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Fall back**The brainpower famine begins to bite**

CONVENTIONAL wisdom about eastern Europe is usually wrong. Few believed the communist ice-cap would melt so quickly in 1989. Today's growth rates seemed unimaginable in the early 1990s. Surely nothing could now derail the great locomotive of economic growth?

Indeed something could: a lack of brainpower. So far, the region has benefited from the twin windfalls of low labour costs—a perverse gain from communist mismanagement—and fast economic integration with the rich half of the continent. Now the big challenge is not becoming more efficient in order to be cheaper, but innovating in order to be better. That depends chiefly on the quality and quantity of brainpower available.

Economists' unlovely jargon term for brainpower is "human capital". A new study by the Lisbon Council, an incisive Brussels-based think-tank, highlights some ominous trends. The ex-communist east of the European Union has backward industries, a dire demographic outlook and, for the most part, out-of-date universities. A brain-drain may be irreversible.



The study should be mandatory reading for the stubborn, complacent and squabbling politicians of eastern Europe. Only two countries are above the western European average: Slovenia, thanks to its wealth, and Turkey, because of its booming birthrate. For most of the others, the human-capital gap is large, and likely to widen rather than narrow.

One factor that the study quantifies is human-capital endowment, meaning the brainpower created by parents, formal education and training, and on-the-job learning. Here Slovenia towers over the others, with about \$156,000 invested in each employed person, compared to Slovakia, Romania and Bulgaria, each with less than half that amount. The figure for western Europe is over \$240,000.

Rich Europe also uses more of its available brainpower because it has more people in the labour force and keeps them at work for longer. By contrast Croatia, Poland and Slovakia score particularly poorly here. Western Europe's employees are also better wired: every new member-state is below the western average for internet penetration, and all but Estonia and Slovenia trail on e-government scores.

The result is plain to see. Only Slovenia, with 42 patents per 1m population in the 2000-2003 period, comes anywhere close to the western European average of 200. Only Slovenia, the Czech Republic and Croatia spend even half of western Europe's 2.2% of GDP on research and development.

It is not hopeless. In so far as international comparisons (which are notoriously tricky) are to be believed, secondary education in most ex-communist countries matches western European levels. Indeed, Estonia and the Czech Republic show better scores than any European countries except Finland and the Netherlands. Education reforms in Hungary, Slovakia and Slovenia have also borne fruit.

But that is only the start.

The ex-communist countries need radical reform of higher education; into the rubbish bin must go old communist-era bureaucracies with their monopolistic, bureaucratic and risk-averse thinking. That will be tough: the people who most need to change, in the education ministries and university rectorates, are the ones in charge.

Secondly, educating young people is not enough: the poor demographic outlook means that people of all ages must learn new skills, and keep working for longer. "Any worker younger than 65 is...far too precious to be retired early", the study states.

Without such reforms, the two halves of Europe will stop converging and start diverging. Poor countries are unattractive places to innovate, with bad public services, unappealing workplaces and a gloomy outlook. So they stay poor, and grow old before they get rich. Without some big changes soon, that fate awaits most ex-communist countries: sad for them, but bad for western Europe too.