Friction—psychological, sociological, political—is a major social science variable. During changes, friction is high. The post-communist transition from command economies to freer ones vividly highlights the perils of ignoring this basic factor.

The extent of friction, the ease and the speed with which socio-economic changes can be introduced, is pivotal to the evaluation of the policies pursued and urged on various post-communist countries since 1989. At the same time the lessons of these transitions help develop theories about the levels of friction and the determining factors that apply to many other areas of socio-economic change, from industrial development to movement toward freer trade.

Neoclassical economists tend to assume that human adjustments to new situations and signals will be essentially swift and basically unproblematic. The possibility of slow and costly adjustments to changes—or high friction—while acknowledged, is treated as rare. From this perspective, neoclassicists have advocated “shock therapy” for post-communist countries—that they jump straight into a free market from a command-and-control system.

Poland was the only post-communist country that has followed this neoclassicist advice. The most outspoken American proponent of shock therapy is Jeffrey Sachs, a Harvard economist retained by Solidarity. Sachs’s argument is neatly encapsulated by the remark of an Eastern European economist he quotes approvingly: “You don’t try to cross over a chasm in two leaps.” As Sachs himself puts it, “My idea is to create the market system as quickly as possible. Let people start to operate. The [alternative] idea is to say ‘Well, we understand that we’re punishing the private sector brutally, that none of this makes any sense, but let’s only change things very gradually so that maybe in ten years we’ll have a normal business environment.’ That’s a crazy idea, frankly” (The New Yorker, 11/13/89).

The neoclassicist view is well established. As Heinrich Machewskin, an economist with the German
Neoclassical economists tend to assume that people are the same in all societies, cultures, and historical situations: All people arerationally seeking to maximize their self-interest. According to neoclassicists, in communist societies people are only held back by overbearing statist institutions. Scrapping those will free their entrepreneurial spirit and lead in short order to a free economy.

Building on these assumptions, which were further backed up by pressure from international institutions (such as the International Monetary Fund and the World Bank) as well as the U.S. State Department and some American banks and private investors, Poland in 1990 slashed government subsidies, made the zloty convertible, closed or privatized a number of state enterprises, allowed freedom of labor mobility, and otherwise made room for the market-based allocation of resources. It was assumed that as resources were freed from state control ("privatized"), the market would deliver them where they would be used most effectively.

For a short transition period, measured in a year or two, high inflation and unemployment were expected, but thereafter, the economy was expected to adjust without any particular state interventions to guide the new resources to the new place, and without social safeguards. In Poland, just prior to implementation of the new program, "Government officials predict[ed] that after a turbulent six months or so the economy should begin to stabilize" (The New York Times, 12/31/89). "Sure there will be momentary dislocations; prices will undergo a sharp initial rise. But then they'll stabilize. People will know where they stand" (The New Yorker, 11/13/89).

The same held for the eastern parts of Germany, where rapid transition has also been attempted. In mid-1990 "The German Economic Research Institute predict[ed] stabilization [for eastern Germany] late next year and a turnaround in 1992" (The Wall Street Journal, 6/29/90). Eight months later with the bill for economic recovery still rising, "Estimates on the cost of rebuilding eastern Germany have been steadily raised as the region's economic woes multiplied. Many economists now predict that it will cost Bonn more than $1 trillion over the next decade. This year, economists estimate, the Government will have to provide close to $100 billion... Many economists still predict that an upswing will begin next year [for eastern Germany] that could eventually rival the 'economic miracle' of West Germany's postwar reconstruction..." (The New York Times, 2/13/91).

The rise of street vendors in Poland was hailed as a sign that the transition was taking place as expected. It was seen also as evidence that Poland was full of entrepreneurs and managers that could run private businesses, given a free market. Tens of thousands of Poles turned streets, open spaces, even whole sports stadiums into vast bazaars, selling everything imaginable at rock-bottom prices: from shoelaces to fur coats, plastic flowers to ghetto blasters, denim jackets to skateboards.

The new free-market forces were at work "on the sidewalk in front of an official state grocery store... where on Thursday afternoon hundreds of shoppers were crowding about to buy fresh meat, sausage, butter, sugar, and coffee. In the not too distant past, inquiries for these goods in stores notable for their bare shelves would bring the response nie ma, or 'we don't have any.' The merchandise was being sold on Thursday from more than twenty trucks, private cars and even upturned cartons on the sidewalk clustered about an old sign in front of the government store proclaiming, 'It is forbidden to sell around this building.'... What is going on here is precisely the kind of capitalist initiative and
competition that Finance Minister Leszek Balcerowicz and other officials hope will bring prices down and renew the economy” [emphasis added] (The New York Times, 3/3/90).

Friction factors

There are several socio-economic factors that suggest that Poland will be forced to slow down its economic transition or abort its democratic government.

Human factors: Far from having fixed self-interested preferences, individuals are penetrated by the institutions and cultures in which they spend their formative years and various parts of their adulthood. True, underneath their acculturation there are elementary basic human features. However, these are not the quest for profit, but (after the satisfaction of basic creature comforts) the quest for affection, self-esteem, and self-expression. In addition these needs can be significantly perverted by the particular societal structures in which people are formed and function.

Many, certainly not all, citizens of post-communist societies, and citizens of many less developed countries, have acquired specific personality traits and work habits that cannot be modified on short order. These include working slowly, without undue exertion, not taking initiatives or responsibilities, stressing quantity over quality, featherbedding, using work time for other purposes (especially shopping), promotion based largely on irrelevant considerations such as party loyalties and connections, barter of work time and material for other favors, and low-technology approaches.

The transition to a Western style of work and competition will meet resistance. In Yugoslavia, 40 percent of the workers at McDonald’s quit because the work was too strenuous (New York Times, 6/17/90). Others, especially older workers in manual labor such as shipyards and steel mills, are not easily retrained for work in new, high-tech industries—say computer programming. All this holds, only even more so, for the many who served a lifetime as bureaucrats, party commissars, teachers of Marxism and Leninism, and those who spent their life verifying that others toe the line.

Management and entrepreneurial skills are particularly in short supply. The skills and personality attributes of street vendors, as already pointed out indirectly by Max Weber’s discussion of the difference between mercantilism and capitalism, are not those needed. The typical orientation of these street “capitalists” is toward quick bucks, achieved by short-order responses to immediate demands, with next to no investments (and hence, no capital management), no management of a significant labor force, and no longer-run planning, innovation, or R&D. They are after quick profits, not reinvesting back into enterprises to build major businesses.

This observation is supported by the fact that despite the explosive growth of small traders in Poland, the country is very short of managers for sizable enterprises. In Poland, “it is no small feat to find people who are both experienced managers and untarnished by links to the discredited old system.” (The New York Times, 7/24/90). Many of those that function successfully are repatriated Polish Americans (far from enough to make a difference for the economy as a whole).

All this is not to suggest that the needed capitalistic skills and traits cannot be developed in Poland, that its people are somehow inherently inferior; only that their development requires years, if not decades (as was true in the United States under much more favorable circumstances). Introducing large-scale capital in the form of foreign aid at this stage is often largely wasted.

Capital: Neoclassical economists tend to assume that if state enterprises are closed or “privatized” (by which they mean legal title is changed from the state to stockholders), the capital assets that are released will float on their own where the highest “price” or return is available for them, in the free market. Capital will thus be much more efficiently used and productivity will rise. They correctly point to “horror” stories of the result of capital being allocated, not where users are most willing to pay for it but by government allocations based on national or social ambitions, lending grossly to excessive production, for example, of expensive steel.

Recent experience, however, raises serious doubts about the assumption of the ready transfer of capital either by private corporations using previously state-owned assets, or by selling them and using the yield for new investments. As an American economist who works in Poland put it (private communication), “When you open the [formerly centralized command economies] to the free market, communists’ capital assets dissolve like an Alka-Seltzer pill in a glass of water.”

Large amounts of the assets used in communist economies are neither transferable nor sellable. Barbara Piasecka Johnson’s much publicized plan to buy a controlling share of the Gdansk Shipyard “ran into many of the obstacles that have tripped up other Westerners seeking to invest in Eastern Europe: difficulties in assessing
the value of enterprises, daunting investments needed for modernization . . . " (The New York Times, 4/9/90). "Interflug, the East German state airline, once touted as one of the country’s jewels, will be shut down. The Treuhand [the holding company created by the government to privatize 8,000 enterprises controlled by the former East German state] could not find a buyer . . ." (Washington Post, 3/10/91). According to The Wall Street Journal (6/29/90), potential investors are reluctant due to "the lack of infrastructure such as telecommunications and transportation, a weak network of suppliers, and East German companies' debt."

Hence, often the short run effect of privatization is not a rise in output, but a sharp decline in the GNP, mass unemployment and recession. In Poland, "The economy also fell into a deep recession, with industrial output falling 30 percent. Farm production slowed and real pay declined by 40 percent, according to estimates" (The New York Times, 5/25/90). A year after the new economic program was implemented in Poland, "unemployment has climbed to one million, and next year could reach two million, or more than 11 percent." (The New York Times, 2/13/91).

Like other developing nations, post-communist societies will have to raise new capital mainly from gradually saving—a very painful and slow process in face of a sharply declining standard of living. A major socio-economic point needs to be mentioned here. Two facts combine to make such saving particularly difficult in post-communist societies; first that the standard of living is in part a subjective matter, and second that losses raise much more resistance than foregone gains of similar magnitude. (On the first point see James S. Duesenberry; on the second, Daniel Kahneman, Paul Slovic, and Amos Tversky in For Further Reading.) Hence, while a country that always had a very low standard of living might be able to save when its standard of living rises above the subsistence level, this is more difficult for a country like Poland that had a higher standard of living but is losing part of it due to transition. Theoretically, other countries could provide a steady flow of capital, as the capacity to absorb is gradually increased, but the amounts involved and the long-run commitment needed are such that this is unlikely to obviate the need for slow self-generation of capital.

It should be noted that even under much more favorable conditions, in the contemporary United States, closed steel mills are not readily converted into high-tech industries, and so on. The fact that capital cannot be readily convertible and its reallocation cannot be accomplished without risk of substantial losses—a reflection of what might be called capital friction—was seen clearly when attempts were made to convert corporations that specialize in military production to other usages. Murray Weidenbaum states: "Every comprehensive study of past attempts by large defense contractors to use their capabilities beyond the aerospace market has failed to find a single important example of success" (quoted in The Christian Science Monitor, 8/7/90. For more on economic conversion see John Lynch in For Further Reading).

Infrastructure: Generally, for an economy to take off into higher reaches of development, certain elements must be in place. These include: reliable flows of inanimate energy; means of low-cost expeditious and reliable transportation; ditto for communication; and supportive financial and legal institutions. (For fuller discussion of the reasons for this list, see Amitai Etzioni (1983) in For Further Reading.) Post-communist countries, like many less developed countries, are short on all these. Poland, for example, is suffering from its dependence on oil from the Soviet Union, and needs time either to adjust to the reduction of oil from this source or to its rapid increase in price. Poland’s telecommunications are woefully unadapted: seven phone lines exist for every one-hundred people (Businessweek, 11/20/89). Its banking system is primitive: transactions are done in cash; there is no tradition of check writing or bank credits, not to mention stock markets, private savings, and investments.

Transportation facilities in the post-communist countries are inadequate for a modern economy. In eastern Germany, "The region’s roads, railways, airports, and telecommunications are so rundown that a recent report by western Germany’s Kiel Institute described them as ‘wholly inadequate for the rapid development of the five new federal states’" (The New York Times, 3/12/90).

Another reason Western capital has been reluctant to rush in is the confusion of laws and the dangers of political instability. It will take time to demonstrate to the West a reasonable measure of political continuity. Foreign investors realize that just as it is easy to slash confiscatory and restrictive laws, they can be quickly reinstated, unless they are supported by considerable tradition, political culture, and public support. The rapid way China flip-flops on its "democratization" is a case in point.
Labor mobility: Closing down industries that the state maintained for noneconomic reasons (ship yards, steel mills) and developing new ones, more responsive to the market, often entail labor mobility. In the United States, if the car industry (sustained in part by state supports in the form of bailouts and limitations on imported cars) is in decline and oil on the rise, labor moves from Michigan to Texas. Such movement assumes, first of all, a tradition of mobility that is strong in the United States but much weaker in other countries. People in Poland are much less accustomed to leaving behind their extended families, communities, and graves. Additionally political conditions often prevented a tradition of free mobility to grow. (The fact that some people do immigrate does not show that the rest are equally mobile. On the contrary, those less adaptable are those who are predisposed to stay.)

Last but not least there is an interaction effect between labor mobility and the shortage of capital. Since houses, schools, hospitals, and shops obviously cannot move with labor, the greater the capital shortage, all other things being equal, the more difficult for labor to move and the slower the transition from one industry to another.

Values: Neoclassical economists assume that once a people overthrow the tyranny of communist political institutions they exhibit their basic human proclivity—self-interest and quest for self-satisfaction. Actually, while it is true that some communists made a surprisingly rapid transition to Western values (or at least slogans), and for some, privatization has acquired the same standing of a simple cure-all that once nationalism had, most members of these societies have kept a variety of social values not easily compatible with capitalism, especially the raw kind urged on Poland. Mieczyslaw Kabal, an economist with the Labor Research Institute in Warsaw, stated: "In the Eastern European value system, the right to work and job security are very important values" (The New York Times, 2/5/90). "There have been reports [in Hungary] of enterprise managers cutting sweetheart deals with Western investors offering to take their firms private for artificially low prices in return for guaranteed jobs and pay" (The Washington Post, 1/23/90). In Poland, Minister of Privatization Waldemar Kuczynski "is also frustrated that many managers of newly privatized companies have sharply raised prices to increase profits, rather than improve production and service" (The New York Times, 10/29/90).

The evidence shows, especially from China and the U.S.S.R., that successful farmers and "cooperatives" (private enterprises) do not invoke in others the American desire to keep up with the Joneses and thus strengthen the capitalist spirit of "making it." Instead these ventures frequently bring forth a strong yearning for egalitarianism, combined with pressure to tax heavily those who are successful. Charles P. Wallace reports, "the relatively large sums being earned by cooperatives [in the Soviet Union] have aroused a considerable amount of jealousy, both from state institutions that work far less efficiently and private workers who grumble about the disparity in their take-home pay" (Los Angeles Times, 5/2/88). These are hardly the sentiments that foster entrepreneurial capitalism.

In Poland, ownership of houses and apartments, land, and factories is returned to those who had title before the communist take over, allowing fairness and justice to take precedence over economic efficiency. In Moscow, the city council decided to privatize the ownership of residences. However, instead of selling them—which would have provided the Soviet Union with the ability to increase production and purchasing by increasing the incentives for the Soviets to work harder (so that they could afford to buy a home)—they decided to award them scot free to the current residents, on the social ground that they suffered enough.

My argument is not that economic considerations in these and other cases should have been given precedent. On the contrary, all people find some mix that is appropriate to them between their values and their economic needs. (See Amitai Etzioni [1988] in For Further Reading.) The United States is also far from a free market, a country of raw capitalism. It is one mitigated by many social considerations reflected in Medicare, Social Security, unemployment insurance, and numerous other measures.

The point is that to urge post-communist societies to shift to raw capitalism is to ignore the inherent social instability of that system—and its modification by all Western countries to welfare capitalism. The "shock therapy" scheme invites social tensions that are explosive and will contribute to removing not only democratic institutions but also the very drive to capitalism. These societies need time and encouragement to find their own balance between economic efficiency and whatever social values are dear to them. To view their rejection of communist tyranny as an unmitigated taste for raw capitalism, is to misunderstand their social
The larger question for us now is: What can be gleaned on quick order has clear policy implications. The main that the inability to modify most of the friction factors during transition. And second, specific, identifiable said, 'Instead, it has been a disaster' " (The New York

Even for a country the size of Poland (population: 38 million), external help is likely to be far from sufficient to make rapid transition tolerable. This is the case in part because some matters cannot be rushed (retraining workers, building roads, modernizing ports) and because aid tends to be used for immediate ameliorative purposes such as buying food (as Poland did in the 1970s), which in the longer run builds up demand but no productive capacity. Thus the political gain of sustaining the regime is temporary.

Even in a still smaller economy like eastern Germany (population: 17 million), with a practically unlimited commitment of resources and skills as well as the infusion of western values, the transition, though somewhat more hurried, proves to be much more difficult and exacting than has been widely expected. "Henry Maier, a professor at the University of Flensburg and an expert on eastern German economics, said the Government had failed to grasp the immensity of the problems in shifting an industrial economy from socialist central planning to free-market capitalism. 'The Government had the naive notion that the free market would take care of everything,' Mr. Maier said, 'Instead, it has been a disaster' " (The New York Times 2/13/91).

Policy implications of high friction

The larger question for us now is: What can be gleaned from this examination of the Eastern European transition experience? Two fundamental lessons here can be generalized to other situations. First, friction is high during transition. And second, specific, identifiable factors slow down transition.

As a corollary to these two lessons, it is evident that the inability to modify most of the friction factors on quick order has clear policy implications. The main one is that external pressures to rush transitions will cause them to be aborted (as the pain and costs of transition exceed the public tolerance, at least within democracy). It also suggests that foreign aid is better disbursed at a lower level for the longer run, than massively for the shorter run. (Those who argue that our political system is unable to sustain such commitments should examine the long commitments of aid that the United States has maintained to Israel, Egypt, Turkey, and Korea. True, particular mixes of national security considerations and ethnic pressure played a role in these cases; but the post-communist countries also have an ethnic base in America, and there are at least as good security reasons to support transition to post-communism as there are to support Egypt.)

Aside from the generally high level of friction, transition difficulties that point to specific policy conclusions derive from what might be called the problem of the unevenly paced clocks. Reference is to the fact that some socio-economic processes are inherently more friction-laden than others. To the extent that changes must be multifaceted—which all major societal, economic, and political changes are—pushing the relatively quicker processes to proceed at full haste generates major imbalances because the other processes cannot keep up.

In particular at issue is the respective pace of three kinds of processes. The slowest paced are the processes of reconstruction, such as opening new plants, developing the infrastructure, and retraining the labor force. Next are the acts of deconstruction, which can proceed at a relatively rapid pace, and include closing down state plants and collective farms, deregulation, slashing of subsidies, and removing currency controls. Fastest and most volatile are expectations. Expectations are a social-psychological variable that neoclassical economists often assume they can model. Actually it is one of the least understood factors, precisely because it is highly volatile and driven largely by social and psychological factors, not by economic ones.

It seems that one of the few things we can say with certainty about expectations is that they move with less friction than most processes. Thus, for example, in Poland, very shortly after the beginning of the transition from communism, expectations shot way up; Poles expected democratization quickly to result in prosperity and a Western lifestyle. When this did not follow on short order, the mood rapidly swung quite sour, resulting in the November 1990 rejection of the Mazowiecki government.
While the knowledge of how to keep expectations realistic is far from established, certainly policies of oversell further inflate expectations rather than help keep them closer to reality and more frustration-proof. During my 1990 visit to Poland, a social scientist colleague articulated to me the radically deflated mood that followed hard upon the original, unrealistic expectations.

"We are very pessimistic [now], indeed maybe too much. We do not expect to catch up with the West before the end of the century." At the time, the Polish income per capita was a fourth of that of Greece, at roughly $1,750 per capita. Expecting the GNP to increase fourfold in ten years was an extremely optimistic projection. For comparison’s sake, consider that the United States has only doubled its income once every generation, under much more favorable circumstances.

Neoclassical economists sometimes add privately that a main reason they favor rapid transitions is that they fear a lack of political commitment to a longer-run, more gradual transition. If, however, we are correct that rapid transition cannot be accomplished, one must ask under what conditions a more gradual transition could be attained? The answer seems to be:

1. If one could keep expectations low, so that results would be fulfilling rather than frustrating;
2. If the rewards of the transition could be kept high compared to the pain, which a "pull" strategy (see below) seems to offer; and
3. If the moral case for the new regime could be strongly made, which is easier to do for the more humane and less brutal transition.

One way to ensure that the slower-paced processes, after they have been hurried all they can be, will set the pace for the total socio-economic change, is to build on a "pull" instead of "push" strategy. In post-communist Poland this has been suggested in the form of not closing profitable state enterprises but instead providing favorable terms (say, of credit) to the new, private ones and allowing those, as they grow, to pull labor and other resources (to the extent that they can be salvaged) away from state ones, which will then die on the vine.

The term "profitable state enterprises" may by surprising on two accounts: First, could they be? and second if they are, why close them? Poland’s mid-sized car industry is useful to illustrate the point. In 1990, after state enterprises were forced to work under commercial conditions (their subsidies abolished), the said auto industry was quite profitable. While they made fewer cars, they could greatly increase prices due to their monopoly status and the high demand for cars. The champions of the rush to the free market planned nevertheless to close these factories (before the November 1990 elections) because they were state owned and because they were less efficient than Western ones. According to one economist, Polish workers were each making about three cars per year compared to ten cars per worker at Chrysler. It was suggested that plants be privatized or their monopoly status attacked by increasing car imports, even if that would use up scarce foreign currency. However, privatization was delayed because, among other reasons, no investors could be found to take over. Besides, mere privatization might not increase efficiency much because, among other things, Chrysler has a much higher capital outlay per worker than the Polish plants. While it is true that competition with Western car makers could have been achieved "right away" by opening the border, the result would have been mainly a decline in Polish production of cars, without any pickup elsewhere.

Hence, in the short term, idling more resources, particularly workers, would not have increased output. It would only have increased pain, costs, and social stress. If, instead, private Polish industries were given time to grow and expand, they would have drawn workers from the no longer subsidized state industries. As long as the "pulling" industries determined the pace, rather than those being shut, there would be much less transitional imbalance and less economic, human, and political strain.

What a high level of friction does is slow down and deeply affect many other socio-economic changes, endangering the whole effort toward change when ignored. Although a high level of friction was here explored as a major factor affecting post-communist transitions, it is much in evidence in other current contexts. One example is the great difficulties the European Community has in absorbing Greece: another is the difficulties Italy has in developing its own southern parts. It will be most evident if the United States indeed tries to develop an open market with Mexico. The glib talk about creating jobs en masse in Mexico, developing its environmental protection, and reducing its corruption will turn out to be socio-economic rubbish.

The costs and stress of the suggested changes are going to be much higher than expected. Lower expectations and gradual change are what is called for in this and numerous other areas.
FOR FURTHER READING

The following books and articles may be of interest to readers who would like to explore the topics in this issue more fully.

**Wealth of Lessons**


**What Markets Do**


**Silent Depression**


**M. E. Sharpe, Inc.**

80 Business Park Drive, Armonk, New York 10504

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**The Macrodynamics of Advanced Market Economies**

Alfred S. Eichner

This book by one of the leading proponents of Post-Keynesian economics is the culmination of over thirteen years of scholarly work. It provides a comprehensive examination of the macrodynamic behavior of advanced economies with social institutions similar to those of the United States and other members of the Organization for Economic Cooperation and Development. It is a critique of, and gives theoretical alternatives to, conventional neoclassical theory.

1088 pp.; tables; charts; index Hardcover $49.95