerated (if not encouraged) dissent, maintained a multi-party electoral system (if not formal democracy), and supported a somewhat open economy (if not capitalism). These countries have been willing and able to introduce the political and economic reforms needed for integration into the global economy.

Countries that have stagnated, such as Bulgaria and Romania, have struggled to overcome an inheritance of heightened repression of civil society and economic activity, and a monolithic political party structure. Reforms have been slow and the realities of unemployment painful, but a measure of continuity with the past has at least ensured peace and enabled people to draw on a coherent national identity; prospects for these countries are at least hopeful.

The declining countries (e.g Russia, Georgia), by contrast, represent neither reform nor continuity, but rather “hybrid regimes that straddle the two in relatively destructive fashion” (Bunce, 1999: 22). Inheritors of large and highly repressive political structures that remained steadfastly intolerant of opposition voices and external contact, changes have come largely at the behest of international pressures. Built upon the shallowest of democratic foundations and with precious few civic templates to call upon, measures to privatize the economy have largely benefited only a handful of elites and old party faithfuls, while “elections” have been neither free nor fair. The Ukraine has endured nine

consecutive years (and counting) of negative growth since 1990, and it is hard to find signs that the hemorrhaging will end. That it can—indeed must—is the challenge facing governments, citizens, and the international community. While there are no clear answers, paying significant attention to issues of social cohesion—its origins, dimensions, and political construction—will surely help move us in a more positive direction.

#### **4. Conclusion**

Let me conclude by pulling together some of the strands of this paper. On the preceding pages I have drawn attention to several points. The first of these is the need for a deeper consideration of, and a more focused research agenda into, the cohesiveness of societies and the quality of public institutions, and their relationship to sustained and equitable economic growth. We need to know a lot more about how to manage the costs and benefits associated with the transformation of society in a just and fair manner, especially how to foster a greater sense of cooperation and inclusion in environments where there is division, distrust, and hatred. This is an issue for all countries, not just those in transition countries. Building social cohesion matters as much in Slovenia as it does in Sweden.

While these problems are enormously challenging, I think we can be greatly encouraged by the recognition that our definitions and conceptions of development have evolved quite dramatically in recent years. The accomplishments and recent traumas in East and South East Asia, the difficulties of building market institutions in former planned economies, and major conferences such as the UN Summit on Social Development, have shown us just how important it is to invest in the human and social dimensions of development. Healthy educated people are not only more productive workers, they are also better parents, better neighbors, and better citizens. It is my hope that recent events have also taught us the importance of being more humble—though no less committed—in our approach to poverty reduction, of listening more and talking less.

Taking stock of the historical record also reveals that even when it is done well, development is inherently fraught with controversy, that rising prosperity necessarily

alters the balance of power in society. As the social historian Theda Skocpol notes, revolutions are more likely to occur when conditions are *improving*, not deteriorating. This means that we must pay special attention to designing policies and projects that protect the most vulnerable members of society. My colleague Joe Stiglitz (1998) observes that development “represents a transformation of society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of production, to more modern ways.” Adopting and adapting these “more modern ways” is no easy task. Among other things, it requires credible local leaders who are able to articulate the interests and aspirations of the people, to identify a set of objectives and ideals around which those can coalesce. It requires a genuine sense of ownership and responsibility on the part of all stakeholders, and a commitment to work together.

Let me finish by briefly discussing the great paradox of our age, namely that the increasing scale and scope of our global economic affairs is simultaneously reawakening our sensitivities towards local issues and identities (Barber, 1995). An important feature of this paradox is that its resolution depends on overcoming two corresponding trends militating against it, namely increasing inequality (Pritchett, 1997) and increasing volatility. The technology that makes life more stimulating, cosmopolitan, and prosperous for some is making it more precarious and uncertain for many others. Managing the risks and rewards of globalization is thus the key policy challenge of our time. Doing so effectively and responsibly will entail giving renewed attention to social safety nets protecting the most vulnerable members of society. It will entail building more responsive and accountable public institutions that can anticipate problems, and make swift adjustments. It will entail encouraging leadership across all levels of society—from soccer coaches and classroom teachers to business executives and heads of state—to build bridges across the widening social and economic divides.

An inclusive economy and society requires a serious commitment to building and maintaining social cohesion. It matters in all countries and for all members of society, especially the poor, and their prospects of living with a sense of empowerment, security,

and opportunity. I hope you will join us at the World Bank in helping to make that dream a reality.

## References

- Barber, Benjamin (1995) *Jihad versus McWorld* New York: Times Books
- Barry, Frank (ed) (1999) *Understanding Ireland's Economic Growth* New York: St. Martin's Press
- Bunce, Valerie (1999) "The political economy of postsocialism", *Slavic Review* 58(4): 756-793
- Campos, Nauro and Fabrizio Coricelli (2000) "Growth in Transition: What We Know, What We Don't, and What We Should" Background Paper for the World Bank's Global Development Network. Processed.
- Easterly, William (2000) "The middle class consensus and economic development", Washington, DC: The World Bank. Processed.
- Elbadawi, Ibrahim (2000) "Social Cohesion, Conflict Management and Economic Growth in Africa" Paper prepared for the Sixth Congress of the Organization for Social Science Research in Eastern and Southern Africa. Processed.
- Fischer, Stanley and Ratna Sahay (2000) "The Transition Economies After Ten Years" IMF Working Paper, WP/00/30. Processed.
- Glaeser, Ed (2000) "The formation of social capital". Paper presented to OECD/HRDC International Symposium on *The Contribution of Human and Social Capital to Sustained Economic Growth and Well-Being*, Quebec City, March 19-21
- Heyneman, Stephen P. (1998) *From the Party/State to Multi-Ethnic Democracy: Education and its Influence on Social Cohesion in Europe and Central Asia Region*. Paper sponsored by International Child Development Centre, United Nations Children's Fund. Florence, Italy
- Jensen, Jane (1998) "Mapping social cohesion." Paper presented to the Policy Research Secretariat's Conference on 'Policy Research: Creating Linkages.' Ottawa, Canada (October 1)

- Jones, Christine and Ana Revenga (2000) "Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia," Consultation Draft, World Bank
- Knack, Stephen (2000) "Trust, Associational Life and Economic Performance in the OECD." Paper presented to OECD/HRDC International Symposium on *The Contribution of Human and Social Capital to Sustained Economic Growth and Well-Being*, Quebec City, March 19-21
- Knack, Stephen and Philip Keefer (1997) "Does Social Capital Have an Economic Payoff? A Cross-Country Investigation", *Quarterly Journal of Economics*, 112(4): 1251-88
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishney (1997) "Trust in large organizations", *American Economic Review* 87: 333-38
- Milanovic, Branko (1998) *Income, Inequality, and Poverty During the Transition from Planned to Market Economy*, Washington, DC: World Bank Regional and Sectoral Studies
- Narayan, Deepa, and Lant Pritchett (1999) "Cents and Sociability: Household Income and Social Capital in Rural Tanzania", *Economic Development and Cultural Change* 47(4): 871-97
- Osberg, Lars and Sharpe Andrew (2000) "Comparisons of Trends in GDP and Economic Well-being: The Impact of Social Capital". Paper presented at the OECD/HRDC International Symposium on *The Contribution of Human and Social Capital to Sustained Economic Growth and Well-Being*. Quebec City, March 20
- Pritchett, Lant (1997) "Divergence, big time" *Journal of Economic Perspectives* 11(3/Summer)
- Ritzen, Jozef (2000) "Social Cohesion, Public Policy and Economic Growth: Implications for OECD Countries." Paper presented to OECD/HRDC International Symposium on *The Contribution of Human and Social Capital to Sustained Economic Growth and Well-Being*, Quebec City, March 19-21
- Ritzen, Jozef, William Easterly, and Michael Woolcock (2000) "Constraints to Reform: On Good Politicians and Bad Policies" Keynote address, 56<sup>th</sup> Congress IIPF, Spain (forthcoming)

- Rodrik, Dani (1997) *Has Globalisation Gone Too Far?* Washington, DC: Institute for International Economics
- Rodrik, Dani (1999b) “Where did all the growth go? External shocks, social conflicts, and growth collapses”, *Journal of Economic Growth* 4(4): 385-412
- Rose, Richard (1999) “Getting things done in an anti-modern society: social capital networks in Russia” Working Paper #6, Social Capital Initiative, The World Bank
- Stark, David and Laszlo Bruszt (1998) *Postsocialist Pathways: Transforming Politics and Property in East Central Europe*, New York: Cambridge University Press
- Stiglitz, Joseph E. (1998) *Towards a New Paradigm for Development: Strategies, Policies and Processes*. 1998 Prebisch Lecture, UNCTAD, Geneva
- Tanzi, Vito and Hamid Davoodi (1997) “Corruption, public investment and growth” IMF Working Paper #97/139
- Woolcock, Michael (2000) “Managing risk, shocks, and opportunity in developing economies: the role of social capital”, in Gustav Ranis (ed.) *The Dimensions of Development* Yale: Center for International and Area Studies
- World Bank (1999) *World Development Report 1999/2000*, New York: Oxford University Press
- World Bank (2000) *World Development 2000/01*, New York: Oxford University Press
- Wrong, Dennis (1994) *The Problem of Order*, New York: The Free Press

**Figure 3**

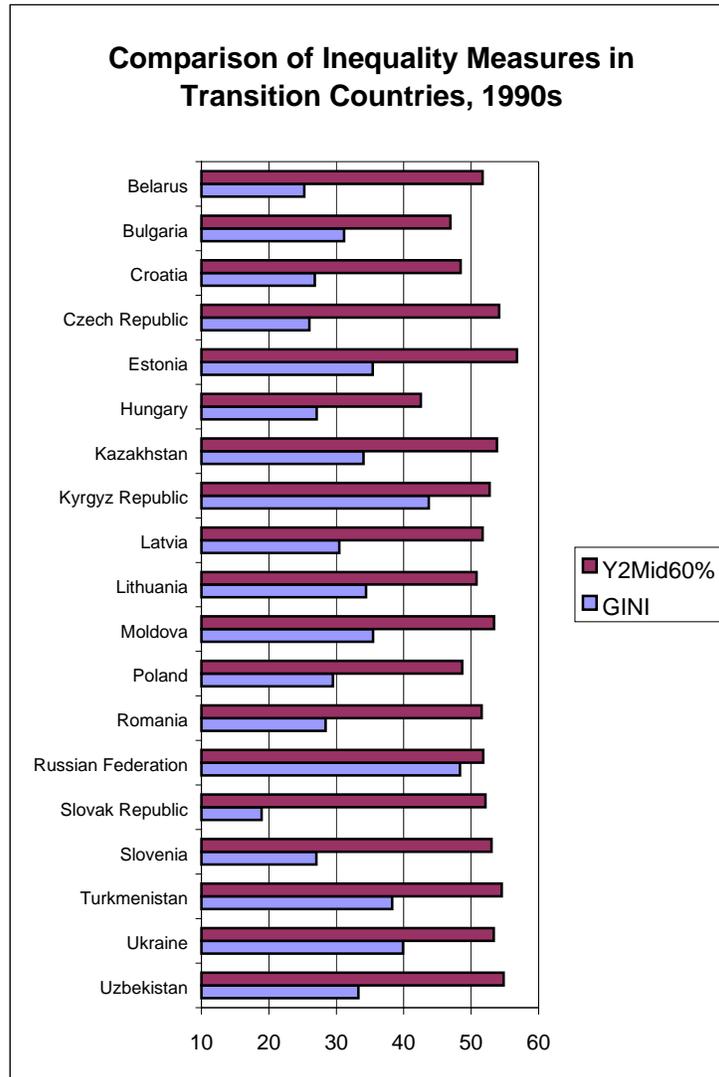


Figure 4

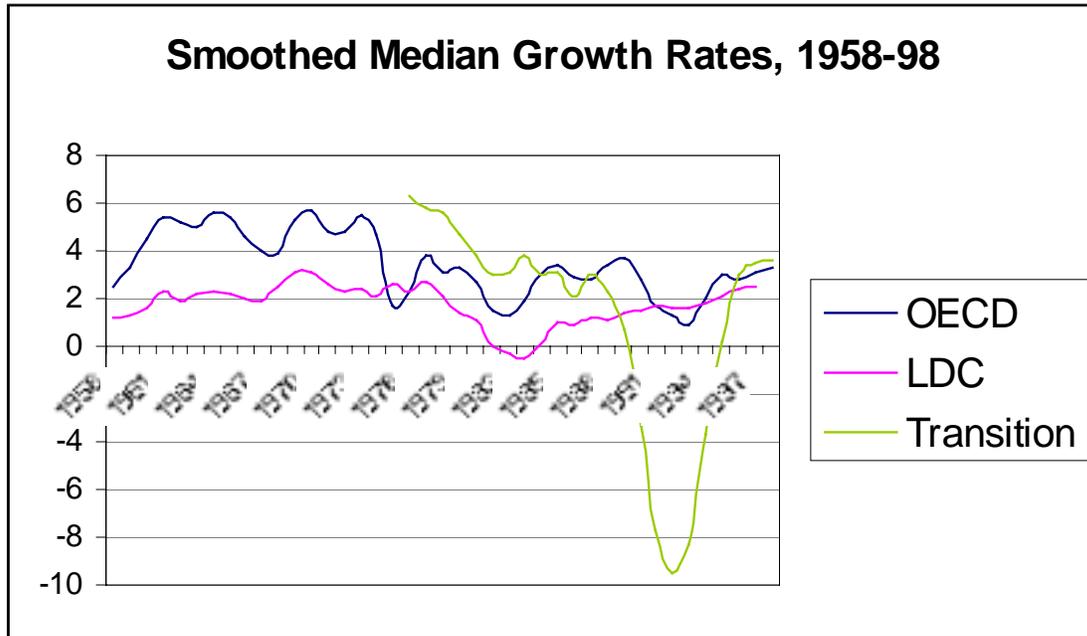


Figure 5

### Quality of Institutions and Growth Rates in Transition Economies, 1989-98

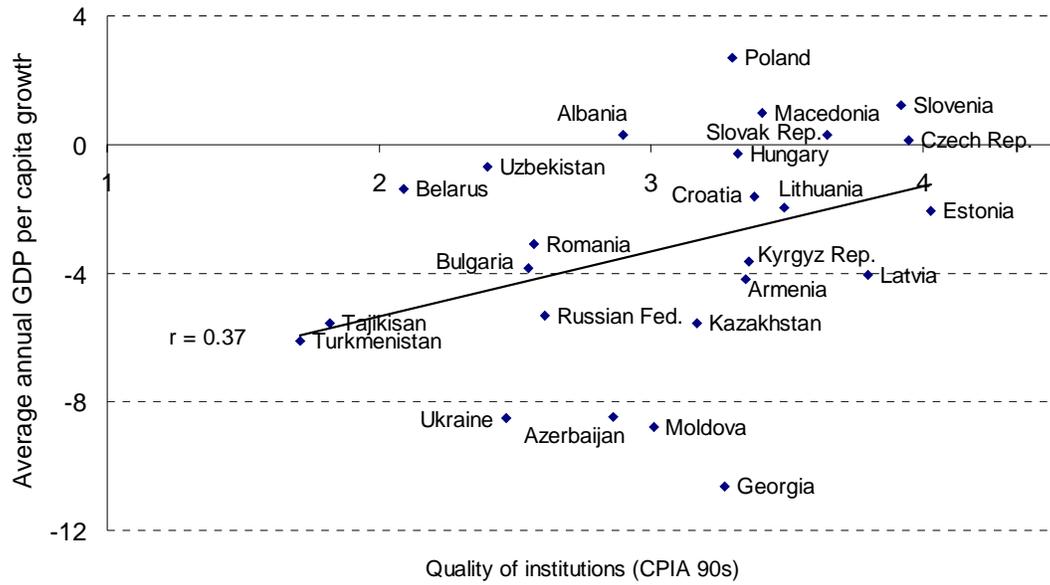


Figure 6

### Growth Stability and Growth Rates in Transition Economies, 1989-98

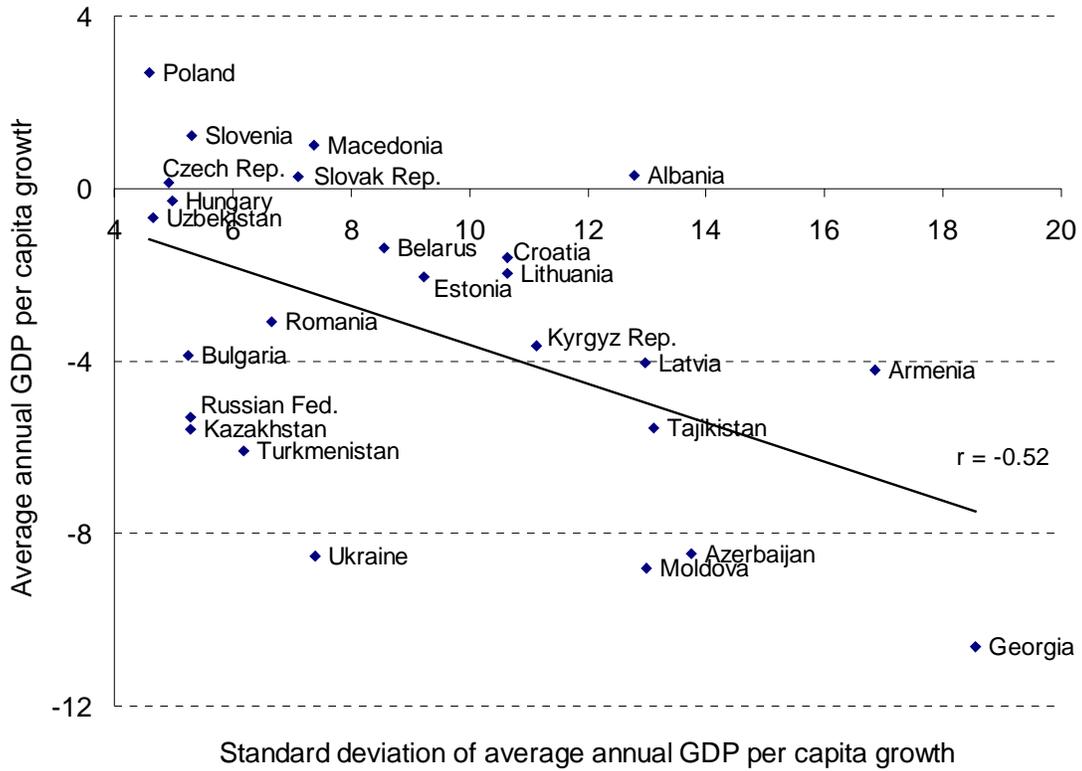


Figure 7

### Quality of Institutions and Levels of Inequality in Transition Economies, 1989-98

