RECONSIDERING IDENTITY ECONOMICS

Human Well-Being and Governance

LASZLO GARAI

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To Magi (who else, right?)

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CHAPTER 1

Identity Economics, Indeed? A Psychological Introduction

I know that my title might sound strange as the title for the introduction to a book whose subject is identity economics. However, this book approaches social identity from the perspective of economic psychology; at the time that it produced its American incarnation, psychology was all about behavioral psychology.

When I began my inquiry into the topic that later became my version of economic psychology, I was engaged with the same behavioral psychology. The same? Not exactly. I was in fact engaged with the Russian version of this psychology: activity theory, which had been elaborated by scholars from Lev Vygotsky's former team: Alexis Leontiev, Petr Galperin, and Alexander Luria. The difference between the two theories is that behavioral psychology depends on pointy stimuli, whereas the activity in activity theory involves real 3D objects, moving and developing. In American theorizing, the real, moving and developing objects are present in another theory: cognitive psychology, which is not simply different from behaviorism but is directly opposed to it. However, Russian activity theory is a theory of object-directed activity and also a theory of an activity-defined object. These "two" theories are the same, and together constitute economic psychology: the activity that defines the object is the work producing that object—and the object that directs the activity is the tool mediating that activity.

For that matter, psychology that is framed by activity theory and that frames economic psychology is more capable than any other type of psychological theory. For example, consider

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a theory of the brain

based on activity theory and providing a basis for an economic psychology.

The brain is an intra-individual organ, serving general psychology in the classical tradition as an extra-psychic mechanism of the psychic, but likewise it is intra-individual phenomena that general psychology studies. On the other hand, social psychology (and economic psychology contained within it) has been handicapped by the fact that its world is that of inter-individual psychic phenomena. As a result, it carries the burden of a dilemma: this distinctive branch of psychology either fits into the classic tradition and presents an intra-individual mechanism for that universe of inter-individual phenomena, or it restricts itself to addressing the level of the phenomena without addressing the mechanism level of its investigations.

The opportunity to avoid this dilemma was provided by the theory of functional organs. An organ supposedly has a structure and this structure pre-determines its function; for its part, the functioning of this internal part of the organism may impinge on external objects. It goes without saying that no effect may arise if the organ that is indispensable to generating it is absent. However, activity theory reckons such actions by which the functioning creates for itself that indispensable organ, as long as the external object in question is at hand. In that case, the object is instrumental in the activity as a kind of prosthetic that may disappear after it has completed its work in creating the new structure of the functional organ—or it may remain.

The most amazing description of that type of process is provided by J. Szentágothai, who is not associated with activity theory, but the logic he used to construct his model of the brain that he presented in 1978 at the Sixteenth World Congress of Philosophy was completely identical to the logic of activity theory. Thus, at a conference organized by philosophers, brain researchers, and psychologists, at a symposium on the interrelations of brain and experience, a day-long breathtaking discussion between Szentagothai and J. Eccles ensued.

For its part, the logic of this discussion was completely identical to the logic that all natural sciences inherited from classical mechanics. Thus, as Nobel-prize winner E. Schrödinger noted: “From earlier theories we have taken over the idea of corpuscles, together with the scientific vocabulary based on it. This concept is not correct. It constantly prompts our thinking to seek explanations that obviously make no sense at all. Its thought structure contains elements that do not exist in real corpuscles.”

Of all the natural sciences, it was physics that first deviated from this logic, following its series of crises around the turn of the twentieth century. Einstein worded the new logic of the new century's physics-centered study of light as follows: "It seems as though we must use sometimes the one theory and sometimes the other, while at times we may use either. We are faced with a new kind of difficulty. We have two contradictory pictures of reality; separately neither of them fully explains the phenomena of light, but together they do".[1] Schrödinger formulated it more generally and categorically: "Everything—absolutely everything—is corpuscle and force field at the same time. All matter has its continuous structure, represented by a field, as well as its discrete structure, represented by a corpuscle."[2]

Returning to our problem, the "explanations that obviously make no sense at all" search for that which is prompted by the corpuscle-oriented logic of our thinking, which is related to the following questions: How does the state of a spatially delimited individual body influence the states of other bodies that are detached from the former? How does a neuron influence other nerve cells, a module of neurons' other modules, a discrete part of the nervous system and its other parts, or the integral nervous system's other bodily organs? Now, the answer given by a "corpuscular logic" is that spatially defined bodies only interact to the extent that they enter into spatial contact along their circumferences.

For his part, Eccles summarized at the World Congress of Philosophy what was known at the time of the brain's fine-grained mechanisms, what we knew of the location of nerve cells, and what was understood about their connections with one another. He noted that the mechanism revealed by brain research was not adapted for transforming physical stimuli input from the environment into mental phenomena manifesting themselves at the output of the system (in purposeful behavior, including speech). Consequently, we must assume, he noted further, either that conscious phenomena do not exist even at the output of the central nervous system—or that they already exist at its input.

As to Eccles's further train of thought, it rejected the first assumption on the basis of a Darwinian consideration: "From a Darwinian point of view, we must consider the survival value of mental processes … Darwinists must look at "soul'—i.e., mental processes and our ability to form mental actions and reactions—as a bodily organ that developed under the pressure of natural selection … The Darwinist point of view must be as follows: consciousness and, in general, mental processes must be viewed (and, if possible, explained) as the results of development in the

course of natural selection."[3] Therefore, Eccles's final conclusion was that "the self-conscious mind" exists a priori.

Evidently, Szentágothai shared the same Darwinist position. However, he also shared the logic of the formation of the functional organ—beginning with those structures that are not enabled from the beginning to perform the function at issue. Thus, Szentagothai suggests the following: Although we cannot consider the brain's precisely wired structure as a mechanism whose operation would simply produce a mental phenomenon, such a result can be produced by a brain that we view as a dynamic pattern emerging in the course of its operation. Although the model that Szentagothai proposed for the structure and operation of the cerebral cortex posits that the cortex is "a wonderfully precise neurological machine with a genetically defined 'set of wires'," he declares that, "superimposed on this is an … intermittent and mutually symmetrical (quasi-random) system of connections."[4] Thus, according to the first part of this description, the cortex has a corpuscle-type structure; however, the second part of the description reveals a structure that resembles a field: states are defined in it, but the constellation of corpuscles realizing each of these states only becomes organized later as a "dynamic pattern" of a quasi-random system of connections.

To explain the formation of dynamic patterns, we can emphasize how separate pieces—none sufficient by themselves to produce a dynamic pattern—can create an organ whose function creates the appearance of that pattern, although the connection of those pieces cannot be ensured by a "precise and genetically determined system of wiring". However, Szentagothai provides an impressive description that addresses only the phenomena, without explaining the formation of superstructures. He illustrates his point with the stereoscopic perception of paired images posited by B. Julesz.[5] Before the right and left eyes of his experimental subjects, Julesz placed scattered sets of dots. One set was a computer-generated random set; another was derived from the first set of paired images, and was actually a collection of points belonging to a three-dimensional configuration, visible to the left eye; another consisted of dots belonging to the same configuration that were visible to the right eye. When viewing with both eyes, it took about eight seconds to transform the random scatterings into an orderly three-dimensional image. Szentagothai considers it to be the reality of a dynamic pattern emerging that "anyone who formed if only once (!!) such a pattern, i.e., envisioned their three-dimensional form, may re-visualize these shapes within a fraction of a second or even after months without knowing which of the once-seen patterns he will

be shown. In other words, if one's brain even once arranged two entirely meaningless scatterings into the sole possible orderly pattern, […] then it may re-create this within a few moments."[6]

The brain model of Szentágothai transcended the "corpuscular logic" that Schrödinger criticized. It was, however, precisely that which killed the model. The enormous success of Szentágothai's discussion with Eccles at the World Congress of Philosophy had no continuation, because it was a non-recurring event. The point he made with his idea about the dynamic patterns that emerge without any "precise and genetically determined system of wiring" fit into activity theory's conception of the emerging functional organ, and more generally into modern physics regarding wave-particle duality. However, he had no personal contact with either of these schools. For that matter, he belonged to the community of brain researchers who shared "corpuscular logic" with a community of psychologists who rejected Szentágothai's model,[7] which meant that Szentágothai abandoned his own hypothesis in the end.

However, I use that brain model as my foundation by extending it as a psycho-economic model of a mechanism for inter-individual mental phenomena.[8]

An Economic Psychology Linked to the Duality of the Contemporary Science

To construct a theory of economic psychology, I also had to extend activity theory because the motive of the object-directed activity was complemented by another motive, i.e., that of historically generated identity.

What does "historically generated" mean in terms of something specifying "identity"?

In common narratives, whenever identity is discussed, it is addressed as if it were the belongingness to a forevermore social—mostly cultural—category: a person is Hungarian or English, Catholic or Jewish; and Hungarian or English, Catholic or Jewish seems to be a social property that has existed forever and ever. This type of identity is an inner attribute that characterizes the subject in the same way as nature's individual objects are characterized by their characteristics: someone is a German or a Muslim in the same way as a thing is a platypus or a molecule of ammonia.

However, according to my theory, historically generated identity is not an attribute but a relation. In addition, it is never only one single relation but is always a two-factor game: we have two relations at the same time,

and we have a relation between these two relations. The two relations may always be in conflict, and this conflict is mediated by an act of social categorization and a choice between alternatives of created categories.

Let us assume that we are living in Germany in the early 1930s. I am a German proletarian, so I am, without question, a vehicle of the sociological property of a German, and equally so of the property of a proletarian. Can the social identity of a German *or* a proletarian be attributed to me? The answer will depend on how my relationships with others evolve and how all of us interpret these relationships. Assume that Peter is also a German, but a member of the bourgeoisie, and Paul is also a proletarian, but he is a Jew. Here we have shades of similarities and differences with both Peter and Paul. Thus, social categorization transforms these contradictory shades into categorically unambiguous clarity. I may categorically exaggerate my similarity to either Peter or Paul—and, accordingly, my difference from the other—and what binds me to the latter and would separate me from the former is simultaneously understated. This categorization thus results in the identity of "workers of the world," or, in terms of our example, the identity of Germans who represent "ein Volk, ein Reich, ein Führer" (an only people, an only country, an only leader). From what is predetermined sociologically, the categorization historically produces social identity, and social categorization holds sway in the background of history—in this case, in the background of the Führer's accession to Nazi dictatorship.

The dualism of the object-directed activity and of historically generated identity is an organic continuance of the grand duality discovered by contemporary science within nature, in which every entity is both particle and wave, quantized and continuous, simultaneously. The world of the object-directed activity is the universe of determinism, that of causal or teleological interconnectedness. On the other hand, the universe of the historically generated identity is a world of free will and logical necessity, creation and meaning.

A Case Study Based on Identity Theory and Dealing with Creation

The connectedness and transition of the two universes with one another is detectable at various interfaces:

In a book about quantum physics, we read the following: "For both large and small wavelengths, both matter and radiation have both particle and wave aspects.... But the wave aspects of their motion become more difficult to observe as their wavelengths become shorter.... For ordinary

macroscopic particles the mass is so large that the momentum is always sufficiently large to make the de Broglie wavelength small enough to be beyond the range of experimental detection, and classical mechanics reigns supreme."[9] Following this, together with classical mechanics, we now stand in the universe of philosophy, speculating about that creation whose great many human acts during history melt into one single act of divine Creation as a result of their infinitesimal wavelengths.

Conversely, I approached creation quite differently in a case study I performed about the greatest European poet of the twentieth century, Attila József.[10]

I applied my theory as a method of analyzing József's life and work, and found that the content of his poetry, his philosophical writings, his public and private acts, his symptoms of somatic and mental illness and, finally, his suicide—in addition to his writings expressing that content—are but concrete ways of elaborating concrete changes in his social identity.

Henri Tajfel (1981) emphasized "the importance of exaggeration"—particularly insofar as social identity is concerned. My theory can be expressed as follows: to exaggerate the extent to which one is like or unlike X, s/he exaggerates the extent to which s/he does, says, thinks or feels something like or unlike X, respectively. It is not about expressing someone's social identity in a positive way—by doing, saying, thinking or feeling something. For instance, speaking thickly hardly expresses the social identity of a valiant. Nonetheless, Shakespeare wrote: "[…] speaking thick […] became the accent of the valiant". However, what is precisely said in King Henry IV by Lady Percy, in praising her late husband, is as follows: "[…] he was, indeed, the glass/wherein the noble youth did dress themselves: /He had no legs, that practis'd not his gait; /And speaking thick, which nature made his blemish, /Became the accent of the valiant; /For those that could speak low and tardily, /would turn their own perfection to abuse, /to seem like him: so that in speech, in gait, /In diet, in affections of delight, /In military rules, humours of blood, /he was the mark and glass, copy and book, /That fashion'd others." What matters in this business of exaggerating one's social identity is the formal feature of similarities to or differences from X, whereas X may be any social quality, whether represented by some concrete person (like Henry Percy) or not.

For Attila József, the social identity he represented happened to be that of the proletariat. Although it is not easy to study a poet's life without analyzing his poems, I try to reproduce here some points of an analysis I originally made in Hungarian.

Attila József was born in 1905 with no unambiguous marker of his social identity either in or around his family. His name in Hungary of that time was the most common first name (József=Joseph) but he bore it as his last name; on the other hand, his actual first name (Attila) was at that time almost unknown, and his foster parents thus changed his name to Pista (=Steve) for that reason. He lived with foster parents although he was not an orphan: both his father and mother were alive, although his father had left the family (and the country), looking for a job that was more lucrative for a proletarian, and his mother became both psychically and somatically ill after her husband's flight. Attila József was three years old at that time.

Although his father was proletarian, neither anybody else in his family nor Attila József himself spent a day working as proletarians (they worked by performing mostly different types of private services, e.g., the mother laundered clothing). However, the family lived in a typical proletarian quarter of Budapest and led a life marked by the typical proletarian misery characterizing Hungary in the period before and during the war.

This particular ambiguity is of great importance because József thought of himself as a proletarian. Meanwhile, he became acquainted in the mid-twenties (his early twenties) with Marx's economic-philosophical texts (at which József became an expert), and the most important aspect of this theory for him was the notion regarding the antagonism between production and consumption for the proletariat whereby, on one hand, proletarians produced all of society's goods, but on the other hand, proletarians were excluded from the consumption of those goods. For József and for those authentic Marx texts, it was not universal misery alone, but its antagonism with universal creation that turns this social class—although idiosyncratic as all social classes are—into the universal redeemer of all of society.

His social identity as a proletarian became all-important for Attila József, based on the assumption of this very mediation between particular social facts and universal human values. It would have given him not merely a social identity but one that represents human identity (certainly in the socialist scheme).

Such structures were appreciated by Attila József because they meant possibilities, as he expresses at several junctures in both his poetry and his philosophical writings, to "mingle and emerge" (the latter Hungarian verb also means "excel"). In these writings, "mingle" means to be one part of a whole whose pattern consists of the relationship of those parts, whereas "emerge" means to be part of that whole that does bear that pattern, although on a small scale.

In a theoretical writing, József distinguished, on one hand, contemplative feeling that confines itself to parts of the world as a whole, out of which it can only address one or another part at a time, and on the other hand, comprehensive thinking that is concerned only with the relationship between the parts, i.e., with the world as a whole. To both of these performances, he juxtaposes that inspiration that creates a work of art by "selecting certain elements of a reality and placing them between the rest and our contemplation, thereby hiding the other part of reality like the full moon eclipses the sun. That is, it expands for the contemplation the selected elements of reality to stand for total reality."

Now, in contrast both to contemplative feeling and to comprehensive thinking, for which all elements of reality are equal (i.e., one is as suitable to be contemplated in itself, and just as unsuitable to induce comprehension of the world as a whole as the other), inspiration selects those elements of reality for a work of art that carry the pattern of the world as a whole. It is like "an inch of the whole roll of cloth that is too little for a dress but bears all the properties of the whole roll", compared with the threads, "that history used and uses to weave the whole texture of the cloth".

However, József did not use this image in the context quoted above, into which it fits perfectly. The text in question is not about the criteria by which inspiration selects some elements of reality for a work of art, but about those by which a Marxist "emerges" from the proletarians: "A Marxist is one who individually conceives what history leads or forces the proletariat as a whole to do, irrespective of its individual members. In the final analysis, the Marxist is but the totality of the historical proletariat on a small scale. An inch of the entire roll of cloth that is too little for a dress but that bears all the properties of the entire roll. By contrast, the non-Marxist or the proletarian without class consciousness is only one of the threads that history used and uses to weave the entire texture of the cloth. As an individual thread, he, too, contributes to the quality of the whole but in a different way: the thread is one thing and the cloth is another thing. On the other hand, the pattern only differs from the roll in size."

Thus, the same structure of "mingling and emerging" was reproduced when he joined the underground communist party that he considered as the Marxist vanguard of the proletariat. Moreover, he might have claimed to "mingle" with the party and simultaneously "emerge" as a poet. In addition, finally, he gave the following poetic form to why he required all of this construct of "getting himself mixed and selected": "I mingled with

the people at large and then yet emerged so that yet this poem should emerge from among all my concerns".

It is proper to quote here the statement made by Arthur Koestler about József in his memoirs, *The Invisible Writing*: "The unique quality of the poems of his later years lies in their miraculous union of intellect and melody. […] His most complex and cerebral Marxist and Freudian poems read like folk-songs, and sometimes like nursery rhymes; "ideology" is here completely distilled to music which, whether *adagio* or *furioso*, is always eminently *cantabile*. His rhythm almost automatically translates itself into song […]."

Thus, the theoretical construct elaborated above was by no means merely a theoretical construct but an organic part of his art. However, it was an elaboration in the sense I discussed above—of his ambiguous belonging to the proletarian class. Attila József exaggerated his identity with the proletariat by thinking exaggeratedly in a proletarian way. Becoming communist was a way to exaggerate his proletarian identity.

However, his communist identity was not entirely unambiguous. The communist party meant to bring together scholarly Marxism and the genuine proletariat, but proletarians were rarely scholarly Marxists and Marxists were seldom genuine proletarians. Nevertheless, Attila József was both a genuine proletarian—in a way—and certainly a scholarly Marxist. Whereas the communist party was, along its history, in quest of an optimal compromise between proletarian feelings and Marxist thinking, Attila József never allowed a discount of either proletarian feelings or of Marxist thinking. This lack of disposition to compromise was a missing piece of his communist identity that, therefore, required exaggeration. However, by feeling like a proletarian and thinking like a Marxist simultaneously, he was able to express that he felt and thought exaggeratedly like a communist.

Without here retracing the entire process in the course of which Attila József constructed the edifice of his social identity, coordinating at each of its levels a structure of thinking and feeling (and also that of speech and acts) in conformity with a social structure, I have attempted to show why it was so important for Attila József to belong to a proletariat that mediated his relationship to society as a whole and to its human values, while belonging to a communist party that mediated his relationship to the proletariat.

All this must be borne in mind in elucidating why the entire edifice of his social identity collapsed when it became clear in 1933 that society as a whole was not heading toward the values of proletarian socialism but instead toward national socialism; when a part of the working class

turned out to be attaining its socialist values not along the revolutionary path staked out by the Communist Party but along a less dangerous path shown by the social democrats; and when the Communist Party expelled Attila József, who had been investigating the causes and consequences of these facts and even voiced them, albeit with no disposition for compromise between proletarian feelings and Marxist thinking.

The fact that the structure of social identity determines that of thinking, feeling, speech and acts is manifest in the case of József, and his entire mental life became defined by a paradox that marked that social identity structure. Attila József refused to share the Communist Party's position that Europe's turn to fascism was the result of the treason of social democracy (it should be noted that he was simultaneously rejecting the social democratic argument that the masses fled the horrors of communist extremism to move towards fascism). He attributed the cause of the takeover by national socialists to the lack of unity in the workers' movement and emphasized that in this story both sides had committed mistakes, but that there was no time to sort it out between them because the most pressing issue was the creation of a militant alliance against fascism.

This reasoning quite clearly deviated from the arguments presented at that time by the Communist Party. Now, in a paper during his communist period, Attila József stated as self-evident that "the patent little ideas that deviate from scientific theory and the concentrated experience of the world movement cause disturbances in the labor movement and must be prosecuted." It was a typically communist thought of that time. Thus, József, if he had thought like a communist, had to admit that he did not think like a communist any more; if, however, he had thought that thinking differently was communist thinking, then he would have thought differently even in this respect, that is, even less like a communist.

What is expressed here as a logical exercise was a paradox existentially lived by Attila József in his everyday life. Although he attempted to prove that he was thinking like a communist and thereby demonstrated that he was not, this paradoxical structure came to predominate over the totality of a way of life in which the intention frustrated itself. He began to have worsening neurotic symptoms, whose salient features were powerlessness and impotence. In his poems, new motifs appeared, such as the infant who, when suffering, is offered food but when reaching for it is denied it so that it should suffer. At this time, the figure of the proletarian appears in his subsequent poems not as "labor dressed in class struggle" or the

"winner to come" but as someone whose choice makes no difference: you may choose to learn this trade or that—or no trade at all—"you stand here, and the profit sprawls there".

The latter poem was revised several times by József, who was a perfectionist and rewrote most of his poems for the purposes of perfecting them. These rewritings were consciously motivated by purely poetical reasons; however, these modifications unconsciously elaborated modifications in his social identity. Regarding the above poem that happens to be a ballad, we know of four versions of it. The envoy in the first version began as follows:

> Worker, you know caviar is not your diet…

That version was written before his expulsion from the party; after his expulsion, he improved the starting line of the envoy:

> Brother, you know caviar is not your diet…

Some months later, he felt "Old chap" was better as an address of the envoy, and finally, József seemed to have found the perfect solution:

> József, you know caviar is not your diet…

Modifications in social identity also found their expression in other types of poetic modifications: instead of altering one element of a poem, he frequently constructed a new poem around an old element. "Every point in a poetic universe is an Archimedean point", József stated, adding that "through interdependence, one or two lines of a poem determine all the rest." If that holds true, then a comparison of different constructions built upon the very same few lines or other components (of imagery, rhythm, conceptual ideas) at different moments of the historical biography may yield irreplaceable conclusions as to the modifications of that "interdependence" over time.

In a poem during his communist period, József introduces the image as follows: "We convene on the hill where we have risen from cellars, pit-shafts, navvy ditches: time's taking along the mist, our peaks are clearly in sight."

By contrast, a year later, he begins from the same conceptual and visual elements, which—as Archimedean points—reverse the world of that poem

as follows: "Look about this broken plain where fat herds of gloom are breaking in." What might have guided József's inspiration—combining contemplative feeling and comprehensive thinking—that the road from under the ground, through the hill of council-meetings and toward the peaks should become a broken plain, that the vanishing mist should transform into fat herds of invading gloom?

And just as the undermining of his communist identity by the paradox discussed above corroded the proletarian identity that it mediated, the annihilation of the structure of the proletarian identity undermined Attila József's identity, which was grounded in universal human values. A year later, at the deepest point of his identity crisis, he attempted to redefine the lost dividing line between good and evil by searching for a real or transcendent father who rewarded and punished by merit—or a mother who would accept him, regardless of whether what he did was right or wrong.

There is no room here to examine this phase of József's identity crisis closely. Instead, we must mention that the paradox of categorization that generated the crisis was replaced two years later by another paradox of the opposite structure. What occurred was that the 1935 Commintern Congress arrived at the same conclusions concerning the united front policy against fascism as those which József had expressed that had led to his expulsion two years earlier. As a result, a representative of the Communist Party tried to re-establish contacts with Attila József and involve him again in illegal party work, arguing that in this story both sides had committed mistakes but that there was no time to sort it out between them because the most pressing issue was the creation of a militant alliance against fascism. These were the very words József had used about this alliance that had led the Hungarian party to reject him three years earlier.

The structure of this new paradox of social categorization was as follows: had Attila József accepted the argument and returned to the communists despite what had occurred, it would have demonstrated that (at least in this question) he was thinking the same way as they were (that he really had something in common with them); however, if he rejected the argument and refused to return to the communists because of what had occurred, it would have shown that he was thinking differently than they were and had no business with them. When he thought he belonged with them, he immediately produced a justification for thinking so; however, when he thought he did not belong with them, the justification would be to this effect: What gave him the right to think what he thought in either case was thinking what he thought.

And with this, the paradox of helplessness was replaced by another paradox that might generate the contrary feeling, that of omnipotence: anything he thought of his own identity presented itself as reality. However, the very moment he thought its polar opposite, it was the idea of this opposite identity that established itself.

*

One would have to present too many concrete facts of personal, social and cultural history to demonstrate the way that the identity crises generated by the two paradoxes were superimposed on one another in Attila József's life, and how his life that was squeezed in between the two led inevitably to the railway tracks where Attila József killed himself in 1937, at the age of 32.

Creation → Innovation: Mediation Between Human Resources and Producing

Poetic creation in a monograph on economics? By any chance, it is not some slip?

By no means. The psychology of creation, whether poetic, scientific or technological, involves the psychological functioning of the same structure. This system of isomorphisms explains the peculiarities of history, whether it is a poetic, scientific or technological creation.

I spent several months in Moscow at the Institute for the History of Science and Technology. At that time—in the late 1960s—we were studying the psychological timing of scientific and/or technological creation: How D. Mendeleyev created his Periodic Table and … why in the 1860s? The second part of the question would lead to meticulous boredom, if it weren't for the phenomena of paralleled discoveries. Why did Newton invent the same integral calculus in 1666–1687 that Leibniz invented in 1674–1684? And why did Bolyai invent the same non-Euclidean geometry in 1821 that Lobachevsky invented in 1823?[11]

The gist of the matter was the connection of object-directed activity with historically generated identity, which yielded their manifest duality. Both the causality and the teleology within the object-directed activity have a strict timing that is imposed upon the historically generated identity. Similarly, historically generated identity has a strict spacing: not within a physical determinism, but within a logical determinism that nonetheless finds itself imposed on the object-directed activity.

This interconnectedness is much more complex, which should go without saying.

On one hand, as opposed to corpuscles that transmit movement separately in the direction of one of their neighboring particles, in the wave, the movement is propagated simultaneously in all directions so that at a precise moment the same phase is manifest everywhere. This is similar to the wave-particle duality in the human world—the interconnectedness of the object-directed activity and the historically generated identity—that leads in effect to the same cultural-spiritual event in various places.

Likewise, waves that encounter one another combine through superposition to create an interference pattern (depending on whether the waves are or are not in phase). On the other hand, as opposed to waves, the corpuscles when they collide may thus not occupy one and the same spot. In addition, here, too, the wave-particle duality in the human world results when creating new social identities, as Jesus Christ said, according to the New Testament: "Every kingdom divided against itself is brought to desolation; and every city or house divided against itself shall not stand." Wars, whether emerging between macro- or micro-social entities or just individuals, originate not just from the interests of object-directed activity but from its interconnectedness with historically generated identity.

The historically generated identity is the world of logical—not physical—determinism. In general, we don't address this difference. However, if we take premises and conclusions (e.g., in the classical syllogism "All men are mortal—Socrates is a man—Socrates is mortal") to mean that earlier items are causes of the later, it would be absurd. The difference between logical and physical determinism is linked to the context discussed above, according to which *social identity isn't an attribute but a relation,* and even a relation among relations. In the schematic case that was illustrated above in the relation between Peter and Paul that defined my relation to each and, likewise, in any case in which a relation defines another relation, these are always seemingly given between participants in object-directed activity, and the logical relation is thus imposed on it.

As far as any act of creation is concerned, its corollary may always be an issue involving innovation. This type of a creation-innovation chain may become (at any moment) a mediation between human resources (resulting in a creation) that leads to (as innovation does) a favorable or unfavorable economic process.

Hence, whenever we want to understand—which is particularly the case if we want to control economic processes—we must employ economic psychology. In addition, if we want to master psycho-economic processes, we need the duality of psychology: both the theory of the object-directed activity and that of the historically generated identity.

The identity economics.

Notes

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5. B. Julesz. *The Foundation of Cyclopean Perception*. Chicago: University of Chicago Press, 1971.
6. Szentagothai. Op. cit, p. 614.
7. In an essay in the interdisciplinary jurnal of Hungarian Academy of Sciences (HAS) I reported how Szentagothai, the president of that academy, was humiliated by the opinion leader of the scholars in the Institute of Psychology of HAS after J. Szentagothai delivered a lecture on his brain model *Magyar Tudomány* [Hungarian Science] "Az interdiszciplinaritásról és halmozott hátrányairól" [The interdisciplinarity and its cumulative handicap] 1999/ 3. [in Hungarian] http://epa.oszk.hu/00700/00775/00003/1999_03_12.html
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PART I

The Structure of Social Identity and Its Economic Feature

CHAPTER 2

The Double-Storied Structure of Social Identity

Certain social psychologists consider that the question of social identity "is nothing but that of modes of organization for a given individual of his representations of himself and of the group to which he belongs" (Zavalloni 1973, p. 245). For others (see, for example, Sarbin and Allen 1968), it is what the individual *does* from his position in the social structure that defines his or her identity, not what he or she *thinks* regarding this identity when comparing him- or herself with his or her group.

Thus, one could argue that one has a social identity of, for example, a working person when one regularly performs an *activity* by working and claiming remuneration for the activity, rather than because of a *representation* that one has regarding oneself or that others have. Similarly, it is not being considered as a hedonist person that identifies someone socially as such but, rather, acting freely and eventually assuming the necessary pecuniary sacrifice for acting in this manner. However, what about the identity of someone who works (for example, whitewashing a fence) and makes a sacrifice to perform this activity? Or what about someone who acts freely (for example, by playing football) and claims remuneration for this activity?

These questions may sound absurd. However, we know the story (imaginary but too real) of Tom Sawyer, who persuaded his playmates to pay for the *pleasure* of whitewashing a fence. Now, was the social identity of these children that of working people, when on that hot Saturday afternoon, bathing in the river would have been a much more attractive activity?

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We also know of the famous Hungarian football captain of the team of the Belle Époque, who is credited with the saying "Good pay, good play; bad pay, bad play." Does this statement mean that this sportsman had the social identity of a hedonist player when during a period of strict amateurism in sport he claimed remuneration in proportion to the *work* performed?

When seeking indicators of social identity, one may start by preferring acts to representations. However, eventually one must realize that it is the *representation of an act* rather than the *act itself* that is at issue here, because one cannot socially identify a person who is committing an act without socially identifying the act that is committed by this person. Is whitewashing a fence necessarily work? Is playing football a pleasure? However, here, the *act of a representation* may be the *act itself* that is in question.

Cognitive Dissonance and Social Identity

If one plays football and is paid for this activity, the cognitions referring to these two facts will be in dissonance: that is, considered by *cognitive dissonance theory* as responsible for creating in the individual's mind a tension that is more or less painful and that can be reduced only by modifying one of the cognitions to the point where it becomes consistent with the other, for example, by modifying the social identity of the activity in order to present it as *work*. It is the same for the case where one accomplishes a *job* in whitewashing the fence and lets oneself be led at the same time to pay for doing this activity.

This supposition has been tested repeatedly in laboratory experiments. Deci (1975) gave riddles to students to solve, one group being paid for this activity while another was not. During breaks, those not paid could not resist going on with the puzzle solving, while those paid rested after their *work*. In another experiment, nursery school children lost their interest in toy A when promised to be "rewarded" for playing with it by permission to play with toy B, and vice versa.

At this point, the question arises concerning the nature of the cognitive field which determines that two cognitions are consistent or dissonant. In this classic form of cognitive dissonance theory, Festinger did not raise this question, proposing simply that the dissonance between cognitions A and B emerges if A implies, psychologically, non-B. Later, he specified the conditions necessary for creating dissonance between

two cognitions: "Whenever one has an information or a belief that, taken alone, ought to push one not to commit an act, this information or belief is dissonant with the fact that one has actually committed this act" (Festinger 1963, p. 18).

But how can an idea incite one to commit an act? What does "implies psychologically" mean? To take a classic example, if one thinks that all human beings are mortal and that Socrates is a human being, one finds oneself brought by these two ideas to have yet a third one: Socrates is mortal. If, in spite of this incitement, one thinks that Socrates is immortal, this produces a cognitive dissonance that has the form of a logical error. But he who works and at the same time pays for the pleasure of working commits no logical error, and neither does someone who plays and is paid for playing.

Strictly speaking, in this case of a *paid player* (*as* opposed to the *person paying for the pleasure of working*) there should not be any cognitive dissonance, according to the above Festinger formula. If one has the information or the belief of being paid for play, one should not be pushed at all by this to not do the activity. We shall examine this curious matter later on.

To bring us nearer to an answer, Aronson reformulated the theory (Aronson and Mettee 1968; Nel et al. 1969; Aronson 1976). According to his suggestions, the information or belief which would push me not to commit an act is *the cognition of my social identity incompatible with such an act*. Aronson takes into consideration more general dimensions of social identity, such as reason and *honesty*.

If I have the cognition A, "One makes me pay for work done by myself", and the cognition B, "I bring about this activity", it is not necessary that A psychologically implies non-B. It is therefore not necessary that a cognitive dissonance emerge between A and B. On the contrary, if I hold the cognition A, "I am a reasonable person", and the cognition B, "I work and, more, I pay to work", then the dissonance becomes inevitable, since a person whose identity is described by A cannot commit such an act in which the corresponding identity is defined by B.

The idea that cognitive dissonance can emerge between the definition of the social identity of the act and that of its author has been revealed as very important in explaining certain apparent irregularities of this phenomenon.

In the beginning, one supposed, for example, that to believe X and to say non-X was susceptible in itself to introducing the dissonance. However, to explain this statement sufficiently in everyday life, the reward

or punishment dimension has been mentioned: getting the former or avoiding the latter would provide an external justification compensating for the tension of the dissonance.

Lacking such a justification, the tension would tend to be reduced by bringing the afflicted subject to believe what he said. This hypothesis (Festinger and Carlsmith 1959) has been confirmed by many experiments dealing with *forced compliance for a contra-attitudinal advocacy*. When the reward or punishment received in these experiments is just enough to force the subject to plead against his attitudes, he is pushed to believe what he said. But when the punishment or reward is larger, the tendency of the subject to believe what he said is weakened.

However, there are just as many experiments that disprove this hypothesis, demonstrating that the liability of the subjects to adjust their beliefs to their words is directly proportional to the importance of the reward or punishment in question.

Now, neither an inverse nor a direct proportionality between the amount of the reward or punishment and the tendency to adapt the thought to the word is given: firstly, for the simple reason that one may not feel at all the necessity to coordinate one's thoughts and one's words. Once again, it is not between a cognition A, "I believe X", and a cognition B, "I say non-X", that the cognitive dissonance manifests itself, but between the cognition A, "I am honest", and the cognition B, "While believing X, I lead others to believe non-X". It is for this reason, in experiments during which the experimental manipulations prevented the subject from defining his social identity in conformity with A (see, for example, Aronson and Mettee 1968) or that of his act in conformity with B (Nel et al. 1969), that the "normal" display of cognitive dissonance is then perturbed.

Being among the most general dimensions of social identity, honesty and reason are still socially concrete. "To be reasonable" amounts to this: "To choose the most advantageous alternative". And "to be honest" amounts to "not to prevent others from choosing, in conformity with established rules, their most advantageous alternative". This means in the last analysis that honesty and reason turn out to be characteristics of the middle class in a capitalistic society. (Without examining this statement in more detail let us only consider intuitively the difference between such "reason" or "honesty," on the one hand, and that of Brutus, or of a Petrograd proletarian in 1917.) Now, if it is true that the cognitions "I believe X" and "I say, convincingly, non-X" demonstrate a cognitive dissonance only because a cognition defines their relation to the acting person

by socially defining this person, it is also true that the dissonance between the cognitions defining the social identity of the act on the one side ("In believing X I lead others to believe non-X") and that of the acting person on the other side ("I am honest") exists only by a supplementary cognition defining, so to speak, *the social identity of the social identity itself* ("Honest people do not lead others into error").

Thus, the complete formula for cognitive dissonance is as follows:

1. I am A;
2. I do B;
3. A does not do B,

where A is any social category and B is any relevant social act. "Any" means that the formula can convey even contents as concrete as this:

1. I am an authentic Moslem;
2. I drink wine;
3. An authentic Moslem does not drink wine.

For all kinds of concrete incarnations of the above three-piece formula, there exist three types of reducing cognitive dissonance adjusted to each of the above items, respectively, which re-define social identity.

Type 1. Realize that one is no more (or that one has never been) **A**. I am no longer an authentic Moslem since I drank wine. I am not honest because I pleaded, to convince others, that the police had their reasons to have penetrated the university campus and to have killed four supposed demonstrators, at the same time being convinced that no reason could exist for such a disgrace (Cohen 1962). The cognitive consistency is recovered, but at the price of losing social identity, a price too high for the counterpart, such that one pays only at exceptional moments of individual and/or social identity crisis.

Type 2. Reinterpret B. This is the sphere par *excellence* for reducing cognitive dissonance. It wasn't wine, but vodka that I drank, consequently, I can still consider myself an authentic Moslem. It wasn't work I did, but an amusement, so I can keep considering myself reasonable when I paid to have the pleasure of whitewashing the fence, or honest in being remunerated for playing football, since it wasn't for play, but labor. And it is the same for honesty in a situation of arguments contrary to attitudes: if I believe what I say, then I do not mislead others in error by intention; consequently, I can maintain my identity of an honest person.

Actually, relations at this point are more complicated. Besides conditions concerning the *form*, honesty, and in the same way, reason or any other social quality, also has criteria related to the *content*. For honesty, formal criteria are given if one does not say what one does not think. The question of content criteria still remains as to whether this very thought is compatible with honesty.

In this context, we have to re-examine the famous controversy between Cohen (1962) and Rosenberg (1965). Cohen invited his subjects to justify the murderous intervention of the police force during a demonstration on the Yale Campus. As far as honesty is implicated, this social identity of a person is lost in any case, since he starts pleading justification for the intervention, either because of a *form* of bringing other people to believe something important that is not believed by the person himself, or by the *content* of really holding such a belief.

Thus, for this experience, there is no possibility of reducing a cognitive dissonance that is precisely referred to this social identity.

On the other hand, the form of arguing against one's own convictions is incompatible with the social identity of a reasonable person as well, while on this occasion the same content (an advocacy for police intervention) is not particularly inconsistent with that identity. Now, it is exactly for the cognitive dissonance referred to the social identity of a reasonable person that it holds true that the more the reward is guaranteed or the punishment prevented by this very act, the more the pains of a cognitive dissonance are compensated. If one advocates against one's own beliefs one runs a risk of losing one's identity of a reasonable person, but to do so for an ample reward or for an escape from a painful punishment is the exact strategy depicting somebody as really reasonable. Thus, it is by no means surprising that Cohen found an *inverse* ratio between the size of reward/punishment on the one hand, and the willingness of someone, driven by a cognitive dissonance, to adjust his beliefs to his words on the other hand.

As to Rosenberg's experiment, the above two factors were related to each other quite differently. This time, the subjects had been invited to advocate very unpopular arrangements of the University authorities concerning the University's football team. As to the honesty matter, this time it has the same *form* condition: to believe whatever is said. However, as regards the *content* conditions, nobody is prevented from being an honest person only because he believes, in conformity with what he has said, that a University's football team could be restricted by the authorities

(while in Cohen's experiment, everybody was prevented from it by the content of his belief about the National Guard's murderous act).

Thus, in this experiment, there exists the possibility of reducing the dissonance between two cognitions—"I am an honest person" and "I believe X while having others believe non-X"—by the modification of this latter cognition.

We should remember that the greater the dissonance is, the more powerful is the drive to perform these modifications. That is the point where the reward/punishment matter intervenes. As far as the identity of a reasonable person is concerned (as in Cohen's experiment), the former serves as a direct index of the latter: *the more profitable the freely chosen act turns out to be, the more reasonable the person manifests himself by this choice*. Now, the opposite is true when the dissonance concerns the identity of an honest person: *the more profitable a dishonest act is, the more dishonest it is.* For this reason, the better paid that Rosenberg's *honest* subjects were (as opposed to Cohen's *reasonable* subjects), the greater was their experienced cognitive dissonance and, for this reason, their willingness to adjust their beliefs to the statements they had previously made.

That was what Rosenberg actually found: he started his experiment in order to falsify cognitive dissonance theory and re-establish the explanation of facts by behaviorism. It is highly symptomatic that the whole cognitive dissonance theory, being interested exclusively in the formal aspect of its phenomena, tried to parry the conclusions of his experiment. If, however, contents of social identity are taken into consideration, *Rosenberg's attempted falsification turns out to be a powerful verification of this theory.*

It is the same fixation of this theory (originating from that of Lewin, which in turn derives from that of "Gestalt") on mere form that may be held responsible for the way in which it treats the above three-piece formula in Type 3. It is at this point that this theory would be the most promising to attack, since it is this cognition in the three-piece formula which is undermined the most directly by cognitive dissonance. This is the case because, in spite of what this form pretends, there appears an **A** (namely me, I who am **A**) who does the activity B. Why consider that an orthodox Moslem does not drink wine if there is one (me) who does do it? If it is about the *natural* identity of objects one has no reticence in proceeding this way:

While having the belief (3) "The glasses of a given set do not break", the evidence (1) "This concrete glass belongs to that given set", and the empirical experience (2) "This concrete glass is broken", one can

be brought to adjust his belief (3) rather than his evidence (1) to his experience (2).

Therefore, it is surprising that the cognitive dissonance theory does not consider this way of reducing the dissonance. Why not reduce the dissonance of, for example, a dishonest act by concluding that **"Some honest individuals lead others into error."** It is as a cognitive psychologist stated: **"Those who deliberately deceive others are *in fact* dishonest"**; or **"He who acts against his own interest is *genuinely* unreasonable."** In fact, these statements are not explicit, although the implication seems evident. However, the same point has been argued since the beginning, with data gathered through the empirical observation of subjects who neglect the most *evident facts* of nature (such as a connection between lung cancer and tobacco use or the danger of earthquakes in the area in which one lives). Could the facts of social identity be more real than those of nature (and therefore of such an importance to life)?

Far from it. The facts of nature cannot be modified by cognitions. To recall the preceding example, to class (or not class) an object among the glasses of a set, or to notice (or not notice) that it breaks, in no way modifies the fact of belonging or not to the glasses of this set or of being (or not being) fragile. On the contrary, it is true, as formulated by Georg Lukacs, that consciousness has an *ontological status* in society, which for this study means that cognitions that *reflect* facts of social identity *are* also facts of this identity.

Thus, one performs actions, including socially relevant ones, such as deceiving others or revealing the truth to them, or drinking (or not drinking) wine. However, one may happen to think about what has been done and its social meaning, but these acts of thinking *are* themselves acts, and as such they may, like any other act, be relevant for one's social identity. In fact, when performing a **Type 3** action against cognitive dissonance it is the act of thinking that is the most relevant to this matter.

If one purposely leads others into error, one commits a dishonest act. If one thinks that one may purposely lead others into error and still be considered honorable, this thought is another dishonest act. Can someone who drinks wine consider himself to be an authentic Moslem? Certainly not, because he or she performs an act that is prohibited by Islam. Next, may someone who considers him- or herself to be an authentic Moslem be considered to be an authentic Moslem? Certainly not, because he or she thinks something that disregards the sacred interdicts of Islam.

To be fixed, the criterion of belonging to a category of social identity must be fixed for the object at an *object level* of socially relevant facts and simultaneously at a *meta-level* of representations of those facts that are socially relevant facts.

Let us return to the previously introduced three-part formula for cognitive dissonance. We have observed that Fact 2 introduces an ambiguity in identity representation. From Item 3, I can conclude as follows:

I am not A *because I do B* (being given that A cannot do B);
at the same time, from item 1, I can conclude as follows:
A can do B *because I do B* (being given that I am A).

The ambiguity could introduce arbitrariness into the definition of social identity, which would henceforth be a matter of consideration.

For example, let us consider the following statement of Tajfel (1981): "We shall adopt a concept of 'group' identical to the definition of 'nation' proposed by the historian Emerson (1960) when he wrote: 'The simplest statement that can be made about a nation is that it is a body of people who feel that they are a nation; and it may be that when all the hive-spun analysis is concluded this will be the ultimate statement as well' (p. 102)." What is particularly appreciated by Tajfel in this "definition" is that by it, "members of a national group are considered as such when they categorize themselves with a high degree of consensus in the appropriate manner and are consensually categorized in the same manner by others. His statement is essentially a social psychological one: it is not concerned with the historical, political, social and economic events which may have led to the social consensus now defining who is 'in' and who is 'out'. However, there is no doubt that these events were crucial in the establishment of the nature of this consensus; and equally true that the consensus, once established, represents those social psychological aspects of social reality which interact with the social, political and economic events determining the present and the future fate of the group and of its relations with other groups" (pp. 229–230).

However, it is undecided whether this type of social, political and economic event incites someone to draw a conclusion from Item 3 or, on the contrary, from Item 1, *based in both cases on the evidence of Item 2* (see above). Let us suppose that events in a population are marked for a long historical period by cooperation. *For this reason*, will a group be formed (given the principle that those individuals helping each other

belong together)? Or, *for the same reason*, will a large consensus be formed regarding mutual dependency producing mutual hate (given the experience shared by everyone of being frustrated by the impossibility of doing without each other's help)?

Now, if one attempted to reduce dissonance using Type 3, the dissonance would reappear at a meta-level. This effect is represented in the following formula, in which one level is logically superimposed on the preceding one (on p. 5):

1. l. **I am A.**
4. **I think that A can do B.**
5. **A does not think that A can do B.**

The attempts to reduce the meta-level cognitive dissonance by the modification of each of the cognitions would mean that in **1**, we observed that modification signifies the definition of social identity. The superimposition of this second three-piece formula on the first adds a second constraint to that of abandoning one's identity *because of what one does*: the constraint to abandon it *because of what one thinks*. I must recognize that I am no longer an authentic Moslem because I drank wine. However, if I nevertheless claim the identity of an authentic Moslem, then I consider violable the inviolable principles of Islam that impose on me a second constraint to abandon my authentic Moslem identity. Similarly, having committed a dishonest act, one can only claim the identity of an honest person if one is, in accordance with this dishonest thought, dishonest. It is this very *double bind* (cf. Watzlawick et al. 1967) that brings those who are subjected to it to an identity crisis that eventually ends in a modification of the represented identity.

However, if it was **Item 4** that one tried to modify, we would regain Item 3 and the original dissonance founded on it.

Finally, the modification of **Item 5** would bring us to an infinite regression: To think that act **B** is compatible with social category **A**; then, to think that act of thought that is compatible with membership in this category; then, to think the same thing of the second act of thought, etc.

This double bind is that of an ideology. For as far as double bind is concerned, the previously described arbitrariness can no longer exist. The induction from a fact can only proceed toward the definition of social identity if their relationship was also given as a fact. (Let us remember what was previously stated: Those who deliberately deceive others are *in fact* dishonest; he who acts against his own interest is *genuinely* unreasonable).

Admittedly, here, the real social identity is concerned in the sense that it is independent of judgments (i.e., "true" or "false") concerning this identity. However, the facts, or the reality, of social identity differ from those of natural identity.

The way in which nature treats natural identity can be observed through ethological phenomena, such as the proximity or distance-keeping behavior of animals (Hall 1966). In addition to the present activity, the critical distance depends on what one could term the *natural social identity* of fellows. Under the conditions associated with a certain type of activity (e.g., feeding, mating, migration, fighting), animals let themselves be approached or seek the proximity of a certain category of equals while keeping a distance from those who do not belong to this category. Supraindividual formations of this nature are organized and made possible by a system of signals produced by individuals. However, the criterion by which they signify the individuals who belong to social categories arises from the genetic program of the species. Thus, once established, categorical limits will be unanimously respected by each individual of a population, independently of individual categorical belonging.

In contrast, the criteria of the social identity of man are only imposed on those who set a value on that identity. Thus, if it seems *evident* to us that someone who uses illegitimate means to keep others from considering their own legitimate interests is dishonest, this is by no means a reflection of the natural criteria of belonging to the category of honest individuals. It is merely the proof of our intention to belong to that category: *to be honest, one must think in a precise way about what one must do to be honest.* However, simply noting the criteria of a Moslem identity without finding it evident that a wine drinker cannot have this identity is a proof that we have no intention of identifying ourselves as Moslems.

The Social Relevance of a Psychosocial Identity

The claim to possess a given social identity imposes the criterion of considering certain criteria as indispensable for belonging to this category, based on evidence that is not contested even by those who do not satisfy these criteria. This point can be illustrated by the "*sinner's remorse*" phenomenon, which is perhaps the most paradoxical of our examples. A sinner is someone who lacks acts that serve as criteria of belonging to a social category that is ideologically valued and thus finds him- or herself excluded by those who legitimately belong to the category. Smitten with

remorse, the sinner *excludes him- or herself, and by doing so, together with authentic representatives of this category, he or she demonstrates that he or she also belongs to this category.* Sinners who repent are highly valorized by ideological categories because this paradox of their social identity perhaps best distinguishes social from natural identity (whereby, we recall, no one can demonstrate his or her belonging to a category without producing what is considered to be the signs of that category.

Thus far, the matter in question concerns the lack of *genuine* acts that are the criteria of a claimed social identity, and consequently results in finding oneself in a paradoxical dilemma at a meta-level of thoughts that refer to the object level of acts. That is, to claim the social identity in question in spite of that lack, and thus to add to a lack on the object-level another lack on the meta-level (i.e., to add *thinking* inadequately about that act to *acting* inadequately) or to punish oneself by excluding oneself from the community of that social identity, thus redeeming that lack at the object level by this fervor at the meta-level.

Another type of social categorization paradox, which substantially differs from the previous one with respect to structure, is that of "*confession of non-committed crimes.*" The entire generation of individuals who were committed to the left-wing cause sought to determine the secret of the psychosocial drives of the accused of the Moscow (see Medvedev 1972), Budapest (Savarius 1963) and Prague trials (London 1971). To display their intransigent devotion to the Communist Party, the accused were forced to confess imaginary acts of high treason against the Party. Here, the issue is that *the very act of insisting on not having done anything against the directives of the party constitutes disloyalty, because the directives from the party chiefs proscribe the confession of fictitious disloyal acts.*

*

With the paradoxical definition of social identity, social reproduction is at stake. In each society, there are cultural (both technical and moral) models of well-defined social identity with a high reproduction rate, whereas differently identified models have more or less lower chances to dispose of the material conditions of their reproduction.

There is a correspondence between ***socio-economic identity*** *defined by the distribution of these material conditions of social reproduction between social categories, on the one hand, and the* ***psychosocial identity*** *that defines the attribution of more or less value to social categories, on the other hand.*

Socio-economic identity endows psycho-social identity with an *energetic* aspect that defines the extent to which the social categories of a given historical period of a given society refuse to tolerate, for example, one another's existence, one another's representation in a given (e.g., familial, friendly, club, work) setting or individual cases of belonging to both categories.

However, psycho-social identity endows socio-economic identity with an *informational* aspect that defines what type of social (e.g., economic, national, religious, cultural) categories are included in and excluded from the disposition of material means of reproduction.

Now, this two-way determination becomes accessible for the investigation as far as the two-level organization of relations and its paradoxes are considered.

Thus, investigations of intergroup relations (such as the Bogardus survey), which only considered the object level of real, socio-economically created group interaction, had nearly no psychosocial character. When he became interested in it, Sheriff (1966) artificially created this latter aspect using an experimental manipulation of formal components of the meta-level, such as cooperation and competition. In contrast, Tajfel (1981, pp. 228–253 and 268–287) discovered that the real social context imposes on an experiment not only an object level of the real socio-economic membership groups of its subjects, but also a meta-level of their willingness to establish psycho-social groups of any type, and categorically exaggerates the internal similarities and external differences of the pre-existing and the newly established groups.

The same is true for the opposite form of these relations. There is not much possibility of demonstrating that a psycho-socially founded category becomes a socio-economically relevant one (for example, by claiming that such-and-such a psycho-social group becomes the dominant class). However, we are familiar with Voslensky's (1980) investigation of the nomenklatura. The nomenklatura is a set of key positions interrelated with one another in the social structure of "really existing socialism" and a set of individuals who can exclusively occupy these positions. Voslensky provides a detailed description of a psychosocial game that regulates the matter of who occupies which position. In addition, he succeeds in outlining how this game regulates the socio-economic structure of a society because the society's object level and its meta-level are concerned with a paradox that is introduced by the former. The nature of this paradox is as follows: Those in more central positions *subsequently* define the rules of the game according to which they were *previously* elected, or members are *subsequently* elected

for more central positions, which entitles them to *previously* define the rules of this game. In such a system, social identity, which was once defined by *psychosocial* means, is reproduced according to *socio-economic* ends.

By taking into account the paradoxical structure of social identity, we may advance toward a *psycho-economic theory* that comprehends the psychosocial definition and the socio-economic reproduction of patterns of social identity.

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CHAPTER 3

Identity Economics: "An Alternative Economic Psychology"

The actual chapter is a detailed extract of these versions.

General Economic Psychology

The author of this monograph claims that economic psychology emerged as a science of *psychological phenomena transformed into economic factors; this transformation occurs* during a historical period termed the *second modernization,* and in the face of the necessity of *producing human resources at the cost of consuming material resources.*

The FIRST CHAPTER ("The Economic Psychology Approach") presents an axiomatic model of the economic man and several reasons why actual economic activity does not correspond to that model. The psychology of *behaviorism* that corresponds to the "economic man" model and three alternative psychologies (i.e., *cognitive psychology*, *psychoanalysis* and *social psychology*) are presented in detail. These psychologies are comparatively examined with respect to their capacity to explain the market-oriented and organizational economic activity of humans. The problem of the needs of an "economic man" is evoked, and a theory of *specifically*

The actual book is based on my monograph Identity Economics published in Hungarian, in 2003 (Budapest, Tas Publisher). That monograph had four antecedents published in 1990, 1992, 1996 and 1998; this last version (entitled The Human Potential as Capital) wasw reprinted four times.

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human basic need is proposed as a solution to that problem. The structure of the hypothesized need corresponds to that of a specifically human activity defined according to technical and social criteria.

The SECOND CHAPTER ("Mediating Economic Transactions: The Psychosocial Identity") distinguishes between two types of psychological phenomena that were transformed into economic factors: technical dispositions of mastering *things' attributes* and social dispositions of mastering *persons' relations*. This chapter states that unlike material production, which only depends on the *technical attributes* of producing and produced factors, modern human production is also determined by the *social relations* of the factors. These social relations are addressed in terms of *psychosocial identity*, which is presented as the key concept of the economic psychology.

Psychosocial identity is produced by an elaboration of relations rather than attributes (whether they are psychological characteristics of a person or the sociological characteristics of the person's status). This elaboration is *social categorization*. From early childhood, social categorization is mediated by an unconscious process of semiosis, in which the child's diffuse vocal, motor, postural, vasomotor or other somatic and developing behavioral, verbal, intellectual and affective manifestations become shaped as *signifying* factors that are attached to simultaneously shaped social categories as their *signified* factors. Thus, similar identity factors should be symbolized by similar symbols and different identity factors by different symbols. In adults, this mechanism is a powerful means to divert economic behavior from the rationality norms of the economic man. This behavior's manifestations receive symbolic value, and thus their destiny is strongly influenced by the social identity that they symbolize. In addition, the objects of economic behavior are allocated according to a territorial mechanism to one or another social category (whether that category is represented by a large or small group or only one person). Possession enables owner(s) (and disables others) to participate in well-defined economic activities.

Special Economic Psychology

The second part is a sample application of the general economic psychological findings to various aspects of market and organization behavior.

The THIRD CHAPTER ("Managing Material and Human Resources") concerns the economic psychology of manufacturing and purchasing goods, marketing and financing activity, management and development

transactions, as well as organization and socialization behavior. Information management and the knowledge economy are addressed in detail, using an economic psychology approach. In contrast to economics, economic psychology does not consider information management a mere *control process* but one of the *real processes* in that system. However, this monograph argues that in contrast to classical psychology, economic psychology considers the knowledge economy to be a social and not an individual performance. Although social identity is considered to be the primary factor that mediates between individual and social matters as well as between control and real processes, it is argued that it simultaneously creates a new duality: between information and knowledge on the one hand and identity itself and the deed that invests someone with that identity on the other. This duality is exemplified by our contemporary universities, with their bifurcation of the knowledge supply and the diploma supply.

In the FOURTH CHAPTER ("Managing Human Resources: The Second Modernization"), modernization is defined as a generalized tendency toward artificial intervention by the socio-economic system into natural processes in order to manufacture the conditions that are necessary for its own functioning. During the first period, in the eighteenth to nineteenth centuries, this modernization meant, on the one hand, *manufacturing the material factors on which the system depended* and, on the other hand, *making the system independent of the human phenomena that it had not produced by itself*. However, since the end of the nineteenth century, the actual operation of the socio-economic system has no longer been independent of the faculties and needs that are effective in the population. Therefore, a second modernization imposed upon the socio-economic system is the necessity of *manufacturing (and not only exploiting) the human (and not only material) conditions of its functioning*.

This necessity is analyzed in terms of the *human capital* invested by either the interested party (i.e., the party that supplies the human potential or the party that demands it) or the state. Possession relations of human capital are analyzed in detail because the capital invested by the state in the formation of a person's potential will be organically integrated in his or her body and mind, and inseparable from the physical and mental faculties that were originally given to him or her.

Totalitarian states are investigated from the perspective of manufacturing human conditions. It is claimed that such states directly applied the strategies of the nineteenth-century large-scale material-processing industry in establishing a large-scale human-processing industry in the

twentieth century. This chapter addresses the human condition that is represented by the social identity marked by either competition or monopoly. A perfect (i.e., not disturbed by a monopoly) competition is as important a condition for a market-based economic system as a perfect (i.e., not disturbed by competition) monopoly is for a planned economy.

The paradoxical consequences of such a human-processing industry are presented. Where the relations of competition or monopoly are concerned, the intact juxtaposition of both factors without bias is, in fact, nothing but their competition. On the other hand, when competition is eradicated from a socio-economic system (considering the necessities of a planned organization, as is the case for the Bolshevik-type totalitarian state) or the monopoly is extirpated (to fit the needs of a market, as in the case of a fascist or national-socialist type of totalitarian state), the manufactured product is a pure monopoly.

However, the primary difference between the two types of totalitarian states is addressed in terms of differences regarding aspects of that human-processing industry. This chapter claims that *fascist-type totalitarian states establish a large-scale industry for human attributes solely, whereas in Bolshevik-type totalitarian societies, human relations are also manufactured*.

In the FIFTH CHAPTER ("The Bolshevik-Type Version of the Second Modernization"), instead of being investigated from an ideological or a politico-logical aspect, Bolshevik-type societies are approached using economic psychology. In such an approach, the structure and the functioning of those societies are tested from the viewpoint of a human capital economy within the frame of the second modernization.

The *basic dilemma of the second modernization* is presented: the more that highly qualified human potential is involved, the larger the amount of capital that is required to manufacture that potential; and increasingly larger autonomy is required to operate that human potential. If the required capital is ensured by the involvement of the state, the autonomy will be in short supply. However, if the autonomy factor compels the state to leave the human business by charging the costs of human development to the individual's account, capital will be scarce.

Therefore, the organizing principles of these societies are not only the bureaucratic provision of social power to the *office* that a person incidentally occupies, but also the *charisma* that awards power to a person based on his/her record. Because it originated in the twentieth century's radical anti-bureaucratic (illegal) mass movements, charisma provides not only a leader but also the entire headquarters of the revolutionary movement

(and the entire party, as the movement's vanguard), with social power independent of anyone's office. However, regarding this *collective charisma*, in Bolshevik-type structures the person accrues (and loses) glamor by being invested with (or deprived of) charisma in a manner similar to that of offices. That is, to acquire a social identity that is independent of an appointment, one must be appointed. This procedure of bureaucratically appointing someone to a collective charisma becomes institutionalized in the *nomenklatura*[1] that links the status of the *functionary* and the identity of the *commissar*. Such features of Bolshevik-type social structures, together with the self-establishing machinery of *democratic centralism* with respect to the identity of those who belong to the Bolshevik-type party, are described in this monograph as psycho-economic devices to continue the operation of a peculiar processing industry whose final mass-product was (for a totalitarian state that supplies the required capital) a peculiar version of the required autonomy: the *complicity of the system's victims*. Both the functioning and collapse of the Bolshevik-type system are analyzed from the viewpoint of a paradoxical self-establishing psycho-social effect (as opposed to a self-undermining paradoxical effect of the fascist-type functioning of totalitarian states).

The dealing with the structural dualism of the Bolshevik-type organizations (which was formerly best known as a "state and party leadership") leads to the closing SIXTH CHAPTER ("From the Post-Bolshevik Structures toward an Information-Processing Large-Scale Industry"). The Bolshevik-type twin-features are compared to the twin-structures of the information processing (e.g., to the duality of the information's carrier and its place value). The Bolshevik-type structure, which consists of concentric circles, is studied as an information-processing device in which information may travel exclusively in centripetal and centrifugal directions, while its path is strictly blocked between the neighboring but separate peripheral units of each ring (e.g., the primary party organizations). In such a structure, the center has perfect control over the totality of the information output. Therefore, this center is enabled to provide (1) the perfect protection of data, (2) the total control of addressees, and (3) a virtual periphery established around any of the concentric rings that can at any moment be substituted by the center for the real periphery.[2]

In this closing chapter of this monograph, the psycho-economic conditions of *information economics* are analyzed. This monograph argues that in contrast to economics, economic psychology does not consider information processing a mere *control process* but rather one of the *real processes*

in that system. Moreover, in contrast to psychology, economic psychology considers information processing to be a social and not an individual performance. The psycho-economic peculiarities of information's property relations, as well as appropriation and alienation operations, are analyzed within modern information management. The social identity processed by social categorization is considered to be the primary factor that mediates between social and individual issues, as well as between control and real processes.

A new general tendency to materialize social categorization in societies by distinguishing an elite and a mass is critically analyzed as a type of radical settling of the second modernization's basic dilemma. Here, the capital that is required to manufacture highly qualified human potential and the autonomy that is required to operate the manufacturing become focused on the side of the *elite*. On the side of the *mass*, both factors are lacking. This *asymmetry of identities within organizations* is compared in this monograph to *markets with asymmetric information* (Akerlof–Spence–Stiglitz).

Notes

1. Michael Voslensky. *Nomenklatura: The Soviet Ruling Class* (1st. ed.). Garden City, NY: Doubleday, 1984. ISBN 0-385-17657-0.
2. It is the function of the Ministry of Truth in Orwell's *1984*.

CHAPTER 4

How Outstanding am I? A Measure for Social Comparison within Organizations

The Economic Psychology of Excellence

In the 1950s and 1960s, economists, sociologists, psychologists, and philosophers described the phenomenon of *craving for status* independently of one another and using different terms. They claimed that this motivation might become just as much a passion for human beings in the modern age as the *craving for money* was for those who lived in the seventeenth to nineteenth centuries, that period of classical capitalist formation.

The change is also manifest in the fact that whereas the former passion prompted the *accumulation of money*, the latter passion may well encourage the *spending of money* not even earned but borrowed. However, the craving for status does not afford pleasure through the consumption of the goods commensurate with their utility value, but through the fact that the goods that are acquired or the money that is spent to acquire them symbolize status. For a time, it was customary to describe this period as the *consumer society* era and to speak (with a degree of social criticism and ideological disapproval) of the craving for status symbols and conspicuous consumption. In addition, it was emphasized that in consumption, individuals were being guided increasingly less by the rational goal of achieving the greatest possible joy for the lowest possible cost (or the highest possible profit by the smallest possible inconvenience) and increasingly more by what was required by one's position in society. That is, one's guidelines regarding what to purchase were based on what was required

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by one's social position. It seems that twentieth-century man had an important interest in *acquiring an excellent social identity based on a favorably selected status.*

When individuals, groups, states, and groups of states spend money maintaining their social status and their identity within that status, their motive is not an aristocratic or snobbish zeal. Instead, the motive may be rational: the endeavor to be among those with access to scarce resources or to be enabled to participate in an advantageous transaction.[1] The more advantageous the status of a candidate in society is among those who are competing for a transaction and the more excellent his or her social identity is in respect to others, the lower the transaction costs will be for him or her. Therefore, it might be reasonable to spend money (or, more generally, invest money, goods, time:, the risks required by a venture) on increasing excellence. The only question is *how much money, for example, is reasonable to spend on how important an increase in the excellence of one's identity.*

The present study seeks to answer this question as precisely as possible.

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If money spent symbolizes status, it could be that the acquisition of money fascinates modern human beings not because of their earlier passion for pursuing money but because acquired money can symbolize status, too. This activity is primarily motivated not by the difference perceptible between *costs* and *profits* but increasingly by the difference between *our* net income and that of *others.*[2]

When, in the conditions of so-called socialism, those who urged economic reforms argued that the monetary incentive needed to be placed in the service of social goals, and insisted that the incomes of individuals (who were in theory equal) had to reflect unequal performance to a better extent, they were speaking about the motivating power of the craving for status. The issue is that higher performance does not invariably mean more performance of a quantitatively measurable type. The performance of an astronaut is perceived to be more valuable than that of an abattoir worker or that of a housewife, although the former produces nothing measurable in the material sense, whereas the latter individual provides her services over a seven-day working week, the merit of which can be materially recorded. However, in the record of merit, our intuition seems to be guided not by the materially measurable performance but by an unconscious consideration of which performance is *more excellent*. Therefore, one may find it in order for an astronaut to

receive remuneration decades after his performance as an astronaut that is higher than that of, for example, a butcher, whereas the housewife, who often continues her work until the end of her life, does not receive a salary or a pension at all.

However, remuneration can be on a higher level without the payment of additional money. All organizations establish a system of benefits whereby certain employees are favored over the rest, the staff as a whole over those who are outside the organization, and regular customers over occasional customers. Even the totality of customers is favored over the entire population from which they emerge. Among the benefits are those benefits whose utility can be measured in money. For example, grantees among the employees (and, to a lesser degree, all of the organization's employees) may, in addition to their regular salary, be allowed to use items of the organization's movable and immovable property free of charge or at a concessionary rate. In other examples, certain employees may have access to services paid for by the organization wholly or in part, or regular customers might be provided discounts when using services offered by the organization. However, the intuition that we use when bearing in mind the value of remuneration seems to be primarily guided not by considerations connected to its size in terms of money but by a weighing of how *distinguishing* the bestowed benefit is.

Therefore, higher-level performances can be rewarded through higher-level pay not only in that *more* is produced according to the paradigm of material effectiveness and *more* is paid for this production, but also by remunerating a *distinguished* performance in a *distinguishing* way. In fact, what is measured is *no longer the merit of the things produced but that of the person who produces.* Behind a distinguished performance, our intuition suspects a combination of technical powers that is also distinguished by virtue of its rarity, as behind the distinguishing remuneration this same intuition suspects a person's distinguished social power. In such a case, by its distinguishing power, remuneration symbolizes status, and thus motivates individuals through the craving for status, even when these individuals seem obsessed by a craving for money.

Around the time of the political and social transition in Hungary, family groups or friends in voluntary enterprises within companies and in small private businesses occasionally drove themselves at an inhuman pace, not only to maintain their standards of living or to be able to purchase goods beyond the reach of the industrial proletariat and workers in the catering industry but, at least as much, to demonstrate how well they

were getting on. For them and for others, how well they were getting on was expressed in money or in conspicuous goods that could be obtained with money. However, it was not the absolute amount that mattered but its distinguishing character. Just as refrigerators or automobiles were not (as they had been) suitable to demonstrate how far one had progressed, an enormous income in itself was not sufficient incentive to mobilize such energy if everyone had been able to work with colleagues selected by themselves in voluntary enterprises within companies or in small-scale independent enterprises.

The same passion was described by Kornai as the inner compulsion for expansion, when, at a time when the now-collapsed socialist system was still capable of operating, he sought an answer to the following question: "What prompts a manager of a company under socialism to make investments or to accumulate capital when he has no interest in any profit earned?" In Kornai's views, the most important element was that "the manager identifies with his own position. For such a manager there would always be a basis for comparison, in the light of which his unit would appear outdated or inferior. […] Managers felt a professional rivalry in the best sense of the word. They wanted to augment their own professional prestige […]. This could be accompanied by motives perhaps less noble, but nevertheless understandable from the human point of view. With the growth of a company or public institution came an increase in the power and social standing of its manager, and, together with this, consciousness of his own importance. Directing 10,000 people feels much better than directing 5,000. Greater power can bring greater material recognition, more pay, bonuses and privileges, depending on the system of incentives in force."[3]

More exactly, what motivates managers in such cases is not so much the absolute size of the unit under one's direction or the absolute degree of that unit's expansion, but the extent to which those index numbers rank the person or his or her organization compared with others. Kornai concedes: "If someone was appointed, let's say, rector of one of the biggest universities in the country, or was made responsible for the protection of all the country's historic monuments, or was entrusted with care of the country's water supplies, then no increasing of either his salary, authority, or power would result from his being able to secure 20 per cent greater investment for his sphere of activity." However, "the compulsion for expansion manifests itself at every level of the economic hierarchy: from the leader of a brigade consisting of a few workers to a minister directing

hundreds of thousands or millions of people. When the distribution of investment resources is on the agenda, all fight so that *our* brigade, *our* company, *our* ministry gets the most investment possible."[4]

A smaller monetary increase might be accompanied by a more powerful increase in status. On other occasions, a person might simply abandon the idea of acquiring more money, because when the possibility arises, he or she favors an increase in status instead. In addition, a person might abandon a modestly paying but excellence-conferring office and be ready to accept the lower status of competing with others on an equal basis if doing so holds the promise of higher income in the future.

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In such a case, is it possible to calculate the increase in status that someone must achieve to offset a loss of money, or how much of a decline in status someone should accept in return for monetary gain? Can an increase or decrease in status be measured? Can a twofold, tenfold, or fiftyfold increase or decrease in status be compared with a simultaneously occurring decrease or increase in money so as to establish whether someone has made a good or bad move when linking one variable with the other?

Measure of Outstanding Social Identity (MOSI)

I am going to present a that makes it possible to calculate the value of outstanding social identity (VOSI) of a well-defined social status and the social identity one may obtain by it.

The measure of outstanding social identity applies the same logic with which the information theory calculates the value of the news regarding an occurrence that could be expected with a p probability. This value equals the logarithm of the inverse of p. Reference books on information theory observe that "when we want to express quantity of information […] in numbers, we deliberately and consciously ignore the content and significance of that information." Thus, "the answer to the question 'Do you like cheese, young lady?' [may] contain [the same quantity] of information as does the answer given to the question 'Would you like to be my wife, young lady?' although the content and significance of the two answers are obviously entirely different."

Regarding the VOSI, the same relation is valid. Certainly, the value of attaining a favorably selected social position or avoiding a negatively chosen one is as high as the stake that this value involves. Clearly, if a negatively chosen position is such that it affects one in ten individuals disadvantageously, the value of "that's not me but someone else" will be

different, depending on whether someone is about to hide in the next round of the "hide and seek" game or whether a commanding officer is decimating his unit. However, the VOSI does not depend on the substance of the stake. It is only based on the formal relations. Excellence is a surplus value obtained by the comparison, for example, when one receives a negative selection that would have affected not one in ten but two, five, or nine, or when a individual is selected as the more favorable not out of two but of ten or a thousand candidates, or perhaps even the total ten million inhabitants of Hungary. The rapport may be stated as follows:

Box 4.1
The smaller the pre-estimated probability of belonging to a favorable social position within a population is, the greater the value attached to obtaining that identity.

Formula 1:
$q_a = 1/p_a = N/a,$

where N is the population;
$\bar{a}$ is the number of those in the population whose position is inferior to mine
$a = N - \bar{a}$ is a value complementing the previous one, i.e., the number of those whose position is not inferior to mine[5]
$p_a = a/N$ is the probability for anybody in the population to be among this favorably distinguished part; hence

Finally, the VOSI of my position may be calculated as $\log_{10} q_a$.

According to this formula, in the previously mentioned decimation case, $N = 10$ and $\bar{a} = 1$. Therefore, the number of those whose position is not inferior to mine is $a = 9$. Thus, $p_a = 9/10$, and its inverse is $q_a = 10/9$. Finally, the VOSI of my position is 0.046.

My VOSI may be defined by my position in various ranks. For instance, if in a population of $N = 1000$ I am the first,

$$a = 999$$
$$a = 1$$
$$p_a = 1/1000$$
$$q_a = 1000.$$

Consequently, the E-value of my position equals $\log_{10}1000 = 3$
Similarly, first place in a group of $N = 10$:

$$a = 9$$
$$a = 1$$
$$p_a = 1/10$$
$$q_a = 10$$

Thus, my E-value is $\log_{10}10 = 1$.

If in the same population I take not the first but the second place, the corresponding calculation is as follows:

$$N = 10$$
$$a = 2$$
$$p_a = 2/10$$
$$q_a = 5.$$

Therefore, the excellence value is $\log_{10}5 = 0.7$.

However, what happens if I am not first or second but share the first and second places with someone? This position must be somehow more excellent than a second place occupied alone but less excellent than a non-shared first place. How can these connections be reckoned with?

The index number that expresses the difference can also be calculated in such a way that the position is evaluated not only in relation to those on top but also in the opposite direction: to those at the bottom of the population. Here, the procedure to be employed resembles that of Formula 1:

Formula 2:
$q_b = 1/p_b = N/b$,

where N is the population,
b_- is the number of those in the population whose position is superior to mine,
$b = N - b_-$ is a value that complements the previous variable, i.e., the number of those whose position is not superior to mine,[6] and
$p_b = b/N$ is the previous probability of anyone in the population being among this unfavorably distinguished group, thus the inverse of p_b

Therefore, a stigmatizing value of my position may be calculated as $\log_{10} q_b$.

Of course, the stigmatizing value of being the first equals 0. The 2nd place in a group of $N = 10$:

$$b^{-} = 1$$
$$b = 9$$
$$p_b = 9/10$$
$$q_b = 1/p_b = 10/9$$
$$\log_{10} 10/9 = 0.046.$$

By force of the same second place in a population of $N = 1000$:

$$b_{-} = 1$$
$$b = 999$$
$$p_b = 999/1000$$
$$q_b = 1/p_b = 1000/999$$
$$\log 1000/999 = 0.000435.$$

Formula 3

Finally, the summed value of my position may be obtained by deducting the stigmatizing value from the distinguishing value: $\log_{10} q_a - \log_{10} q_b$.

This formula may be applied to our previous problem of distinguishing from the E-value of a first and a second place the E-value of the first and second places that are shared with someone else. The value $\log_{10} b - \log_{10} a$ equals

1. place: $\log_{10}10 - \log_{10}1 = 1 - 0 = 1$
2. place: $\log_{10}9 - \log_{10}2 = 0.95 - 0.30 = 0.65$
3. shared: $\log_{10}10 - \log_{10}2 = 1 - 0.30 = 0.70$.

The medium value for the shared position results from its a value being equal to that of the second place and the b value being equal to that of the first place.

Calculation and Intuition

It is worthwhile to compare the values obtained using the MOSI with the intuitively expected values. For example, let us calculate the value of the shared second to fourth places in a group of $N = 10$ and then the same value for a population of $N = 1000$, while comparing those values with the values for the preceding (i.e., 1. place) and the following (i.e., 5. place) positions:

Table 4.1

	N = 10	*N = 1000*
1. place	1	3
shared 2-3-4. places	0.35	2.40
5. place	0.08	2.30

The difference (i.e., 3-2.40-2.30) that we obtain for the values in $N = 1000$ is substantially more moderate than the difference (i.e., 1-0.35-0.08) for the values in $N = 10$. This outcome would be intuitively expected: that is, 5th place (when $N = 1000$) being nearly as distinguished a position as the shared 2-3-4th places, whereas when $N = 10$, the difference between the mediocre 5th place and the shared 2-3-4th places, being closer to the top, must be more significant.

However, economic psychologists have long known that a divergence may occur between what is implied by the economic rationality calculated by a mathematical formula and psychological intuition.

This divergence has been described by Bernoulli with respect to the St. Petersburg paradox. Allais developed this description by describing the paradox that is named after him. Thus, psychological intuition diverges not only from economic rationality but also from psychological rationality, which means that the divergence from a mathematically calculated result could be calculated mathematically.

The basis for the latter calculation would be the expectation that psychological intuition is consistent. By contrast, Allais found that the consistency assumed by Bernoulli and his followers does not exist. Our intuition diverges from the rational differently in the direct vicinity of full certainty (where it prefers profit that occurs at a greater level of probability, even when the aggregate sum of all of the positive cases is smaller) than in a domain that is far from certainty (where greater profits are preferred despite the fact that the aggregate is decreased by the small probability of occurrence).

The measure of outstanding social identity to be discussed in this chapter aims to provide an approximation of such a divergence of the second degree, that is, from a degree rationally expected for a divergence from rational calculations. Therefore, we attempt to trace deviant intuition with subsequent corrections.

One difficulty is, for example, that the differences that result from the comparisons of the positions at the bottom end of a ranking within a group calculated in the presented manner do not accord with the intuitive estimates. That is, for such a calculation, a population would be symmetrical, and the differences between the rankings at the top of the scale should correspond to those at the bottom. For instance, in a group of $N = 10$, where the values of the first and second places are equal (as we have observed) (i.e., 1 and 0.65, respectively), the values for the last and the second-to-last places would similarly be calculated as −1 and −0.65, although in our intuition the difference between these places is smaller. In fact, it is more so in a population of $N = 1000$, where in our intuition there is nearly no difference between being placed 999th or 1000th.

Therefore, the calculated symmetry must be corrected, and the larger that the population in question is, the more powerful that correction must be. For such a correction, we divide the stigmatizing value by $\log N + 1$ (that is, by 2 if $N = 10$, by 4 in the case that $N = 1000$, etc.). Thus, the corrected formula is as follows:

$\log p_a - \log p_b / (\log N + 1)$

Unfortunately, this formula is more complicated than the simplified one that we have employed until now. However, it is worthwhile to study the following table and note the values obtained so far for the two examined populations (Table 4.2).

Table 4.2

Position	*N = 10*	*N = 1000*
1. place	1	3
shared 1-2. place	0.7	2.7
2. place	0.68	2.7
shared 2-4. place	0.375	2.4
5. place	0.19	2.3
second last. place	−0.30	−0.67
last place	−0.50	−0.75

In the figures that indicate values, we may omit a substantial number of unwieldy decimal fractions by multiplying all of them (arbitrarily but consistently) by 100 (Table 4.3):

Table 4.3

Position	*N = 10*	*N = 1000*
1. place	100	300
shared 1-2. place	70	270
2. place	68	270
shared 2-4. place	37.5	240
5. place	19	230
second last. place	−30	−67.5
last place	−50	−75

The Competitor's Costs and Profit

Can the MOSI be used in a calculation by an economic psychologist to determine in dollars, Euros or Hungarian forints the price of excellence if someone comes first in a group of ten or shares second and third place with someone in a population of a thousand?

We must admit that our method is not adapted for such calculations. It can be applied to social identity only insofar as this identity is a relation. Thus, the value of an identity may meaningfully be calculated only as related to the value of another identity.

Can the MOSI be employed to calculate the sum of money that is worth paying for promotion from 9th place to 7th place in a group of a hundred individuals who are queuing up?

It depends. The MOSI is adapted for application to these relations depending on their historical antecedents.

For example, if I previously have risen from 9th place to 13th place, it may be calculated that thereby my E-value increased from **87** to **103**, that is, by **16 points**. Suppose that, for example, the work or money that I invested in this performance amounted to **400**. Together, these antecedents (and nothing but these antecedents) define for me (and for no one but me) the "dues" for 1 point of E-value increment, which equals **25**. Thus, we can answer the previous question. Because the E-value of 7th place is **115**, i.e., larger by **12 points** than the E-value of 9th place, the monetary equivalent of this promotion against this background of its prehistory is **300**.

When using the MOSI, it should be considered that among competitors, a missed effort by one competitor results not only in the lack of a rise in status but also in a lowering of status compared with the other competitors, who meanwhile have made their own efforts.

If in the previous case I omitted efforts that are required to accede to 7th place, the alternative would not be becoming stalled in 9th place but a slipping back in relation to those who compete. If such an outcome only ranked me at the next place relative to the background (i.e., to the 98.6 points of 10th place), it would change the price of rising to 7th place for two reasons. First, my previous investment of 400 points in the performance of rising from 13th place turned out to improve my E-value not by 16 but only by 11.6 points (from 87 to 98.6). Thus, the equivalent of a one-point improvement is 34.5 instead of 25 points. Second, my completed efforts (as opposed to incomplete efforts) raise me to 7th place instead of 10th place and not 9th place, and thus provide me with a 16.4 and not a 12-point increase in E-value. In sum, with respect to this double shift, the rise in the status at stake equals 566, not just 300 points. It follows that in neglecting to make an effort, we pay not only by failing to progress but also by losing the position that we have already acquired. This phenomenon raises the question of how much it is worth when this progress does not occur, and when we can maintain the position we already have.

The measure of outstanding social identity is suitable not only for rational calculation concerning status and money, but also for predicting decisions regarding status and money as they occur in reality. This suitability is proven by everyday experience and by experiments in economic psychology.

In an (unfinished) experiment, each participant received 1000 token dollars and had to rank the items on a price list on which he or she intended to spend the money. Several items were only chosen by three participants (out of 100 participants), others by 41 participants. Each subject received summarized feedback regarding this choice with respect to the population. However, this feedback was created at a precise point. The subjects received information as if the item that he or she placed at the head of his or her list would be chosen as the first choice of 49 participants.

Following this procedure, the subjects were provided the information that a token warehouse, which they could only enter one at a time, contained enough stock for a hundred people to spend their money but that there were only three of each type of item [8]. Thus, the order in which

the customers entered the warehouse became crucial from the perspective of purchasing. Only the first three shoppers could be sure that they could obtain the goods that they wanted.

After being provided with this information, the subjects were also provided the opportunity to purchase their place in the queue using their $1000 spending money. A computer ranked the shoppers according to the sum of money they offered for the places. Shoppers could improve their position by increasing their bid, whereas similar offers by competitors diminished the effectiveness of these increased bids.

In the first round of the sale, 20 out of the 100 subjects bid 100 points, which was nearly a round sum. A total of 50 and 150 points were bid by 10 participants. In this round, the first place could be procured for 170 points. However, the two persons who bid 160 points would received a shared 2-3rd place, whereas the 10 participants with their 150 points shared the 4-13th places. Thus, the prices were nearly the same, but the places were significantly different. Therefore, the pressure was strong to increase one's offer to better one's place or avoid being pushed to the back of the queue by the higher bids of others. Simultaneously, low bids became still lower because those who received the last places for their $30–$40 realized that they could also purchase these places for (nearly) nothing.

Meanwhile, the sale was restricted by the fact that the more that a shopper spent on securing full choice for his or her money, the less money he or she would have to buy the goods that he or she had freely chosen.

Instructions provided to the subjects indicated the rule whereby the game's final outcome would be fixed by the computer at the moment when no more shared places existed between the players. When this outcome finally occurred through the raising and lowering of bids, it was interesting to observe that the ratios between the bids closely corresponded to those proportions calculable on the basis of the measure of outstanding social identity.

Notes

1. A detailed exposition of these arguments can be found in the author's book *The Human Potential as Capital: An Approach by Economic Psychology* (Budapest: Aula Economic University Press, 1998; in Hungarian) in the chapter entitled, "A model of simple economic behavior under organizational regulation."

2. In his classic experiment, Tajfel (*Human Groups and Social Categories: Studies in Social Psychology*, Cambridge: CUP, 1981, pp. 268–71) also found that provided that the experimental subjects made a distinction (however small) between their groups and those of others along some dimension, they would judge the difference in income between the two groups to be larger than the absolute value of the income of their own group.
3. J. Kornai. *The Shortage*. Budapest: Közgazdasági és Jogi Könyvkiadó, 1980 [in Hungarian], pp. 204–205.
4. *Op. cit.*, p. 206.
5. I am included in this number!
6. not.

PART II

Social Identity in the Second Modernization

CHAPTER 5

Preamble

This chapter addresses the society to which Schumpeter referred in a study from the post-World War I period (1922), when he stated that capitalism was transforming so obviously into something else that he considered not the fact itself but only its interpretation to be a point of contention. Whether socialism was what capitalism became after the war and the subsequent revolutions and counterrevolutions, Schumpeter only considered to be a matter of taste and terminology (pp. 41–43).

To eschew this "matter of taste and terminology," when I started studying this radically transformed system (whether of market-oriented, planned or mixed character), I termed it *post-capitalism*. In my earlier investigations (e.g. L.Garai: Determining economic activity in a post-capitalist system.), I was led to the conclusion that the essence of this transformation is the transition from the first, nineteenth-century phase of modernization to the twentieth century *second modernization*.

By modernization, I understand a tendency according to which society artificially intervenes in natural processes in order to provide itself with the conditions of its functioning. Those earlier studies revealed that during the first modernization the socio-economic system addressed its material and human conditions differently: by producing the *material factors* on which it depended and by making itself independent of the *human phenomena* that it had not produced. Since the turn of the twentieth century, the operation of the socio-economic system has no longer been independent of the *faculties* and *needs* that acted in the

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population. Consequently, the socio-economic system faced the *necessity of manufacturing its own human conditions.*

When one starts to examine how this necessity has been managed during the second modernization, the first statement that one can make is regarding a technology that the state governments in various countries nearly simultaneously introduced in the period starting with World War I. The technology in question tried to *apply to* ***handling individuals*** *the same logic of large-scale mass production in the processing industry that the economic organizations of the previous century successfully used in* ***handling things***.

The logic of the processing industry *categorizes things into three classes*: the class of *useful things* that comply with human aims is opposed to the class of the *things* that counter such aims; between them is the class of *raw materials*, whose originally neutral attributes can be turned useful upon a useful effect and harmful upon a harmful one. The processing industry exposes raw materials to useful effects and, simultaneously, in order to protect these materials against harmful effects, tries to narrow the spectrum of the latter's causes by the most effective procedure, namely by eradicating harmful things themselves.

In the same way, the state, whose ambitions were elevated in World War I, *categorizes persons into three classes*: the class of those who make themselves *useful* as means for the state's most exalted ends, those who subject themselves as malleable *raw materials* to the educational ambitions of the former class and, finally, the class of *harmful* individuals, who resist the preceding goals of the state. Because by misusing the malleability of human raw material this latter class would win over a part of the other classes to its side, the most effective procedure against it is considered to be extermination.

This practice and the relevant ideology were perfected in the *totalitarian state*. However, the birth of this type of state was not 1933, when the National Socialists assumed power in Germany, or 1922, when the fascists assumed power in Italy, or 1917, when the Bolsheviks seized power in Russia. The totalitarian state was born in 1914, when simultaneously in various states the still-traditional power fulfilled a purpose that was no longer traditional: from the raw material represented by *civil persons* who had been prepared to "live and let live," the *mobilization order* produced on a large scale the useful product that is represented by *soldiers*. Later, the totalitarian states inherited this ready-made tool to be used for both their goals and the know-how that was required to operate (with nearly unlimited efficiency)

large-scale works in this peculiar processing industry, in which the tools, raw materials and pestiferous factors are all human beings.

At first glance, one would conclude that the Bolshevik-type society was the survivor of this totalitarian state formation. It used the products and the know-how produced by the two-act World War for forty years after these wars, and, now, after a delay of an entire epoch, it has followed its ideological antagonist to the sink of history. However, if we consistently apply the viewpoint of economic psychology instead of an ideological approach, we shall discover a significantly different implication.

References

Garai, L. (1991). The bureaucratic state governed by an illegal movement: Soviet-type societies and Bolshevik-type parties. *Political Psychology, 10*(1), 165–179.

Schumpeter, J. (1922). The instability of capitalism. In N. Rosenberg (Ed.), *The economics of technological change*. 1971. Hammondsworth: Penguin.

CHAPTER 6

Theses on Human Capital

1. After World War I, fundamental changes occurred in the economic status of human faculties and needs.
2. Before that shift, during the great—the nineteenth—century of its history, the capitalist economic system might have been able to afford to consider only the *material* conditions of its operation. Regarding its *human* conditions, effective mechanisms provided the system's functioning maximal independence from these conditions. In *large-scale industry*, the machine freed production from the *producing* faculties of the population, whereas as a result of *capital's property relations* the accumulation process received its liberty from the population's need to consume.
3. As far as the system's functioning still continued to be subject to human conditions, these were trivial: not *produced* but merely *exploited* by the economic system. Human resources were treated as something that is available independently of any economic efforts, as if the profit that could be produced from them would be gratis, *not received as the interest on capital invested in human beings.*

These theses are translated from the author's monograph *Identity Economics* ("Identitásgazdaságtan: Gazdságpszichológia másképpen. Bp.: Tas Kft, 2003; in Hungarian)

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4. Material conditions were managed by the capitalist economic system in a manner that corresponded to the modernization paradigm: by artificial intervention in natural processes.
5. In addition, the modern approach to accommodating the material conditions was ensured by investing capital that increased when the product of the manufacturing process in which the capital was invested was marketed.
6. This phenomenon also occurred when the investor into the manufacturing of an essential condition (e.g., transportation networks) was not a private person or company but the state. Such processes were *financed not necessarily by citizen taxes but to an increasing extent by investments, which became profitable* when the state started to charge for the use of the given infrastructure.
7. The mechanisms that enabled the economic system during the nineteenth century to leave human conditions out of consideration had *ceased* by the end of that century to be effective.
8. Since this time, the capitalist economic system, its operation no longer independent from human conditions, has been forced to provide itself with human conditions in the same way it did with material conditions; that is, by manufacturing them. From this time, the practice of modernization evoked in Theses 5 and 6 was replaced by that of a **second modernization,** which, together with the material conditions of the economic system's functioning, also *manufactures the human conditions.*
9. Since this time, the capital and work invested in *cultivating faculties* have been as productive as investments in the *development of machinery.*
10. During this period of the second modernization, *any human potential only yields profit if the costs required for its production, allocation, maintenance, operation and renewal are actually assigned.* In addition, this assigning is no longer prescribed by pious moral imperatives (which were well known to be hypocritical or impotent in the nineteenth century) but by solid business calculations.
11. In light of these business calculations, one may no longer hold the formerly evident assumption that costs assigned to the human potential would withhold resources from accumulation and credit them to consumption. Instead, the costs assigned to human potential only *regroup resources from one side of the account ledger to the other.* "A sizable portion of what is termed consumption means nothing but investment into the human capital," Theodore W. Schultz argues.

12. In such an approach, expenditures on *education* must be included among the **production** costs for the human potential, *health* expenditures appear as **maintenance** costs, *housing and transport* allowances appear as costs for the **allocation** of the latter, *cultural* expenditures appear as costs for the **operation** of these specific capital assets, and expenditures related to the management of *unemployment* are regarded as **amortization** costs for the human potential considered as fixed capital.
13. A key issue in human capital-related calculations is to define who should be the investor: the *household* of the individual whose skills are developed by the investment, the *enterprise* that intends to apply the trained knowledge, or the *state*.
14. When the investor is the state, a misinterpretation may be generated by the fact that by this expenditure a type of providence is at issue. However, this providence is not a divine or humanistic type of providence but the pragmatism of the good craftsman, who provides for tools before he starts to work.
15. During the second modernization, in competition with the material and energy economy, *information management* comes to the fore. In this information management, the qualified individual is as important a device as the lathe for the material or the power plant for the energy economy.
16. It is imminent in the nature of information management that its factors become effective not according to their *attributes* but according to their *relations* to one another. A particular person only develops his or her communication potential if the correlated potential is similarly developed in other individuals. No one can communicate with others, such as in writing or in a foreign language, if there is no one in his or her environment with the corresponding capacity to also communicate in writing or in that foreign language. Additionally, the communicated information receives its *meaning* only against its background, in correlation with it.
17. It follows from the previous thesis that for information management, it is not only the personal attributes of individuals that become economic factors, but also their social interrelations: equality and inequality, exclusivity and commonness, solidarity and struggle for survival. Thus, what traditionally were factors of a merely moral universe that was detached from the world of economics are transformed by the second modernization into factors for this very economic universe.

18. It follows from Theses 15 and 16 that the output of the information management is determined not only by the input but also, to no less (or not significantly less) an extent, by *externalities*. Regarding such processes, the natural attitude is what the economic psychology terms *free riding*. Therefore, the expenses of cultivating faculties according to the norms of information management may only be charged to a limited extent by market measures to the individual's account.
19. Instead, these inputs and their outputs can be managed in an organization that has the power to impose a charge or a certain share of risks on the relevant individuals, and counterbalance that charge not exclusively in the manner of the market. Such an organization can be, for example, the state.
20. What was stated in Thesis 5 about state investment in infrastructural development is also true for the human expenditures administered by the state. *The investment in human capital will not necessarily be financed by citizen taxes but in various possible forms of a profitable business enterprise.*
21. However, if the investor in the human capital is the state (or a company), the question of Thesis 12 will be supplemented by another: who profits from the employment of the human potential produced by that investment?
22. This question is related to its twin question, which was posed by Thesis 12, by an intermediating third question: *who is the owner of the produced human potential?*
23. The issue of ownership must be raised with particular emphasis because the capital that is invested by the state or a company in the formation of a person's potential will be organically integrated in his or her body and mind, and therefore become inseparable from the physical and mental faculties that were originally given to that person. Property means first the power of disposing. Therefore, the question arises for the human potential of whether *this indecomposable neo-formation is dominantly disposed by the bearer of the endowments or by the owner of the money invested in its qualification.*
24. The questions raised in Theses 12 and 20 are supplemented by an additional question: *who profits from the human potential's employment?*

25. The correspondence of the answers to the three questions is only an abstract possibility. Two formulations are known in which this abstract possibility is realized:

    - if the *interested person* invests his or her private savings in the development of his or her skills and abilities, it is he or she who disposes of his or her developed potentials, and it is he or she who gains the profit of the accumulated capital;
    - if the *totalitarian state* invests in human capital, it invests in such a way that the state has complete control over the manufactured human potential and thereby ensures that it will recover with profit the money that it has tied up in living persons.

26. The more highly qualified human potential that is involved, the larger the amount of capital that is required for its manufacturing and the *larger* autonomy that is required for that human potential's operation. This antinomy represents *the basic dilemma of the second modernization*. If the required capital is ensured by the involvement of a totalitarian state, the autonomy turns out to be in short supply. However, if the aspect of autonomy makes the state abandon the human business by charging the costs of human development to the individual's account, capital will be scarce.
27. The success and failure of both versions of socialism have been linked to attempting to resolve that basic dilemma.
28. In its successful period, socialism in its Bolshevik version constructed a psycho-economic structure that maintained in operation (by uniting in the *nomenklatura* the status of the *official* and that of the *commissary,* and by operating a self-establishing machinery of *democratic centralism*) a peculiar processing industry whose final mass product was a peculiar version of the autonomy (i.e., the victim's complicity)[1] andin its social democratic version addressed the antinomy by *adjusting modernization's interest and socialist values* in promoting labor power as capital in a capitalist state. The *welfare state* succeeded in the optimal distribution of the capital's enlarged reproduction among the multiplied material and the equally multiplied human capital.
29. The period of socialism's failure occurred because from the Bolshevik version, everything but the factors that directly and plainly served the consolidation of power became extinct or eroded,

and the welfare state, as an investor in human capital without being its owner or beneficiary (cf. Theses 12, 20 and 21), turned out to be unable to function as a profitable business enterprise. This experience reiterated the accusation that again (contrary to what is stated in it), resources are withheld from accumulation.

30. The failure of these socialist attempts established a claim for the neo-liberal renaissance, although those attempts only catalyzed a trend that did not originate in them but in the compulsion referred to in Thesis 8.
31. However, the authentically spontaneous functioning of a capitalist market aimed at by that claim seems to supply a radical solution to the dilemma: the new *splitting into elite and mass* societies at the end of the twentieth century. The capital required for the manufacturing of highly qualified human potential and the autonomy that is required for its operation is focused on the side of the elite (cf. Thesis 24). On the side of the masses, both factors are lacking.
32. In this context, George Soros's warning is particularly pertinent: "The main enemy of the open society... is no longer the communist, but the capitalist threat."
33. This warning is pertinent in spite of (or just because of) the fact that the new split does not replicate the split that divided the middle class during the nineteenth century into an elite and a mass. This latter division was subsequently compelled to participate in the production of assets, from the consumption of which it was excluded (from this discrepancy, Marx deduced his prognosis regarding a proletariat that is forced by that discrepancy to overthrow its basis: the capitalist system). By the new split of society, the unformed mass was equally excluded from production and from consumption.
34. The new split is a particular way for the second modernization to manifest the force of its tendency to make schooling a *conditio sine qua non* of production.
35. This unprecedented elimination of the unskilled mass from the economy would be enabled by the transformation of the material economy, which left substantial room for the employment of unskilled workers in information management (cf. Thesis 14), and which demands significantly fewer but qualified human resources.

Note

1. The unknown psycho-economic aspect of well-known configurations of an "existierender Socialismus" are presented by the author in:

   "The Bureaucratic State Governed by an Illegal Movement: Soviet-Type societies and Bolshevik-Type Parties." *Political Psychology*, 10(1), 1991, pp. 165–179.

   "The Paradoxes of the Bolshevik-Type Psycho-Social Structure in Economy." (Paper presented at the conference "Origins of the Persistence of Bolshevik-Type Totalitarian Structures." Gorbachev Foundation, Moscow, 19–20 December, 1993). http://attac.zpok.hu/cikk.php3?id_article=704

CHAPTER 7

Determining Economic Activity in a Post-Capitalist System

An activity is a peculiar type of commodity. One may be willing to perform an activity as *work* in return for a wage or to pay for the favor of performing an activity as a *game*. This chapter argues that changing the positive or the negative price of an activity does not unambiguously determine the demand for and the supply of this commodity. That is, when the inconvenience of an activity and its profit or the pleasure of an activity and its cost are balanced, a choice occurs, the issue of which is determined by a person's psychosocial identity as symbolized—positively or negatively—by that activity. The unmotivated choice evokes a cognitive dissonance, and by this means, the price of the activity turns out to be *effective psychologically and not economically.*

The primary tendency of the post-capitalist system (whether the planned or the market one) is considered to be *the production of the personal (and not only material) conditions of the functioning of that system*, which includes not only the production of the technical disposition to master things but also of the social disposition to master (or, at least, be superior to) other persons. These organizing factors are as important for an economic system in producing its personal conditions as are value-in-use and value-in-exchange in producing an economic system's material conditions.

Typical cases are cited when the economic activity is not determined by the price of the objects that it produces but by the social identity of the person producing it.

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Discussing the chances of establishing a planning system for an etatic collectivization of working people, a Marxian philosopher—the Hungarian Attila József—argued in 1932 that he considered the main part of the totality of the means of production to be collectivized. At the same time, J. Hayek and other economists stated that planning is impossible unless the state treats individuals as if they were the means and not the subjects of production. They maintained that if the individual as a subject chooses what to produce (e.g., what occupation to pursue) and what to consume (i.e., what to spend disposable income on), this double choice will drop a grain of sand—an element of unforeseeable and uncontrollable chance—into the cogwheels of the planning system.

This truth is easy to verify.

In theory, planning can be assumed to be capable of reckoning with the needs of consumers and production capacities while ensuring that during a certain period a society should have approximately so much capacity, say, for fruit production to meet the consumer demand for fruit. However, free choice intervenes and distorts this harmony, so that fancy incites fruit consumers to satisfy two-thirds of their needs with, for example, watermelon, while the fruit producers feel like utilizing two-thirds of their capacity in, say, cashew plantations. The harmony between fruit production and fruit consumption as established by the economic means is to no avail. For psychological reasons, there will be twice as many cashew nuts and twice as few watermelons as required.

To secure the planned harmony, the state (as the subject of planning) is forced to designate according to some criterion: (1) the privileged category of watermelon consumers or (2) those obliged to produce watermelons (or both) and to enforce through effective measures the acceptance of the criterion and of the attendant bans and regulations.

In addition—the reasoning continues—the same achievement, that is, the coordination of consumer demand as a concrete manifestation of need and of producer inclination as a concrete manifestation of capacity, can be secured by the market instead of by planning, without having even those individuals who are excluded from the privileged circle or those who found themselves inside the handicapped category to be degraded from being the subjects of economic activity to its means. In turn, this achievement can be effected by the mediation of the supply-and-demand mechanism. That is, the overproduction of cashew nuts decreases their price, whereas the overconsumption of watermelons increases the price of the latter. Then, those whose preference for watermelon is the weakest

would tell themselves: "After all, watermelon is not so much better than cashew nuts that I should stick to it now that there is such a big price difference." Simultaneously, those whose negative preference for watermelon production is the weakest would realize as follows: "Watermelon production is after all not so much of a nuisance that I should be reluctant to deal with it with the wage difference being as large as it is." This price fluctuation would continue until the reorientation of consumer demand and the producer willingness reached a point at which equilibrium could be established.

However, the psychological factor—which motivates selection, for example—also infects the market economy system with a fundamental insecurity.

A Commodity Without Effective Price

So that the market system could function in the previously described manner, every commodity must have an effective price, one whose reduction would in fact effectively decrease the supply of—and increase the demand for—this commodity. This statement applies to every commodity, that is, not only every product but also that most peculiar of commodities: *activity*. This peculiarity lies in the fact that unlike a product, which I pass on in exchange for money when I supply it and take into possession in return for money when I demand it, an activity is always exerted by me, whether I supply it or demand it. In addition, the activity that I am paid for as work and the activity for which I am to pay as entertainment are identical with respect to their physical appearance but antithetical with respect to their psychological and economic substance.

Be that as it may, in a commodity-producing society, work is only performed when it is remunerated, and if this reward decreases, the willingness to undertake the disagreeableness of the activity for that price must also decrease. In contrast, we are willing to continue enjoying an entertainment even if we are compelled to pay its price. However, if this price decreases, the demand to enjoy the agreeableness of this activity must increase.

When the numbers of those who are willing to supply the work-type activity or the relevant length of time do not reduce with a decrease in the price of this activity, this activity no longer has an effective price. The case is similar to the situation when the number of those who fail to resist either the temptation of the entertainment-type activity or the length of time does not increase with a decrease in the price of this activity.

Most probably, the lower limit of the effective price is greater than 0. Presumably, there will be a price greater than 0 for which no one will be willing to do a certain job, or at which a certain entertainment will reach the saturation level, so that additional price decreases can no longer reduce the all-social time spent on the former and increase the time spent on the latter. However, it is even more likely that the price that has become negative—that is, when the person who performs the work must pay tribute or the one who supplies the entertainment is awarded a bonus—cannot be the effective determinant of supply and demand.

However, both phenomena exist. In other papers, I described the former as the *Tom Sawyer (TS) effect* and the latter as the *Captain Puskas (CP) effect*.

> Both TS-effect and CP-effect are referenced in the chapter 2 of the actual volume. One can cite socio-psychological experiments that empirically demonstrate the TS and the CP effects (see, e.g., Deci 1975; Lepper and Deci 1975).

Thus, an odd function is produced for activity. This function reveals that if we are *paid* a sufficiently high price, the *supply* of a particular activity will be high enough. We shall pursue this activity in large numbers and/or for a considerable length of time, because although it is disagreeable it is worthwhile because it is gainful. Conversely, if we are forced to pay not too high a sum for the very same activity, the *demand* will be sufficiently high. We shall pursue this activity in large numbers and/or for a considerable length of time because although it is a little costly it is worth it because it is highly agreeable.

And how does this function—too odd to be one either of supply or of demand—behave between these two points?

No less oddly.

If one is paid a sufficiently high price, one will continue with the work for the previously described reasons, because although disagreeable, the gain that the work yields is higher. However, common sense predicts that if one is not paid a high enough price one will not continue the work, because although the work remains profitable, its disagreeableness is greater. However, what occurs halfway between these two points, where gain and disagreeableness are precisely balanced?

Common sense and closely related behaviorism can only repeat the answer of Buridan, who allagedly declared that his ass would starve to

death between two equally appetizing bunches of hay placed at equal distances from him because he was incapable of making a choice. The *cognitive dissonance theory* provides a fundamentally different answer.

According to this theory, if the equilibrium of a cognitive system is upset by the emergence of an **X** factor, the equilibrium can be restored not only by a behavior that entails that *what is **X** no longer exists* (as is claimed by behaviorism), but also through a change in a cognition that entails that *what exists is no longer **X***. For instance, in a choice situation, the balance can be upset if out of all of the stakes the one that I choose as the end is not larger than that that I must sacrifice as the means (e.g., the chosen gainfulness is not greater than the sacrificed agreeableness or vice versa). To restore the balance, it is not necessary that this type of interrelation of the stakes should not exist. It is sufficient that what exists should not be this type of interrelation of the stakes. That is, it is not necessary that the person should choose what *previously* represented a larger value for him or her and sacrifice the smaller value. It is sufficient that what the person chooses should be more valuable and what he or she sacrifices should be less valuable for him or her *subsequently*.

Several laboratory and field experiments reveal that what a subject chooses in a decision-making situation will subsequently be overestimated, and what a subject sacrifices in the process will be underestimated by the subject. (See, for example, Aronson (1976), and, especially, Poitou (1974), who considers situations that ideologically evoke the individual's freedom as crucial in what he states to be the mere illusion of cognitive dissonance.)

Whenever a stalemate among the consciously deliberated motives results in the Buridan's ass situation, certain unconscious factors emerge that stimulate the individual to choose without a pre-considered motive what he or she will subsequently justify to him- or herself.

One such factor that exerts a powerful unconscious effect is the imitation that is built into social identity. This effect has nothing to do with the physiological reflex of yawning when a witness to a yawn feels the urge to yawn. The reflex in question is the one that ensures that in addition to the fact that an observer can class those who behave in a specific way in the same social category (for instance, if they grow cashew nuts, they can be ranked among the cashew-nut growers, as opposed to the watermelon producers, even though **X** of them might be of the same age, sex, or religion as **Y** of the other category), those who belong to a distinct social

category imitate one another with respect to the behavior that is characteristic of the category.

A similar example is the physicians who continue to treat patients beyond the point at which this activity stops being more profitable for the physicians than it is disagreeable (e.g., exhausting, nerve-wracking). This point is where cognitive dissonance occurs and the upset cognitive balance may be restored by the person, who subsequently evaluates the activity exerted for even less gain as something that is not so disagreeable that it could not be recompensed by this reduced gain.

Imitation built into social identity may also be negative. Often, a person refrains from an activity lest he or she should become similar to the representatives of the social category of which this activity is typical. For instance, if you are reluctant—only because you are not a window cleaner—to clean hospital windows, even if this activity earned you more gain than disagreeableness, cognitive dissonance will re-emerge and reset the tilted cognitive balance so that you subsequently judge the activity you did not undertake as something so disagreeable that even that much gain would be too little to remunerate it.

Therefore, when the price of an activity-as-commodity: for example, medical treatment, gradually decreases against a background of a gradual increase in the price paid for another activity—for example, window cleaning—what occurs is not that individuals, who are completely independent from one another, abandon the activity one by one as they recognize that it is now less profitable than it is disagreeable and that it is more lucrative to earn a living by another activity because this process would be the precise precondition for the price to be an effective regulator of supply (and demand) with respect to the activity-as-commodity.

In fact, what occurs when the gain obtainable through, e.g., medical treatment, decreases is that one by one the individuals face a real choice. Even if each individual determined to abandon this activity, the decision would not be the realization of the related interest but a choice, because an equal amount of interest is vested in continuing the activity, which at this point is equally profitable and tiring. However, the persons who face a choice (although individually their activity burdens them to different extents, and, thus, the decrease in the recompense challenges them to face the choice at different moments) keep (perhaps unconsciously) their identity in mind with reference to one another as, for instance, doctors and not window cleaners. Characteristically, it follows that the imitation, whether positive or negative, built into this social identity will swing them

off the dead center of the deliberation of Buridan's ass. That is, the person continues doctoring as the other doctors do, instead of cleaning hospital windows for higher pay. However, the activity that one engages in even for less money will subsequently be reinterpreted as less disagreeable, whereas the activity that was refused despite higher pay will subsequently be felt to be more disagreeable.

Naturally, this cognitive process cannot take the form of reasoning in which the person, aware of the self-deception, would try to persuade him- or herself that something is not as disagreeable (or is more agreeable) than expected. In any case, when the social identity exerts its effect via conscious deliberation and not an unconscious (positive or negative) imitation, it never results in cognitive dissonance.

If this is the case, the person consciously reviews not only whether the activity is agreeable or disagreeable, gainful or costly, but also weighs its social significance, and his/her interest, which he or she consequently realizes may make him or her continue the activity although he or she is aware that it is less profitable for him or her than it is burdensome, or less agreeable than it is expensive, because he or she is aware that this is his or her duty to his or her social identity (cf. noblesse oblige).

Such calculations that originate in a sense of duty may play a role in questions related to production and consumption, e.g., when I consume cashew nuts not because they are more agreeable or less expensive for me than the watermelon, but because I owe it to my social status. This phenomenon is usually labeled with ideological disapproval as "prestige consumption" or seeking "status symbols" and considered to be typical of "consumer society".

In sum, a decrease in the price paid for an activity does not necessarily entail a decrease in supply. When instead the number of those people decreases who consider this activity so disagreeable that they feel forced to decrease its supply, then *this price is psychologically but not economically effective*.

The Mind: Epiphenomenon or Factor?

It follows that the mental constituent infuses a fundamental uncertainty not only into the planning system but also into the market system.

This in turn gives rise to the exigency that the economic system, whether regulating itself by the market or by planning, must apply a method of some sort to handle the mental constituent. Those automatisms that are

used to make production independent from the producer and, generally, the material interconnectedness of economic life from the interconnectedness with the minds of the acting persons, no longer function.

In my previous papers (see, e.g., Strength and weakness of psychological science. *Int. Soc. Sc. J*, 25, 1973), I have presented the following aspects of the change in which the mental constituent was transformed from an epiphenomenon into a factor of the economic process.

In the first century of large-scale mechanized industry, the machine's operation required abstract *effort* and abstract *control*. However, by the end of the last century, technical development had introduced mechanical equipment, in the operation of which the abstract effort had to yield to *speed*, whereas abstract control was replaced by the *coordination* between reading various dials and operating several controlling gears. Technical development simultaneously resulted in an increase in the speed and the complexity of mechanical equipment. As a result of increased complexity, the machine operator required *increasingly more time* to respond optimally, whereas as a result of the increasing speed, the operator had *increasingly less time* to react quickly. Those persons who could coordinate these contradictory requirements had to be specifically produced.

In relation to this necessity, there is a tendency both in planned and in market systems for the proportion in society of those who are not involved in the production of material factors but in the production, maintenance and administration of the personal conditions necessary to production to increase.

Between 1969 and 1980, the percentage of individuals employed in non-material services increased from 27.6% to *30.2%* of the population of the United States, which exceeds the percentage of those employed in industry (which decreased from 34.2% to *29.4%*). This tendency was more pronounced in Sweden and FRG (Federal Republic of Germany), where during the same period the former index increased from 24.0% to *34.7%* and the latter decreased from 39.8% to *31.4%*. Although at a slower pace, the tendency is gravitating in this direction in France, the FRG, Japan, the United Kingdom and other countries (Labour force statistics 1969–1980. OECD. Paris, 1982).

Because the personal conditions of the education that produces these personal conditions, of the medical care that maintains these conditions, of all types of services in general and of the administration of public and private organizations in which these services operate must also be produced, maintained and administered, a chain reaction is generated in

which the percentage of individuals who participate in the post-capitalist social system of labor division as suppliers of *activity* and not producers of *things* is increasing at an ever-faster pace. Consequently, an increasingly larger portion of money payments is rendered for activity, i.e., that specific commodity regarding which we have discovered that whether it has an effective price depends on socio-psychological conditions.

Interestingly, this chain reaction is typically considered—if at all—only in its technical aspect, according to the paradigm of material production in which one can produce more products with a machine than without one and if the product happens to be the machine itself one can produce still more machines with it later.

The transfer of this outlook from large capitalist industry to society is aptly illustrated in Zola's *Vérité*, in which Marc, the teacher, raises his own children, just as most of his pupils, to become teachers, who in turn educate their children and most of their pupils to become teachers after Marc's example and who will repeat the process. Therefore, when Marc, having lived to the age of a patriarch, stays awhile at the novel's end in the circle of his children, grandchildren, great-grandchildren and great-great-grandchildren, as well as his own pupils and those pupils who are two, three, or four removes away from him, he can be content that his life was not in vain because, behold, the entire society has changed.

However, in fact, one can experience every day in the practice of pedagogy—even as a parent—that the same technique functions with varying efficiency depending on who applies it and to whom: whether the father lectures to his son or the teacher to his pupils, whether a parent directs his offspring toward the right path with a slap in the face or an elder brother does the same to a younger, whether a mother pleads with her daughter or the latter with a girlfriend, whether an instructor tries to enforce discipline or a gang leader.

The necessity of the direct production, maintenance and administration of the socio-psychological condition in post-capitalist formations so that either the price or the plan directive should be effective is all the less avoidable because according to the previously mentioned technical process (in which the independence of the material relations of the economy from the mental context of the persons involved ceases to exist) a social process is superimposed that gravitates in the same direction.

Producing the personal conditions of production requires the investment of capital as much as the production of material conditions did. Adam Smith already ranked "acquired and useful skills of citizens" among

the components of fixed capital and observed that because the person must be sustained during his or her upbringing, training and apprenticeship, the acquisition of these skills always implies real costs. These costs are, as it were, capital-fixed and realized in his or her person. Smith stated that these skills constitute part of the wealth of the person who has acquired them and equally part of the society to which the person belongs. From the same perspective, the improved skill of the worker may be regarded as a machine that makes work easier and shorter, and *although it requires certain expenses, it refunds them with a profit*.

The condition of this refund is that the person who invested should have disposal over the product, whether the product is a machine or a worker. However, when the product is manpower, i.e., the body and mind of the worker, the capital invested in his or her training becomes inseparably incorporated in his or her skills from what is "inherently" there. Thus, the investor can only dispose of the capital if the investor has total disposal over the body and mind of the worker.

However, we know that according to the formula of capitalism the worker disposes of his or her labor power freely. To extend this premise to the developing post-capitalist formation would mean that the worker would be the one who disposes of the capital organically incorporated in his or her labor power. This in turn would render the fate of the invested capital highly uncertain because of a contradiction in which one may detect the basic antagonism of all post-capitalist formations: *the more highly qualified that manpower is, the larger the capital to be invested into its production* and *the more uncertain the fate of the invested capital because of the autonomy to which the manpower lays claim*.

The Failure of Totalitarian States

This dilemma emerges when the characteristic feature of classical capitalism, i.e., that the capital and the labor force are separated from one another and that capital simply purchases and consumes the labor force but does not produce it, is eliminated.

The first solution to the dilemma in world history is what Attila József formulated in his thesis quoted at the head of this chapter: together with an etatic expropriation of the means of production, in general, the state also performs that of working people because the capital goods to be expropriated are by then incorporated in the working ability of these individuals.

Attila József theoretically formulated what was then already (and is still) the existing practice of a post-capitalist formation.

This practice *solves the dilemma in favor of capital* in a manner similar to that of other post-capitalist formations, without having expropriated the means of production by the state and established a planning system. As is well known, in the present period there are several countries in which the state has intervened in the relation between capital and labor under conditions that can be characterized by the previously described dilemma, although the means of production are privately owned and the market system is in effect. This intervention by the fascistic totalitarian state also tries to bias the solution of the dilemma in favor of capital by allowing for a supervision of the labor force that provides guarantees for capital with respect to recovering with a profit the costs of "human investment."

Irrespective of which variant is realized, the totalitarian state—whether with planning or with the market system—restricts to a minimum the individual's possibility to choose. However, as has been noted, the individual's decisions are the stumbling block with respect to the efficiency of the plan directives or the price.

In addition, the totalitarian state offers complementary guarantees for the owner of capital (whether of private or state property) in case individual decisions are made. The totalitarian state manipulates social identity, which we previously defined as the determinant mediated by positive or negative imitation of real choices made in the balanced situation of Buridan's ass, when changed circumstances will not result in a changed behavior but in an altered experience of an unchanged behavior. The totalitarian state manipulates social identity by extending the social category to which the individual belongs, to such an extent that the totality of the society controlled by the state could be squeezed into this identity, or by reducing the individual's social category to such an extent that he or she finds him- or herself alone in the category and face to face with the authoritarian leader, who can determine at any moment who of the atomized individuals should belong together and who should be the enemy.

The totalitarian state, e.g., a state like the Third Reich, attempts to achieve the former by the familiar method of treating that section of society that falls outside the chosen category as something to be completely annihilated.

The latter effect is presented in Ervin Sinko's *The novel of a novel*, the record of the author's long journey (1935–1937) in Stalin's empire, which describes a totalitarian state in which the atomization of society (which in

the classical capitalist economy was only a tendency that was analyzed by Marxists and passionately hated by communists) reached its perfection.

However, the totalitarian state has proved incapable of producing the psychological conditions necessary for the operation of the planned economy or the market system for two interrelated reasons.

The first is that the preceding dilemma entails another twin dilemma opposite to that of the labor force in the scale of the post-capitalist social structure. What occurs here is as follows: The position that in the classical capitalist formation is occupied by the *capitalist entrepreneur* is split in two. Those who have capital may lack the enterprise to invest that capital in ventures that promise profit, whereas those who have a knack for taking optimal risks may not have anything to risk.

Capital assets and *enterprise* (i.e., the material and personal condition, respectively, of the operation of this economic system) must be united. However, in what structure? In one in which the capital employs the entrepreneur (e.g., the manager) as it employs the worker and disposes of both? Or in one in which the entrepreneur assumes a loan, pays for the use of the capital as he pays for the use of the land but disposes of both?

The dilemma of the material and personal condition is determined by the totalitarian state, whether built on a planned economy or the market system, again in favor of capital. Enterprise is a disposition, which means that someone who has a different idea from everybody else's, without a preliminary directive, could be the archenemy of the totalitarian state if they were not the citizen who has original and spontaneous ideas, particularly if he or she acts on these ideas.

We previously noted how the totalitarian state provides capital with guarantees that the "human investment" will be recovered. Therefore, this time it is the capital that guarantees for the totalitarian state that the spontaneity of the enterprising person whom it employs will not exceed the strict limits marked out by the technical directives of capital. If this person should nevertheless exceed such limits, the capital will employ another person's originality in the place of the first. It is important that in this respect private capital, where surviving, can provide the totalitarian state with the same guarantees as capital that is handled by the state when there is state property. It is equally important to note that in the former case in the market system and in the latter with the planned economy the same observation can soon be made: *the enterprising spirit is missing*. More precisely, the bearer of the enterprising spirit would be such a person to whom there and then would occur a different idea from that of

all others, without preliminary directives, regarding where and when the technical directives proscribe it and in whose place any individual would have an original idea in the same way.

In his book *The Pyiramid Climbers* (Fawcett World Library. NY, 1964), Vance Packard cites findings from an opinion poll conducted by Nation's Business to learn the new claims of managers. The new *Claim Number One* was "Be a creative conformist!."

The Palo Alto school has performed a detailed investigation of the pathogenic paradox of *prescribing spontaneity* (see, e.g., Watzlawick, Beavin and Jackson: *Pragmatics of human communication*. NY: Norton, 1967; and Watzlawick, Weakland and Fisch: *Change. Principles of problem formation and problem resolution*. NY: Norton, 1974). The paradox of social similarity and difference, which is closely related to that of *vulgar originality*, was investigated in my paper Les paradoxes de la catégorisation sociale (*Recherches de Psychologie Sociale*, 1981. pp. 131–141; see also Pages: Les paradoxes classificatoires de Garai: espace de repérage et d'affectation. Ibid., 143–151).

The other reason why the totalitarian state has failed to create the psychological conditions necessary for the operation of the economic system is that it can only set about addressing the task of producing the personal conditions according to the logic that the post-capitalist system inherited from the capitalist formation, and according to which the latter produced the material conditions of its operation.

According to this logic, a person possesses properties just as a thing possesses properties, and these properties can be changed in the same way as those of a thing can be changed. If something or someone does not suit a particular goal, that object or that individual can only be adjusted to suit the goal by a larger or smaller cost. The larger that the distance is between the actual state of the thing or that of the person and the goal, the larger the necessary input. Whenever I know the technology of producing a thing or a person bearing a property **a** and that of producing a bearer of the property **b**, I have only to combine two technologies to produce something or someone bearing both properties. Nothing can prevent me from changing from the prototype to mass-producing the model by the hundreds, thousands or millions. If the input has produced the expected output, new inputs may multiply the outputs. The costs of production are calculable, and it can be determined whether the production is more economical if those to be involved in the technological process are previously selected, if all of the individuals are adjusted without selection and

trained as long as necessary or, perhaps, if the waste is eliminated from the unselected lot of individuals after a certain period.

The worst aspect of these arguments (and of the logic on which they are based, whether in a planned economy or the market system) is not that when you consistently examine such an argument, you inevitably end up with the formula of the death or labor camp (thus, such arguments are loathsome from a moral viewpoint) but that they are also useless from a purely pragmatic viewpoint, because they neglect the most significant aspect of producing the personal condition.

The personal condition that complements the material condition of production is not necessarily present or absent as a material feature of the persons but may manifest its existence or non-existence in the form of personal interrelation. The classic experiment of Elton Mayo (*The human problems of an industrial civilization*. Macmillan, NY, 1933) demonstrated that the disposition of a group of women workers to increase their productivity when their working conditions were either improved or deteriorated was the result of the fact that the management distinguished them through *exceptional interest*. Clearly, this factor is not one of the material conditions of work, such as the lighting, temperature, ventilation of the workshop, or a material trait of persons, such as IQ, reaction time or fingerprints.

If the factor was something like a material condition of work, management could ensure it as soon as its interest in identifying the key working condition for productivity was satisfied. However, what happens is that as soon as this interest is satisfied, it ceases to exist, although this very interest is the looked-for condition itself. In contrast, if the factor at issue were one of properties borne by the person like a thing bears its features, it would only be a question of input and efficient technology to form this useful quality in each member of the production unit. However, if each worker *without exception* could be made subject to *exceptional* interest, no worker would continue to possess this "property", which fundamentally determined his or her disposition to production.

There are two methods that can be used to produce the personal properties necessary for production: (1) selective quality exchange, when those who possess the particular property are selected from the existing staff and the rest are replaced by those selected from the population according to this property, and (2) retraining each member of the existing staff until the required property has been developed. It can be presumed that if the property in question is, for example, the sense of absolute pitch, it

is more practicable to apply the first paradigm. If the property in question is, for example, competence in computer treatment, the second paradigm is more practicable. However, it can be easily understood that neither of these psycho-technical procedures will help provide the personal condition in the preceding example (to be the target of exceptional interest by the management).

Let us now return to that personal disposition, which, as has been demonstrated, is as indispensable a condition of the operation of the post-capitalist economic system as it is missing under the relations of the totalitarian state: enterprise. Try to imagine that someone determines to produce this condition (i.e., a person's disposition to have *original* ideas *spontaneously*) according to the logic of material production as outlined above. It is not difficult to observe that the more sophisticated that the organization that produces this spontaneity is, the *less* it will be possible to produce spontaneity in this technological process. In addition, the larger that the output capacity of the organization that is supposed to produce the originality of the person is, the *less* it is capable of producing originality.

The emerging need of the production system to re-establish the split position of the capitalist entrepreneur and the failure of the totalitarian state to produce or select under the dominance of capital the spirit of enterprise as a material property necessarily results in the only possible outcome: that a person should emerge who has different ideas from the rest of the people without directives in such a way that he or she does not jeopardize the totalitarian state. This person is the authoritarian leader in whom the totalitarian state is incarnated.

Alternatives to the Totalitarian State

When the totalitarian states collapsed, the "natural" or "logical" alternative was the democratic state formation, which treated persons as sovereign beings, not the raw materials of transformation by one or another norm, or the objects that such transformations produce for capital.

However, the "nature" and "logic" that became manifest in this change were those of the totalitarian state, for which, as we have noted, the personal conditions of the operation of the economic system can only be produced as things. Therefore, the handling of persons as things cannot be eliminated unless the question of producing the *personal* condition is radically removed from the agenda. Thus, the economic considerations could be made in no other way than in relation to the production and

allocation of *material* conditions, as if the sole question was how to make production and allocation more reasonable: by planning that controls the volume of the value-in-use of things or by the market that does the same with respect to the value-in-exchange of things.

For both economic systems, the criterion of economic rationality is a type of material efficiency (i.e., the increasing volume of the produced value-in-use or the accumulating value-in-exchange). However, the global tendency is that the number of individuals employed in industry and agriculture, that is, in the production of material goods, is continuously decreasing. In the most advanced private capital economies, by the early 1980s, less than 50% of the total labor force was employed in these areas.

In addition, the application of the paradigm of measuring material efficiency in the areas of material services has at least one use: the merits of the individual can be measured so that society can *equitably* remunerate the individual. However, in the non-material services (regarding whose changing employment percentage in modern society, see the note on p. 6), the measure of material efficiency cannot be applied. One can calculate how much larger the merit is of transmitting 10 million kwh electric power or cubic meters of natural gas to the consumer (or loading and unloading 10 thousand wagons or distributing 10 mugs of draft beer) than two million kwh or cubic meters, two thousand wagons or two mugs of beer. However, this calculation cannot be performed for non-material services because their stakes always include interpersonal relations which, as has been noted, do not obey the logic that operates with the properties of things.

To verify the general validity of the preceding argument, let us take as our example a representative of non-material services: a boxing coach. Let us suppose that he is in charge of ten boxers of the same weight category, whom he drills to encounter opponents fighting in various styles. Using the paradigm of material efficiency, one could calculate how much smaller the merit of a coach is if he achieves the *same* result with only two athletes, let alone the case when he does it with only one boxer. However, there is no chance of drilling two boxers in a realistic setting to perform against opponents fighting in *various styles*, whereas a single boxer cannot necessarily be trained even to hold his ground against a *fighting opponent* (for the sake of illustration, we disregard the possibility of the coach entering the ring).

It is becoming more widely recognized in various branches of non-material services that relations of this type must be reckoned with. The

attitude of the Palo Alto school toward psychotherapy is not to seek the cause of a psychic disorder in an internal property of the patient or in the material conditions of his or her environment, but in the interpersonal relations within a social structure (e.g., a family): in that the patient differs from the others or, contrarily, wants to simultaneously resemble several dissimilar individuals; in that the patient heavily depends on others or, conversely, keeps others tightly under control. Thus, if the illness, as a material state of the patient, is eliminated without altering the particular relationship, it occurs more than once that another person falls ill within the given structure (see Watzlawick, Beavin and Jackson: *Op. cit.*; Watzlawick, Weakland and Fisch: *Op. cit.*) Ironically, this relation may be conserved if a therapist has over a period of years aimed his or her efforts at achieving change. At other times, the mere entry of the therapist into the pathogenic relationship with the intention to heal the ill is enough to change the relationship. Neither of these cases is such that the merit of the person who supplies the non-material service could be measured by the paradigm of material efficiency.

It appears as if the psychological "irrationalism" corresponds to an economic "irrationalism". That is, the activity has no effective price and only a decreasing ratio of it represents a material product that would have a price corresponding to its real value. In addition, it enables the merit of the individual who performs the activity to be measured and recompensed according to the paradigm of material efficiency to an ever-decreasing extent.

However, there are two interpretations of this tendency that an ever-increasing proportion of the total labor force is not employed in areas that produce material conditions of production. One may interpret the tendency as if, in various countries, an ever-increasing percentage of the GNP were used as the material condition of *consumption* and not of *production*. However, I would support the following interpretation: this increasing percentage produces the *personal*, and not the *material,* condition of production.

The rationality of producing the personal condition cannot be evaluated according to the logic of producing material conditions. If one cannot establish for non-material services how much input results in how much output when using the material standard measure, then not only the previously outlined dilemma (i.e., whether the capital itself or the *produced* labor power will dispose of the product when the capital is invested into producing a labor power) remains unsolved. Similarly, the following

traditional question remains unanswered: if the capital employs wage work to produce this special product, i.e., labor power, in what proportion is the produced value shared by capital and the *producing* labor power? A third unresolved question is the nature of the economic relationship between the labor power that produces and the labor power that is produced (e.g., between those who teach, heal or direct and those who are being taught, healed or directed).

These three questions refer to the basic relations of modern organizations of education, health care and administration: in general, *public service organizations*. These relations are those between the organization's *clients, employees* and *those who dispose* of the means of human investment.

To characterize the economic relations between these factors is theoretically impossible in the categories of material efficiency. It is theoretically impossible to establish how much material value is represented by the labor force produced by education within a definite period of time or by the labor force saved by medical treatment or the labor force compelled to (or prevented from) operation by the administration. Consequently, it is theoretically impossible to calculate how much the labor power of those who perform, e.g., the education, healing and administration, is worth.

Therefore, the only possible point of departure for establishing the equitable wage for this type of work is to consider how much is the pay by which the supply and demand of services is balanced.

However, this consideration is rendered impossible by the fact that this type of activity has no effective price.

The Measure of Production of Human Resources

The value of an activity can be determined not only by its *utility,* expressed in the *value-in-use* that it has produced, or by the *value-in-exchange* expressed in the price paid for the activity. It can also be determined by *satisfaction*, which is also two-sided: from the manifestation of the person's *technical dispositions* in his or her activity that masters things[1] and from the display by the person of his or her *social dispositions* by belonging to social categories that master other persons.

In the latter case, the stake that effectively motivates the person's decisions is not *money* but *status.*

Vance Packard was among the first to describe the phenomenon of *status seeking (The Status Seekers.* Penguin Books Ltd.), which seems to be becoming as general a passion of the modern age as *money seeking* was

under the conditions of a classical capitalist formation. This change is also evident in the fact that while the old craving impelled one to procure money, this new passion may prompt one to spend money that one may not have earned but only borrowed, and the satisfaction that one receives is not that of consuming the commodity thus purchased according to its value-in-use but of *spending money, which symbolizes status.*

However, *money raised can also symbolize status.* On such occasions, what we are primarily interested in is not the difference between *expenses* and *income* (for instance, between the inconvenience of an activity and the reward for it) but the difference between *our* income and the income of *others.*

In his classic experiment, Tajfel determined that—depending on the context of social reality—the subject may be prepared to regard the difference between the income of the in-group and an out-group as more important than the absolute size of the income of his or her group, even if the two groups were formed according to so negligible a quality as the outcome of a manipulated test that "demonstrated" which of two painters, Klee and Kandinsky, the subject allegedly prefers, and which painter the other supposed subjects, whom the first subject knows only by their initials, prefer (*Human groups and social categories. Studies in social psychology.* Cambridge University Press. Cambridge etc., 1981; see esp. pp. 268–287).

In connection with Hungary's economic reform, it has often been suggested that the leveling policy should be replaced by payments that are better adjusted to unequal performances. One must realize that this "egalitarianism" has never meant equally allocated pay and additional benefits for 10 million Hungarians. In addition, an efficiency wage will never mean acknowledging how valuable is for the society each of the multiple million performances (which are, over and above, for qualitative reasons, incommensurable). In both cases, we are addressing spontaneous or deliberately established social categories within which organizations attempt to establish equality and between which they attempt to establish inequality. We do the same when according to established or just being established social categories (that may be the same as those kept in evidence by the organization), we *exaggerate our similarities and differences.* Thus, we find that it is just to earn as much salary as **X** but that it is unjust that **Y**'s salary is an equal amount, and we find it natural that we earn three times less than **K** but immoral that **L** earns a salary of $30 against our $25.

When we say that remuneration must be equitably adjusted to performance, we must consider the following.

The performance expresses the person's technical disposition. That is, generally, the richer that the variety of skills that the person possesses is, the higher the performance the person is capable of. In contrast, remuneration expresses one's social disposition. That is, as a rule, the higher that the status of the person's social identity is, the higher the person's pay.

However, a *higher* performance is not necessarily quantitatively measurable as *greater* performance. That is, one feels that the performance of an astronaut is higher than that of a slaughterhouse butcher, whose performance, in turn, is higher than that of the housewife, although the astronaut does not produce anything that could be measured materially and the housewife provides her services during a seven-day work week and her merit can be calculated materially. However, it seems that when one considers merit, one's intuition is led not by these evaluations but by the unconscious consideration of which performance is more distinguishing, which is why one regards it as appropriate that even decades after his or her exploits the astronaut may receive higher pay than the butcher, whereas the housewife, who often continues her services until the end of her pensionable age, does not receive pay or a pension.

More money is not the only way for remuneration to be advantageous. Every organization develops its system of favoritism according to which, for example, part of the staff is favored over the whole, the entire staff is favored over those who do not belong to the organization, the regular customers are favored over the entire clientele and the entire clientele is favored over the entire population from which the clientele is recruited. Admittedly, the advantages include some whose utility can be computed in money. Above their regular salary, the favorably treated members (and to a lesser extent every employee of the organization) can use the objects of the organization's movable and immovable property free or at a reduced price, can have services paid for them fully or partly by the organization or, for the regular customer, have access to certain of the organization's services at a reduced price. However, it seems that our intuition that keeps track of the value of remuneration is not fundamentally guided by the consideration of how much our remuneration amounts to in terms of money but how distinguishing that the procured favor is.

Thus, it is not only the *larger* remuneration paid for the *larger* performance in terms of material efficiency that can adapt reward to the merit. A person who *distinguishes* him- or herself by his or her performance may

be equally *distinguished* by his or her compensation. In this case, it is no longer the produced thing but the merit of the producing person that is measured. Behind a performance to be distinguished, we intuit a specific combination of technical dispositions that distinguish the person who possesses them as a result of their *rarity*. Similarly, behind the compensation that distinguishes the person, we intuit his or her distinguished social disposition.

The recompense you keep in evidence by its distinguishing force symbolizes status and drives individuals by their passion to seek status, even if outwardly they seem to be money-seekers. The fraternal or family team of small enterprises, which reappeared recently or was newly created within etatic large enterprises in Hungary, whip themselves to work at an inhuman pace not only so they can maintain their living standard or gain access to commodities that they could not dream of when they were industrial proletarians or employees in public services, but also to demonstrate how far they can advance when left on their own.

In fact, how far they have advanced is for them—and the others—best expressed by the material value of the money or goods an individual can obtain and show off, not by the absolute size of that value but by its distinguishing force. For example, the refrigerator or automobile, which in the Hungary of the early 1960s were the most fashionable status symbols, are no longer suitable indicators of where one has arrived.

As a rule, higher pay symbolizes higher status. However, that the motivating effect of the remuneration in question here is exerted via status seeking is clearly revealed by the paradoxical effect of underpayment on the productivity of the referred-to social category. It is indicative of the type of mechanism at work here that a representative of the underpaid category or an underpaid person in any category often proudly complains, "Where would you find another idiot like me doing this job for this money?" This complaint expresses the paradoxical claim that if the exclusivity of the complainer's performance is not acknowledged by a level of pay that would be equally exclusive, at least the exclusivity of that other performance should be recognized (i.e., that the complainer overworks even while being underpaid).

In his book on the planning system (*The shortage*. Budapest: Közgazdasági és Jogi Könyvkiadó, 1980; in Hungarian), Kornai describes the same passion and labels it the "internal pressure for expansion" when he seeks to answer the question that is crucial for the economic psychology

of this system: "What may drive the socialist business leader to invest and accumulate real capital when he is not interested in the profit?"

The most important element, he finds, is that "the leader gets identified with his job." A leader such as this "can always find a basis for comparison against which his department seems to be outdated and poor". This induces the executive to experience professional jealousy in the nice sense of the word. He would like to increase his professional prestige. To this, some less noble but completely understandable human motives may, or may not, be added. Parallel with the growth of the company or institution grows the power and the social prestige of the leader, together with this his sense of his own importance. To direct ten thousand people is a greater thing than to guide five thousand, most people believe. The larger power may entail a larger salary and bonus, as well as more *privileges* (pp. 204–205).

The key word here is the one in italics.

Let us imagine a state of affairs in which Hungary were divided into administrative units of 5,000 individuals each. Then, we assume a change that doubles the population of each unit. In this case, no arguments could be adduced to verify that the leaders of the administrative units would feel it to be a greater thing to direct ten thousand individuals than to guide five thousand.

Admittedly, Kornai declares, "When someone has become the rector of one of the country's largest universities, or is responsible for the conservation of all the monuments in the country, or is in charge of the water supply of the whole nation, neither his salary, nor his prestige or power will rise if he manages to obtain 20% more investment for his domain." However, then Kornai recognizes that "the interior pressure for expansion is manifest at every level of the economic hierarchy: the head of a few-man-strong brigade to the minister in charge of hundreds of thousands or millions. In regard to the distribution of the appropriation for investment every one of them fights so that our brigade, our enterprise, our ministry should get as large a share as possible" (p. 206).

Another thought experiment may lead us to realize that what motivates the leader in such cases is not so much the expansion of the unit that he heads in material terms but the *distinguishing* nature of the possibility of this expansion.

Which business leader would meet with the greatest degree of approval from his or her staff and him- or herself? The one who receives an adequate share of the investment appropriated for a nationwide development

of 20%? The one who alone manages to secure a 2% expansion possibility out of all the 100 economic units that apply? Or the one who despite a nationwide freeze on investment that is strictly binding for 9999 of 10,000 economic units procures the investment necessary for a 0.2% expansion?

Comparing this psychological factor to economic factors, such as the necessarily strained nature of the economic plan and the tendency of socialist enterprises to stockpile, Kornai notes that compared with the latter, "the interior pressure for expansion is even more momentous because its effect upon the operation of the system is more pronounced" (ibidem), particularly its effect in producing *shortage*, which he considers to be the most essential phenomenon of a planning system.

To attach such great importance to a psychological factor in the operation of an economic system must be regarded as surprising with respect to the logic manifest in reasoning in favor of the market or the planned system. However, this factor logically fits the basic feature of post-capitalist economic systems, which this chapter has described: that they have to produce their personal conditions just as the classical capitalist formation had to produce all of the material conditions for its operation.

The training of personal conditions in service organizations of various types is a process at whose *idealized beginning* one finds completely untrained (and thus in their roles interchangeable) persons, whereas at its *idealized end* one finds persons who are irreplaceable in the role for which they have been specifically trained, or who have been shaped to fit the trained specificity of the person.[2] Therefore, one can accept it as an *idealized tendency* that the status that indicates how irreplaceable is the incumbent of a specific role in an organization, is therefore the measure that indicates how far the person has progressed in being trained as the personal condition of the operation of the economic system.

Notes

1. In *Személyiségdinamika és társadalmi lét* ("Personality dynamics and social existence" [in Hungarian]. Budapest: Publishing House of Hungarian Academy of Sciences, 1969), I argued that in such manifestations a *specifically human basic need* is aimed at being satisfied. For studies in English, see Erős. "Personality Dynamics and Social Existence." by L. Garai. *Eur. J. of Soc. Psych*, 4(3), 1974, pp. 369–379; Garai, Járó, Erős, Köcski and Veres. "Towards a Social Psychology of Personality: Development and Current Perspectives of a School

of Social Psychology in Hungary." *Social Science Information*, 18(1), 1979. pp. 137–166.

2. In most diverse—political and non-political—organizations of both planned and market post-capitalist formations, one can face the phenomenon that a role function is specifically developed to fit a distinguished personality but survives that personality, and the subsequent filling of the role by other persons causes lesser or greater disturbance in the life of the organization. It is illuminating to examine two such different roles in two such different organizations: on the one hand, the function of the president of the republic developed in the state organization of the French Fifth Republic specifically for the person of Charles de Gaulle, and, on the other hand, the function of the secretary general of the Hungarian Academy of Sciences, who became the head of the apparatus and of the subordinated research institute network, which was shaped to fit the person of Ferenc Erdei.

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CHAPTER 8

Is a Rational Socio-Economic System Possible?

In 1922, Max Weber claimed bureaucracy to be, according to all experience, the most rational form of domination for both the master and those mastered. Weber considered that the "bureaucratization" or the "dilettantization" of management were the only alternatives. Bureaucracy's overwhelming superiority originated in professional competence, which was made indispensable by the modern technology applied in the production of goods and by the economy as a whole, irrespective of whether the economy was organized in the capitalist or socialist manner. This latter economic organization, Weber continued, implied a large increase in professional bureaucracy if it should aspire to the same technical performance.

Today, we can infer from the experience accumulated since 1922 that the "socialist solution" in fact implied a substantial increase in bureaucracy. However, no one would associate this tendency with the most rational form and with the performance of modern technology. Indeed the contrary.

What has Occurred?

At approximately the same time that Weber made his statement, Schumpeter observed that capitalism was so obviously transforming into something else that he considered not the fact itself but only its interpretation to be a point of contention. Whether what capitalism became after World War I and the ensuing revolutions and counterrevolutions was socialism, Schumpeter considered only a matter of taste and terminology.

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In my earlier investigations, I concluded that the essence of this transformation is as follows: the nineteenth-century classic capitalist socio-economic system produced the material factors on which it depended, and made itself independent of the human phenomena, which it had not produced. However, from the turn of that century, the operation of the socio-economic system was no longer independent of the faculties and needs that were present in the population. Consequently, the socio-economic system faced the necessity of manufacturing its own human conditions.

The Case of Economic Rationality

Are humans reasonable? Are their economic preferences reasonable?

It is obvious that when playing, one does not choose an option that requires the smallest possible effort or promises the largest number of useful products. Therefore, the activity of an individual at play cannot be qualified as economically reasonable. The same must be true when an individual wants to make **A** happy or to alleviate **B**'s misery. This individual does not present **A** or help **B** with goods of the lowest value, and does not require the highest possible price for his or her contribution (the individual may even actively avoid situations in which the beneficiary wishes to pay for the gift or help). It hardly requires an explanation how economically irrational the behavior of vandalism is, incidents of which are reported in increasing numbers. The vandal destroys material value without using the destroyed objects as base materials to construct new goods and without facing the necessity of destroying the objects as obstacles to his or her endeavors or as amplifiers of concurrent endeavors. The purely economic irrationality of, for example, continuing stalemated wars or compiling embargo lists transcends the everyday "pathology" of any individual behavior.

May the psychologist faced with such cases assume that the individual only adopts this type of behavior by force of his or her rational nature, as a roundabout way through the mediation of which the final output will be of higher value than the total input? Behaviorist psychology has attempted to describe the matter in these terms. By contrast, cognitive psychology describes humans not so much as rational but as rationalizing beings, that is, not as beings who create by all means larger output from smaller input, but who subsequently consider what they have produced to be more valuable than the price that they paid.

In any case, rationalizing practices are promoted by the fact that in many cases, input and output cannot be unambiguously correlated. The extent of individual effort and that of the satisfaction of a need are subjective dimensions. One can easily establish between them the relation to one's taste. If we want to objectively judge the rationality of this relation, we encounter questions that are difficult to address. It is obviously reasonable to increase threefold the work that is performed if it results in a fourfold increase in produced goods. Moreover, it is obviously unreasonable to perform this additional work if it only results in a twofold multiplication of pay. Does the unreasonableness of this latter feature change if becoming involved in a job implies such a social devaluation that is independent of the exact quantity of the work that is performed?

The computation of marginal cost and profit seems to provide an answer, but only at the expense of abandoning all normative considerations regarding economic rationality, and regarding the choice of each particular individual as reasonable. An individual who is willing to spend a certain marginal cost in the hope of a certain marginal profit is viewed as rational, whether he or she measures his or her cost and profit by the volume of goods, the amount of money, the length of time spent on the activity or the ascent within a social evaluation hierarchy. In addition, one who is unwilling to act in this manner is also reasonable from that individual's viewpoint.

To judge the rationality of this viewpoint, one would first require an objective measure with which the decisions of individuals concerning marginal cost and profit could be compared, so as to define, for example, the actual extent of the extra cost or the extra profit that corresponds to a given surplus of a given activity.

Such an objective measure would be all the more necessary because behaviorist psychology (in positing rational behavior) and cognitive psychology (in positing rationalizing practices) start from the same attitude toward human beings, which approximately (and without any obligatory awareness of it) is, "I would be a crazy fool if I did an activity that I feel more burdensome than profitable." From this point, one may reason alternatively. In behaviorist-type thinking, the reasoning is as follows: because I am no fool, given a burdensome activity, I refuse to continue with it. In cognitivist-type thinking, the reasoning is as follows: because I am pursuing an activity, I will not feel it that burdensome so I will not take myself for a fool.

Is there really an objective measure whose application might decide in each particular case whether I genuinely find a certain activity burdensome or take pleasure in a different activity?

Specifically Human Basic Need

One could come closer to distinguishing "real" and "fictive" feelings if one could class human needs into "natural" and "artificial" or "normal" and "abnormal" categories. This ability would enable us to assume that considering the positive or negative feeling that we reckon with in a decision regarding marginal cost and profit concerns (e.g., subsistence) is rational. However, if the feeling concerns, for example, drug abuse, the feeling is only a subsequent rationalizing of a previously formed practice.

In the introduction to my monograph (Garai 1969) on the specificity of human needs, I discussed in detail the arbitrariness of the result of classifying the factors that inwardly determine human behavior in terms of such differentiation. This differentiation is opposed to the anthropological fact, which Marx discussed, that production not only provides material for the need but also provides the need for the material. That is, the differentiation not only produces an object for the subject but also a subject for the object. By force of this anthropological fact, it is in principle impossible to make a distinction between what every "normal" person needs "by his or her nature" and what such a person develops in him- or herself in an "abnormal" way, or that he or she was "manipulated" to have as a need.

In the Stalinist period, this arbitrariness had graver consequences when it was the basis of a practice of economic planning in which a central power was responsible for the "normal" needs of the members of society. Based on this practice, the plan was expected to define production, which was meant to satisfy this "normal" need to an increasing extent and, finally, in its totality. This basic ideology was closely related to the practice of the central power of that period of attending to those needs it deemed "abnormal" among the needs of the individuals and eliminating these needs.

Jean Baudrillard (1972) argued that man has no biological needs. The so-called primary needs that are alleged to strictly determine the consumption that is required to satisfy them, and the secondary needs allegedly defined by culture in such a way that satisfying them is the responsibility of individuals, are only the ideological alibis of a consumption whose primary function is to hide or, conversely, to emphasize by means of consumer

goods the social differences between the class that possesses power and the class that is excluded from power in production. Consumption is determined by production. In turn, production means first the production of surplus. Thus, Baudrillard states, what in fact occurs is not what is believed to occur on the basis of ideological appearances, namely, that the members of society consume the biologically indispensable subsistence minimum and that what remains becomes distributed as surplus. He instead asserts that each society produces according to its structure a surplus as an allowance of certain positions in the structures, and what remains extra will be the necessary consumption accorded to other positions of the structure as a "strictly determined subsistence minimum."

This context may include that a part of society should not be reproduced but left to perish (or even actively eliminated) and that the non-optional "subsistence minimum" should include goods without whose consumption biological existence could be sustained, but a human (that is social) existence relevant to the given social structure could not. "Today the subsistence minimum is the standard package, the prescribed minimum consumption. Below this, man is asocial—and is the loss of status, the social non-existence less grievous than starving?" (Baudrillard 1972, p. 86). In this manner, the refrigerator, the car, the washing machine and the TV set became included in the "index of conformity and prestige" in the western European-type societies in the 1960s. By "index," Baudrillard means a list that implies a moral command. This approach prescribes a well-defined use for all of the articles on the index: for instance, refraining from reading books on the index or destroying them or, in our case, the purchase of commodities on the index. Thus, the object that one acquires and uses as such and not as a practical technical gadget is a "franchise, a token of special recognition, legitimating" (Baudrillard 1972, p. 45.).

Having conceded the impossibility of generally defining specifically human needs (i.e., what differentiates all humans from all animals in this respect and simultaneously likens all humans to one another) with respect to their material, I attempted in my previously mentioned monograph to identify these needs by the form that is manifest in each instance of human need.

In accordance with Leontiev's theory, I found the form in the structure of activity. Leontiev assumes that during phylogeny, the psychically controlled activity becomes increasingly complex, and this fact is only reflected by the development of the structure of the psychic performance of controlling the activity. I based an additional assumption on Leontiev's hypothesis regarding the genetically specific basic need: at each specific

performance level, the run of an activity structured according to that level is required.

Thus, even at the bottom level of phylogeny, instead of postulating several needs that urge the individual to consume various materials indispensable for subsistence, it would be more appropriate to only consider a basic need aimed at the activity of procuring such materials. This need starts to mobilize when the animal identifies by means of signs one or another of these materials present in its environment. Then, for instance, an ant or bee begins its collecting activity even if its organism is in fact already saturated with this material. Accordingly, the satisfaction of the need is not the result of incorporating the material in the organism but the successful performance of the activity that places the individual in possession of the object that contains the material.

On additional levels of the phylogeny of animals, the objects that determine the activity structure include, in addition to the goal to be attained, the obstacle that blocks its movement toward that goal and, later, the tool that helps to overcome the obstacle that blocks the path of the activity in moving toward its goal.

Human activity inherits all of these structuring factors. Kurt Lewin has discovered, and his team has verified this in several experiments, that whenever the intention of an activity presents itself in a person, it operates like a need as long as it is active. This quasi-need is an inner tension that drives one toward a definite activity, and in the field of this activity, it marks certain objects as goals for the activity and others as its obstacles or tools. It follows from Lewin's theory that to understand what a person feels and does, one must know not what the material is that corresponds to his or her real need but the form that corresponds to his or her quasi-need. Someone's intention to obtain bread to live and another person's intention to obtain a concert ticket may be driven by their decision to exhibit an identical behavior (e.g., queuing up, if the obstacle in the way to attaining their goal is the gulf between supply and demand).

Human activity turns out to be structured in such a way that in addition to the inherited goal, obstacle and tool, it includes a fourth structuring factor: a taboo. Fundamentally, a taboo is a ban on using something as a tool to overcome the obstacle in the way of the activity's movement toward its goal, even if the factor in question is otherwise technically adequate. The impact of the taboo is most frequently connected with property relations. The technically adequate tool is coordinated to another position, so its use by the individuals who occupy the given position is prohibited by

the taboo. In this sense, a taboo is complemented by Baudrillard's social allowance (*prestation sociale*), which forces individuals to feel pressure to obtain certain objects without needing them as technical tools, but rather because they are allowed to possess these objects whereas others are not.

Thus, the taboo becomes a structuring factor of human activity. What is required for a man's genetically specific basic need is the performance of a goal-oriented activity, overcoming the obstacles to this advance, acquiring the tools that progress requires and, finally, mastering the taboos on the prerequisites of this activity.

Lewin's theory specifies the formal correlations of such a need in a time interval, during which the goal is established but not yet attained. Before setting and after attaining the goal, the inner tension that as a quasi-need qualifies certain objects in the activity field as goals, obstacles or tools, does not exist.

Lewin mistakenly places the taboo in the same category as the obstacle when he notes that a person's maneuvering room is delimited by the domains of inaccessible activities, such as shooting an enemy or performing an activity beyond one's capacities. However, the obstacle that limits an individual's possibility of pursuing an activity beyond his or capacities and the taboo that limits his or her freedom to shoot his or her enemy are not of equal quality. The former prevents one from attaining the goal, whereas the latter prevents one from setting it.

In addition to Lewin's quasi-need that urges the attainment of an established goal, the hypothesis of the specifically human basic need (SHBN) assumes another inner tension that emerges when an individual has attained his or her goal but not yet established a new one. This tension may also be conceived as a quasi-need that is satisfied by the continual establishment of new goals. Setting new goals occurs in the wake of social changes that repeatedly reveal that the customary allowances and taboos no longer suffice to unambiguously orientate an individual in his or her activities. Therefore, taboos play a major role in the emergence of new goals.

The Specifically Human Basic Need and Economic Rationality

To illustrate the preceding argument, we adopt an infinitely schematized example. When applying this example, I by no means claim to demonstrate how the psycho-economic processes that it entails run their course. The

example is only meant to illustrate, on an abstract level, the relation whereby the attainment of the goal of enlarged reproduction results in a product to which the taboo that fixes the old relations of distributions refers ambiguously, which arouses the new tension that is subsequently reduced when one makes the situation unambiguous again by setting a new goal.

Let us assume that at the end of a production cycle, the product, which is worth $100, is distributed between the capitalist and two workers, so that the former receives $80 and the latter receive $10 each. If this state of affairs prevails for a longer period of time over several cycles, it will appear to both parties to belong to the normal, natural order of things that |1| 80% of the product is taboo for the workers and 20% is taboo for the capitalist and |2| a capitalist's allowance is eight times as much as a worker's. These two "rules of the game" are, in fact, the formulation of the same rule in two sets of terms: that of the taboo and that of the allowance. If this arrangement of distribution provides room for the enlargement of production, this enlargement will remain for a time below the threshold value, which is indispensable for the change to be perceived. Thus, the change may remain unnoticed, for example, when the capitalist employs twice as many workers to produce, by means of proportionately enlarged material conditions of production, $200. Then, according to one interpretation of distribution order, 20% of this product remains taboo for the capitalist, who will claim the residue of $160 as his or her normal allowance. By contrast, the workers will continue to observe it as a natural way of distribution that they are allowed eight times less than the capitalist is. Under the new circumstances, this rate is established when the workers regard the $130 that remains after the deduction of their slightly less than $17 each as taboo for them. Thus, in this schematized example, one party claims nearly $30 more as his or her allowance than what the other party regards as taboo before either side notices that things have changed.

When the actors of production realize the change, they establish new goals for their activities in the gap between taboo and allowance. One will either set for his or her activity the goal of preventing the change because it is disadvantageous, or the actor will set the goal of actively encouraging the change because it is favorable. The hypothesis of the specifically human basic need states that it is the SHBN that drives individuals according to its purely formal relations, and not a relation determined by the required materials to set such goals and to attain them.

What determines whether one sets as his or her goal the prevention or promotion of the perceived change? It seems obvious that one's interests

must be decisive, and Marxians may add that the relevant interests of individuals are determined by the class to which they belong: whether they belong to the class for which the change is favorable or the class for which the change is disadvantageous.

Considering the desirability of change in terms of class interests, the following inferences can be drawn from the preceding example: if the status quo ensures that 80% of the output is the allowance of the capitalist but the ongoing change threatens that nearly $30 of the total amount may be distributed among the workers, the workers will be interested in the change and the capitalist opposed.

However, the same concept may be applied to the same case in an opposite way. If the state of affairs only places eightfold of the wage of the workers under taboo and the ongoing change threatens that the capitalist may increase his or her income calculated accordingly by $30, to the detriment of the workers, the capitalist will be interested in the change and the workers opposed.

In addition to the previously schematized instances in which one of two antagonistic social categories animated by the same ideology is interested in some change and the other is counter-interested, history occasionally produces the inverse. That is, the categories that are animated by antagonistic ideologies manifest themselves as equally interested or equally counter-interested in the outlined change. The latter was the case, for example, in the inter-war period, when communist and fascist ideologies animated movements for the radical transformation of society. It is only too probable that in the actual history of socialist countries, their utmost rigidity may be understood if we consider that opposing social categories animated by opposed ideologies may both resist social changes.

In other writings I have discussed observations that the inner tension of the Lewinian form that occurs when one tries to bring an established goal and reality into closer approximation may be reduced by a rational practice that brings reality closer to the established goal, or by rationalizing practices of bringing the established goal closer to reality. In addition, the tension of this other form of proceeding from the attained goal toward setting a new one may equally be reduced by a goal of promoting or reversing changes that were already initiated.

In this manner, the dilemmas of SHBN are doubled. Can it be determined which tendency represents rational practice and which represents rationalizing practices? As long as operationalizing a “yes” answer has not been achieved, we can assert that the SHBN as an anthropological fact

does not seem to drive an individual more to perform a rational behavior than to a rationalizing cognition.

Therefore, no economic system can rely on rationality as anthropologically given, and if an economic system requires such a human condition for its operation, it must produce it by a planned intervention in spontaneous behavioral processes.

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PART III

Psychology of Bolshevik-Type System

CHAPTER 9

The Bureaucratic State Governed by an Illegal Movement: Soviet-Type Societies and Bolshevik-Type Parties

Appearance and Criticism

To reduce the appearances of a society to its substantial relations, Marx developed a method for the critique of ideologies. His method's starting point was his recognition that *the substance of society's network of connections is in its relations.* Accordingly, when an ideological consciousness attributes the cause of a social effect to the properties of a matter, the task is to *find the relations that underlie this property.*

Such a virtual property is the price of a commodity, whose increase and decrease seem able to exert disastrous effects on society. However, in Marx's view, price is not a property of a commodity that could be traced to the inside of the thing by a testing method. The effect is produced by the relations that exist among the producers of goods in a community of commodity production.

In the rare historic moments when in a Soviet-type society the Marxist-Leninist ideological leadership happened to tolerate social science research based on Marx's method (thus, including a radical critique of ideology and society), attempts were made to analyze the appearances in these societies that were connected to the properties of things. The only result was the establishment of the survival of capitalist social relations in Soviet-type society, together with the appearance of their material forms. That is, it appears to be a property of productive equipment before and after the nationalizations that it can produce more value than was used to produce it. However, with Marx's method, it could be demonstrated that the

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socially effective relation in this performance before and after the nationalizations is the same: the producers produced with tools that were not disposed of by them but by others.

This procedure did not result in specific discoveries regarding "really existing socialism"1 except perhaps that no specific discoveries are possible or necessary because the "really existing socialism" is capitalism.

However, we must note that regarding their ideological appearances, capitalism and socialism do differ from one another. The world of appearances in capitalist society emerged in relation to matter, whereas that of a Soviet-type society emerged in relation to persons.

Thus, Ned Ludd's followers were convinced that *the source of all evil was the machine* that brought ruin to masses of people and had to be destroyed so that man might survive. In contrast, at the outset of the twentieth century, all of the European and North American progressives advocated with full conviction that *the source of all good was the machine* that liberates man from the slavery of work.

In turn, Lenin's followers professed with equal conviction that *the source of all good was Stalin* and, later, within socialism, that *the source of all evil was Stalin*.

Thus, it seems that a theory that provides a critique of the ideological appearances of a Soviet-type society—and that aims at an understanding of the true deep structure of that society— must be able to orient itself in the world of appearances related to the properties of persons and not matter.

The Genuine Personality Cult and Socialism?

After the Twentieth Congress, when the practice of deriving all of socialism's features from the features of Stalin's person was first criticized, this feature of socialism was also derived from the personal features of Stalin. The cult of a person, it was claimed, was utterly strange to the substance of socialism because socialism emerged independently of the good or bad intentions of persons, responding instead to the necessity of matter.

Notably, when the commonplace practice of blaming all of the gradually exposed shortcomings of an entire era on Stalin's personal characteristics is criticized today, the argument continues to warn that we should not forget Stalin's social environment, i.e., the personal characteristics of others (such as Beria, Molotov, Voroshilov).

Even in Stalin's time, the domination of appearances related to personal properties did not apply to the cult of Stalin alone. How seriously that period regarded Stalin's motto, "It all depends on the cadres", is proved by the enormous effort made to create suitable (for Stalin) cadres on a mass scale.

In addition, this work, which aimed at transforming human nature, was not in the least confined to the cadres on whom things did in fact depend at one time or another. This society-wide effort set as its target the most private property of each person: his or her conviction. This fact is borne out by the unprecedented control exercised in centralized societies over all uttered or written words, because such societies attribute to the word the omnipotent power of influencing human will. This point is crucial because socialism throughout its history has ***derived consequences from intentions***. Socialism functions by concluding that good intentions result in good consequences, or by attributing bad consequences to bad intentions.

One outcome of this attitude is the certainty that if a revolution overthrows the status quo in the name of socialism, the result of this historic deed will be socialism. Even if the revolution that breaks out in one country is not followed by a Marxian global revolution, what emerged in this country as a result of socialist intentions will be socialism.

However, bad intentions are blamed for the delay of global revolution. That is, the cause of revolution was betrayed, e.g., by social democratic leaders with bad intentions. Later, the circle of those with hostile, treacherous intentions continued to widen. When the central bureaucracy not only declares that a future consequence shall be socialism (whatever it may be), but also predefines it by planning what exactly shall be realized, it attributes all of the deficiencies of realization to the consequences of hostile, sabotaging intentions. When agriculture declines because the resources of its development are channeled into forced industrialization, this consequence of the socialist intention is regarded as socialist. When the same decline results from an invasion of Colorado beetles, the non-socialist intention that underlies this obviously non-socialist consequence is searched out and found in the Titoist imperialists who must have planted the pestiferous insects. A stylistic parody of this turn of mind is Sartre's comment that the construction of the Budapest subway system was interrupted by the counterrevolutionary soil of the Hungarian capital (in the mid-1950s it turned out that the technology used to construct the Moscow Underground could not be used in Budapest in a soil that had many hot springs).

Bureaucracy?

If we want to apply a Marxian critical theoretical analysis to the surface of the preceding ideological appearances, what relations could be found beneath them?

Whenever the time arrives in a Soviet-type society to criticize the system, the thoughts of Milovan Djilas[2] are invariably invoked. According to Djilas, the persons to whom the preceding appearances refer have no social impact as a function of their personal qualities. In fact, in this system, social power is not exerted by persons but assigned by the bureaucracy to a position in the social structure, and is attached to the individual only insomuch as he or she legitimately occupies a given position. Thus, for example, disposition over the means of production is not attached to a person as a possibility mediated by his or her privately owning these means. Instead, it is attached to positions of various levels in economic management through the mediation of which the powers of an economic injunction can be borne by any person who happens to legitimately occupy the given position.

This hypothesis—that the deep structure of a Soviet-type society is determined by the system of bureaucratic relations—is seemingly reinforced by Max Weber's 1922 statement that the organization of a socialist economic life "would only entail the enormous increase in the professional bureaucracy". In addition, Weber noted that bureaucracy as an all-pervasive tendency was produced, "not only by capitalism, but principally and undeniably by it", because it needed a rational, predictable management technique for the running of large enterprises. In the final analysis, Weber states that "the economy, irrespective of the fact of whether it is organized in the capitalist or socialist manner, ...would only mean the enormous increase in the professional bureaucracy" if socialism aspires to the same level of technical performance as capitalism.

If Weber were right in considering the bureaucracy a common characteristic of socialism and capitalism, it would not be fruitful to identify the deep structure of a socialist (as opposed to a capitalist) society with bureaucracy. The real situation is the contrary.

Charisma and Appointment

One common feature shared by several diverse mass movements of the twentieth century is the tendency toward anti-bureaucracy. Explicitly or implicitly, wittingly or unwittingly, such movements oppose the

bureaucratic principle, which claims that social power does not belong to the person who exerts that power but to the position that the person occupies in society.

Despite many and occasionally mutually exclusive differences, these mass movements have in common the attempts to *award power to persons directly and independently of the positions occupied by these persons.* The tendency is apparent, for instance, in the charismatic leader who derives his or her social power from the very anti-bureaucracy, anti-state movement, and not from the bureaucratic state authority.

For example, it would be hard to conceive of Lenin's powers as a function of his position as head of government in the new Soviet state organized after the revolution, or to derive those powers from the fact that he was one of the members of the Bureau of the Party's Central Committee. I shall return to the peculiar nature of Stalin's charisma. However, let it be noted here that this charisma too cannot be derived from his being the head of the Party apparatus (i.e., secretary general). In non-communist mass movements also, we find that the social power of the person is independent of the position that he or she occupies. For example, after 1934, Gandhi did not occupy any position, either in his Party or, after the proclamation of India's independence, in the state.

In various countries, in the historical process in which an anti-state movement overthrew the state and seized power, the movement itself was not only the medium of the leader's charisma but was also the subject of a type of *collective charisma*.

More pronouncedly, the Party that leads the movement, and even more so, the Party's headquarters staff, become the subject of a collective charisma. It is to be noted that the collective charisma also directly invests its bearer with social power. This investing with power occurs in such a way that the wider that the circle of the carriers of the collective charisma is, the narrower the set of powers assigned to this group of individuals is. However, it is also important to note that the bearers of the charisma and those who are under its influence may find such power legitimate, no matter how the powers are distributed among the persons in the group that bears those powers.

At the beginning, after the victory of a revolutionary movement, the members of the charismatic collective exercise the power that they have seized not as *functionaries* but as *commissaries.* What occurs is not that certain Party members begin to replace former functionaries in the positions of the bureaucratic structure to obtain the powers that are connected

with those positions but that one or another Party member receives a direct commission to exercise a certain power.

Later, of course, when the new power stabilizes as state power, the principle of bureaucracy gains ascendancy. Those who are commissioned to exercise certain powers are gradually appointed to positions with those powers as their functions. In addition, with the development of the Party apparatus, the principle of bureaucracy penetrates the Party. For example, five years after the Russian Revolution, 15,325 functionaries were active in the Party apparatus, but fifteen years later there were approximately three times as many Party functionaries at the intermediate level alone.

However, far more important is that while the collective charisma awards social powers to persons directly, and independently from appointment, these persons start to be installed into that collective charisma by appointment. *Invest someone by appointment with power that is independent from the appointment*—this paradoxical social structure emerged during the Bolshevik history.

In May 1923, the C(b)PSU had 386,000 members who had become Bolsheviks during their underground activity, the revolution and the civil war. The social power they possessed at that time was provided to them by this past record. Within a year, this number increased by more than 90%, and just in the four months that followed Lenin's death, on Stalin's initiative, 240,000 individuals were *appointed* communists without any corresponding past record.

In 1930, 69% of the secretaries of the Central Committees of the Soviet republics and of the regional Party committees had been Party members since before the revolution, and thus carried personally the collective charisma of the old Bolshevik guard. Nine years later, 80.5% of those invested with this charisma had become Party members after Lenin's death in 1924.

The tragically grotesque reverse of the paradox of being inaugurated into the charisma by appointment was the fact that the members of the old guard were "dismissed" from the collective charisma of which they had partaken on account of their past record, while at the same time they were "appointed" to the position of "the enemy of the people."

When we view the cult of the leader's personality in this light, it can be asserted that *Stalin also obtained his personal charisma by appointment.* The paradox that having social power independently of appointment itself has become dependent on appointment is lucidly illustrated by Bukharin's reply to a Western sympathizer who wanted to learn how it was possible that with all those bright and excellent persons in the revolutionary central

committee of the Bolshevik Party, the mediocre Stalin was chosen for the top position. Not long before his arrest, Bukharin answered, "It was not he personally that we placed our trust in, but the man whom the Party honored with its trust."

Thus, in this structure, the leader's charisma does not radiate from the depths of his or her personality but from the Party's appointment of him or her to this individual charisma. However, it is this same Party whose members partake of collective charisma, not on account of their past record of participation in a collective history but because they owe their appointment to Party membership from that same leader.

At one extreme, the leader can be replaced by a collective leadership (e.g., the Politburo, the Secretariat; see below), At the other extreme, Party membership may be reduced to the Party apparatus. What does not change in this process is the perfectly efficient paradoxical feedback mechanism between the two extremes.

The principle of this feedback mechanism of the structuring and functioning of Bolshevik-type parties is that of *democratic centralism*.

Democratic Centralism

In the same manner in which one often tries to understand Soviet-type societies in terms of bureaucracy, "bureaucracy" seems to be the more appropriate term for understanding Bolshevik-type parties, with their apparatus in luxuriant growth. However, any attempt that tries to comprehend this organization in such terms will end in a blind alley.

Feedback in a bureaucratic system—whether centrally or democratically organized—concerns the latter's function, not its structure. If those whose position implies a function were appointed to that position by the will of a "Centrum," it is given incontestably and independently of them who belong to that center; likewise, if these individuals were elected to their positions by the "Demos," the definition of who belongs to the people is again provided incontestably and independently of these individuals. In both cases, it may occur that bureaucracy detaches itself from the ultimate source of its legitimacy. In any of these cases, it may also happen that bureaucracy detaches itself from the ultimate source of its legitimacy, but this step is apparently illegal: it falls necessarily outside the scope of power assigned as the bureaucracy's legitimate function.

However, in the system of democratic centralism, the most important legitimate function assigned to a position within the Party apparatus is, as

the saying goes, "to decide in personnel questions", that is, to manage the practical problem of appointing or dismissing the subject of the collective charisma. The fundamental question in an organization of this structure is who constitutes the "Centrum" and who belongs to the "Demos." By the time the "Demos" gets in a position in which it can have its will democratically asserted in the election of the "Centrum," its composition can be changed in such a way by the apparatus (by virtue of its legitimate right to expel from and admit to its membership) that the new composition will elect that "Centrum" that the apparatus, by its legitimate power, previously nominated. Whether elected by the membership or appointed by the Party committee at the relevant level, the Party apparatus has the legitimate means to guarantee the conditions of its power for a practically unlimited length of time, at least in periods without radical shocks.

The Party apparatus does not always take such strongly marked steps as it did in Cuba. According to well-known doctrine, a socialist revolution is always guided by the Communist Party. However, the actual Communist Party, which was headed by Blas Roca, condemned the revolution as petty bourgeois adventurism. Six years after the victory of the revolution, this latter's headquarters, which was headed by Fidel Castro, replaced the entire Communist Party with a new one that was to hold its first congress only ten years later (the congress is for communist parties their highest organ). However, thereafter the validity of the previous doctrine was ensured: from that moment, the revolution was the deed of this Communist Party.

The Czechoslovak Party apparatus only dismissed a single Party congress. The first XIVth Congress, which was held on 22 August 1968 in Vysočany, was replaced by the second XIVth Congress. In addition, the Party was purged of 500,000 individuals, in the absence of whose potential votes for the opposition the Party apparatus could continue to legitimately exercise its powers, including its right to expel 500,000 individuals from the Party whose potential votes might have stripped this power of legitimacy.

That less far-reaching practice of dismissing the old Politburo and Central Committee by the new secretary general for the first years of his office is worth mentioning only because it may seem as trivial as dismissing in any bureaucratic system the staff of the previous superior by the succeeding one, although the Politburo and the Central Committee are by no means staff for the secretary general, who is *subordinate* to them.

However, the apparatus to which the secretary general is in fact *superordinate* can dismiss him or her, as it did with Khrushchev in the Soviet Communist Party or Dubček in the Czechoslovak one, thereby forestalling the possibility of their taking any measures concerning that apparatus. In the absence of such measures, their dismissal continued to be a legitimate exercise of their powers.3

The paradox of having the legitimate power to appoint or dismiss the basis of legitimation for this power is made possible and necessary by the fact that the powers are not connected to positions but to the subject of the collective charisma institutionalized at the level of state-administration by the one-party system.4

A Detour into Social Psychology

It is an important precondition of any organization to have greater coherence between its parts than between any of these parts and the organization's environment.

Tajfel (1981) states that social psychology uses a group concept in which "members of a group are considered as such when they categorize themselves with a high degree of consensus in the appropriate manner and are consensually categorized in the same manner by others". He adds that social psychology "is not concerned with the historical, political, social and economic events which may have led to the social consensus now defining who is »in« and who is »out«". Tajfel also notes that "there is no doubt that these events were crucial in the establishment of the nature of this consensus; and it is equally true that the consensus, once established, represents those social psychological aspects of social reality which interact with the social, political and economic events determining the present and the future fate of the group and of its relations with other groups" (pp. 229–230).

Regarding the social psychological processes of consensus, the *form* by which the members of a group belong together and separate themselves from those outside the group might become more important than the *substance* of the economic, political, ideological or cultural entities that carry the form. Therefore, it can often be observed that individuals invariably overemphasize their new attachments and detachments by overemphasizing shared similarities and dissimilarities, respectively, with regard to what they do, say, think or feel something.

The Unknown Secret of a Well-Known Organization

It is a well-known historical fact that the Bolshevik-type parties make a point of the disciplined *unity* of their members and their pronounced *disunity,* even with those whose position on crucial questions may differ only slightly from those of the Party. In addition, it is an open secret that the Party skillfully uses the political weapon of striking and disrupting alliances—shuttling between unity and disunity—in relation to its allies.

When surveying the historical manifestations of the strategy and tactics of unity and disunity within Bolshevik-type parties and around them, one begins to feel that these processes are generated by those who in Tajfel's terms (quoted above) attach greater importance to the form than to the substance of economic, political, ideological or cultural events. A Bolshevik-type party often attaches less significance to the substance of what members do, say, think or feel than to the form by which the fact in question resembles what other Party members (or among these members, for instance, Stalin's followers) do, say, think or feel, and differs from what others (including, e.g., Trotsky's followers within the Party) do, say, think or feel.

To correctly understand the relations organized by Bolshevik-type parties, we must consider those relations' paradoxical structure. The history of these parties often demonstrates that unity and disunity are defined in reference to certain factors, the most important of which is the relation of unity and disunity. In a party that is organized on the basis of democratic centralism, there must be disciplined unity concerning the requirement that in the Party there must be disciplined unity. However, the Bolshevik-type party always makes efforts to impose disunity on those elements of society from whose totality the Party maintains its disunity.

Typically, this tendency of accentuating its own unity and the disunity of its adversaries is only considered from a sociotechnical viewpoint, i.e., from the viewpoint of the practicability for a political organization to unify itself and disunify adversaries. However, in case of this type of party, there is a substantially more profound effect of defining the social identity of individuals, while the previously described paradoxes by which social structures establish or undermine themselves are applied. That is, the *social identity of those who belong to a Bolshevik-type party turns out to establish itself, while the identity of those who oppose that party is undermined.*

Let us consider a continuum of four categories of individuals: **+Be** (extreme Bolshevik attitudes), **+Bm** (moderate Bolshevik attitudes), **−Bm** (moderate non-Bolshevik attitudes) and **−Be** (extreme non-Bolshevik attitudes). Overall, the position of **+Bm** may be as close to that of **−Bm** (whose is non-Bolshevik but moderately so) as to the position of **+Be** (Bolshevik and extremely so). In addition, similarly, the position of **−Bm** may be as distant from that of **+Bm** (Bolshevik but moderate) as from the position of **−Be** (non-Bolshevik and extremely so). A Bolshevik-type organization of relations on this continuum means (1) the accentuation of the unity between **+Be** and **+Bm**, (2) the sharpening of the disunity between **+Bm** and **−Bm**, (3) the suggestion to **−Be** and **−Bm** to accentuate their disunity, and (4) the unity between **−Bm** and **+Bm**.

The way in which these four categories of individual elaborate their social identity with respect to their social relations effectively changes these relations and thus strengthens or weakens the merits of the choice for identity. That is, it strengthens the Bolshevik end of the continuum and weakens its non-Bolshevik end.

When extremist and moderate Bolsheviks state their unity, the unity in this statement strengthens what they state. In contrast, the unity of extremist and moderate non-Bolsheviks in claiming their disunity weakens the relation that they claim. Regarding the relations of the two moderate categories, the more that non-Bolsheviks insist on their unity while Bolsheviks continue to accentuate their disunity, the more that non-Bolsheviks manifest disunity, not unity.

An organization that evolves on the basis of the *substance of certain properties* does not necessarily fix the *form* of the relations in which the bearers of these substantial properties can interact with one another and with the bearers of other properties. Of course, it is useful for a political organization to be united and to prevent its opposition from forming its own unity. However, one form of unity is already derived from the fact that members are, for example, uniformly workers, and a degree of disunity with others is ensured by the latter not being workers. These circumstances would remain unchanged even if the latter formed their own party or factions emerged within the former's party.

Substantially different is the case in which a party defines its internal unity and the disunity with the external world not in terms of a substance but in terms of the form of unity and disunity. Such a party can only distinguish between its own organization and those outside it by accentuating the former's unity and the latter's disunity.

It follows from this paradoxical organization that the Bolshevik-type party cannot tolerate those outside the Party forming their own unity (i.e., establishing a party in addition to ***the*** Party) or those within the Party disrupting unity (i.e., members aligning themselves by factions). Neither of these developments enables the differentiation between the two formally defined poles.

Within the unity of the Party, the pattern of disunity that characterizes the relationship between the Party and those outside it is repeated. The "Centrum" defined by democratic centralism is disunited within the Party from the "Demos" in the same way as the Party is separated from those outside the Party. The "Centrum," as the bearer of formal unity, is disunited from the "Demos," which is formally disunited. The local Party units become disunited from one another, and no relationship can be established between them unless mediated by the "Centrum."

The pattern of disunity is repeated within the "Centrum." The Politburo preserves its unity against the larger Central Committee just as the latter separates itself from the membership.

In this regard, Yeltsin's memorable faux pas is illuminating. The first secretary of the Moscow Party committee addressed the plenary meeting of the Central Committee as a substitute member of the Politburo without preliminarily discussing with the Politburo his highly critical comments on the organizational and personal constraints on perestroika. Thus, in breaching Politburo discipline by divulging secrets to those outside the Politburo, he violated the same structure as a Party member would in breaching Party discipline by releasing Party secrets to outsiders. In the structure of democratic centralism, both are viewed as cardinal offenses.

In such an organization, the inner circle always has power over the outer circle. However, the basis of the former's power is abandonment of this power in favor of a still more inner circle because in none of the circles is the position of power differentiated from powerless positions by a definite substance. One cannot state that the power is lodged with the workers or the bureaucrats or the managers. One cannot state that power belongs to those whom the army or the security forces obey, who have capital or knowledge, who can use the tools of propaganda, who have college degrees or a past record in the workers' movement. *The only criterion of a power position is formal. That is, it is the position characterized by unity in contrast to the powerless position of those disunited from one another.* Those who relinquish power on behalf of a still more inner circle demonstrate that they have adopted the position of unity, i.e., the position of power.

These circumstances explain the exceptional discipline that characterizes all circles of power. Those who are expelled from the innermost circles almost never protest or argue against the expulsion. They do not establish a "true" Politburo, a "true" Central Committee (CC), a "true" Party in opposition to the "false" or "treacherous" Politburo, CC or Party. Should they do so, their acts would immediately reveal that they were not in a position of unity but of disunity. The position of powerlessness, that is.

"We cannot be right unless with, or through the Party," Trotsky wrote.

For a psychologist, the history of the communist movement is the history of the persons who remained loyal to the party that expelled them.

This disciplined solidarity with the innermost circles usually remained unchanged even when someone was banished not only from Party leadership or Party membership but also from among the normal citizens into the world of convicts or forced labor camps, or even from the world of the living.

Savarius recalled a meeting in the anteroom of Rakosi in 1954. He was waiting for his turn to be received by Rakosi when Janos Kadar left Rakosi's office. Both he and Savarius had just been released from prison. Both were aware of this fact and of Rakosi's responsibility for their imprisonment. However, Kadar started telling Savarius how genuinely indignant Rakosi became when he learned from Kadar how badly certain comrades were treated.

One of the greatest mysteries for twentieth-century progressive social thinking is why the victims of Stalin's great terror, who were openly brought to court at a time when they had no longer any hope of a personal future, offered damning testimony against themselves. However, the mystery is resolved when we realize that in fact these communists, when forced into a tragic situation, confessed to being traitors to the Party to manifest their loyalty to it. When they were instructed by the Party to confess to disuniting acts against it, had they declared never having committed any, that declaration would have represented a disuniting act.

The Nomenklatura

The true secret of the deep structure of a Soviet-type society is that the organization of democratic centralism—in which the inner circle has power over the outer circle under the condition that the former relinquishes power in favor of a still more inner circle—eventually encompasses the entire society.

Here, one must recall that the relation between the inner and outer circles of the structure of a Soviet-type society is not identical to the relations between the upper and lower levels of a bureaucratic hierarchy. The inner circles house the subject of a collective charisma institutionalized for the entire society, whereas the outer circles house the medium of that charisma.

The charisma assigns a degree of social power directly to a person, whereas the collective charisma assigns a set of powers to a set of individuals. This relation is materialized in the *nomenklatura*, which contains the stock of powers that are provided directly to persons in the more inner or more peripheral circles, and the list of persons to whom they are provided. In an excellent book, Voslensky argues that the relations materialized in the nomenklatura are the class relations that determine the deep structure of a Soviet-type society.

The first historically decisive development with respect to the eventual emergence of the nomenklatura as a class was the emergence of the category of the *professional revolutionist* in the course of the rise of a Bolshevik-type party. Viewed in purely economic terms, the persons who belong to this category subsisted differently from any of the three basic classes of capitalist society: they did not live by the profit of their capital, the rent of their land or the wages for their labor. The nature of their subsistence resembled that of the bureaucrat's in the sense that they obtained it through activities that concerned the State status quo. However, whereas the bureaucrat's activity was aimed at *preserving* the status quo, the professional revolutionist's was aimed at *overthrowing* it.

The second historically decisive development was the emergence of the organizing principle of democratic centralism, which provided the professional revolutionist with immense independence through, and partly against, the membership of the party organization that he or she had helped develop. How this principle acts was previously discussed.

At the time of the Russian Revolution, the resulting organization was only a tool, despite its immense independence and operativeness. Additionally, there was perfect consensus between the professional revolutionists and the Party membership with respect to the goal, in view of which it could be judged to what extent the functioning of the organization was authentic and to what extent it was not.

The third historically decisive development was the replacement of the Party membership, which was determined by the substance of a revolutionary socialism, by a membership that was solely determined by the form

of democratic centralism that connected that membership with the old guard of professional revolutionists. This replacement was in part made necessary by the civil war that killed a large section of the authentic Party membership, and in part it was realized by Stalin's initiative to appoint a new membership to the collective charisma of the Bolshevik party.

Finally, the fourth historically decisive development was the great terror of the years after Kirov's murder, by which Stalin performed the same replacement but now at that place of the structure that had previously been occupied by the Leninist staff of the professional revolutionists. As a result of a sequence of bloody personnel changes, the new structure ensured that no one could claim certain power on truly substantial grounds (e.g., with reference to the fact that one's past record testified to one's being, for example, really a revolutionist or an authentic Marxist.).

As a consequence of the Stalinist transformation, the position of the structure developed by and for the professional revolutionists remained occupied by individuals:

(a) whose social power was not the function of their position but directly assigned to their persons by a collective charisma,
(b) to which they were inaugurated, as to a post
(c) by "democratic" decisions made possible or impossible by the preliminary decisions of "centralism" in socio-psychological games played in the forms of "unity" and "disunity", whereas
(d) for the "Centrum" and the "Demos", this power structure became the end while functioning in terms of the original value (socialism) of the means.

*

Now, a possible mistake concerns *the end of communism*. Thoughts that aim at this conclusion consider communism to be a political establishment and its ideological spirit. In this sense, communism seems in fact to arrive at an end. When I apply the formula "communism seems to arrive at an end", I have in mind certain historical experiences in which other ideological systems (such as Catholicism in revolutionary periods of the eighteenth to the twentieth centuries) or political systems (such as democracy in the between-war period of the 1920s and 1930s) seemed to be on a definite decline, whereas today, they continue to prosper. Such experiences caution us against categorical formula of the *Untergang des Abendlandes* type.

1. Soviet-type societies used to consider themselves societies of "really existing socialism". When Copernicus discovered that the sunrise was not a sunrise because it was not the Sun that rose over the horizon but the Earth that turned in relation to the Sun, the name "sunrise" need not have been affected by this recognition. However, in the case of "socialism", the terminology did affect knowledge as if the scholarly undertaking were to be described as follows: Copernicus adjusted our image of the sunrise to the really existing sunrise.
2. Djilas (b. 1911), a former high official of the Yugoslavian Communist League, was later imprisoned for his attacks on the Party oligarchy. Now free, he recently published in his home country his best-known work, *The New Class* (1957).
3. The legitimate exercising of powers occurred in an organization of the following hierarchic structure:

members' basic organization
|
Congress of delegates elected by members
|
Central Committee elected by the Congress
|
Politburo elected by the Central Committee
|
Secretariat of the Central Committee, with the secretary general at its head
|
the party apparatus appointed by the secretariat

The task of the apparatus is to determine on less important matters, so as to relieve the Secretariat and to prepare for the latter's decision regarding more important matters. "To prepare a decision" refers to a scheduled decision that in the case that no one from the Secretariat challenges it, receives the status of a Secretariat decision. The same relation is valid, for example, for the Secretariat with respect to the Politburo or for the Politburo as related to the Central Committee. Generally, in the previously described structure, the "Demos" is always super-ordinate to the "Centrum", which in respect to the relatively more important matters, only prepares decisions for the former party authority.

Historic Bolshevik-type parties never exactly fit this idealized schema. However, the fact is worth mentioning because if they had, this perfectly

democratic structure would generate a perfectly centralistic functioning: IN THE ORGANIZATION THAT FUNCTIONS ACCORDING TO THE PRINCIPLE OF DEMOCRATIC CENTRALISM, THE "DEMOS" SOONER OR LATER BECOMES STRUCTURED ACCORDING TO THE "CENTRUM'S" FUNCTIONING; FOR EXAMPLES, SEE ABOVE.

4. However, the duality of state and party is always restored, despite repeated attempts at their unification. It is no accident that whereas the functioning of the state bureaucracy within this duality is always qualified by the written word, with all its disadvantages (i.e., the rigid formalism of paperwork) and advantages (i.e., ease of control), the work of the party apparatus is always performed on the basis of the spoken word (with a flexibility required by the content and always without the possibility to control it).

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CHAPTER 10

The Paradoxes of the Bolshevik-Type Psycho-social Structure in Economics

The framing for this study is is the transition from the first, nineteenth-century phase of modernization to the twentieth-century *second modernization*.

By modernization, I understand the tendency according to which a society artificially intervenes in natural processes in order to provide itself with the conditions of its own functioning. During the first modernization period, the socio-economic system addressed its material and human conditions differently: by producing the *material factors* on which it depended and by making itself independent of the *human phenomena* that it had not produced. Since the turn of the 19th-20th century, the operation of the socio-economic system has no longer been independent of the faculties and needs that acted in the population. Consequently, the system faced the additional *necessity of manufacturing its own human conditions, too*.

Three Classes

When one starts to examine how this necessity has been addressed during the second modernization, the first statement that one can make is regarding a technology that the state governments in various countries introduced practically simultaneously during the period that started with World War I. The technology in question tried to *apply to* ***handling individuals*** *the same logic of large-scale mass production in the processing industry that the economic organizations of the previous century had successfully used in* ***handling things***.

L. Garai, *Reconsidering Identity Economics*,
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The logic of the processing industry categorizes things into three classes: the class of **useful things**, which comply with human aims, is opposed to the class of **harmful things**, which counter human aims. Between these two classes is the class of **raw materials**, whose originally neutral attributes can be turned useful or harmful when influenced by useful or harmful things, respectively. The processing industry exposes raw materials to useful effects and, simultaneously, in order to protect these materials against harmful effects, tries to narrow the spectrum of the latter's causes by the most effective procedure, namely by eradicating harmful things.

In the same way, the state, whose ambitions were elevated in World War I, *categorizes persons into three classes*: the class of those who make themselves **useful** as means for the state's most exalted ends, those who subject themselves as malleable **raw materials** to the educational ambitions of the previous class and, finally, the class of **harmful** individuals who resist the preceding goals of the state. Because by misusing the malleability of the human raw material this latter class would win over a part of the other classes to its side, the most effective procedure against it is considered to be its extermination.

This practice and the relevant ideology were perfected in the *totalitarian state*. However, the birth of this type of state was not 1933, when the National Socialists assumed power in Germany, or 1922, when the fascists assumed power in Italy, or 1917, when the Bolsheviks seized power in Russia. The totalitarian state was born in 1914, when simultaneously in various states the still-traditional power fulfilled a purpose that was no longer traditional: from the raw material, represented by *civil persons* who had been prepared to "live and let live," the *mobilization order* produced on a large scale the useful product that is represented by *soldiers*. Later, the totalitarian states inherited this ready-made tool to be used for both their goals and the know-how that was required to operate—with nearly unlimited efficiency—large-scale works in this peculiar processing industry, in which the tools, raw materials and pestiferous factors are all human beings.

At first glance, one would conclude that the Bolshevik-type society was the survivor of this totalitarian state formation. It used the products and the know-how produced by the two-act World War for forty years after these wars, and, now, after a delay of an entire epoch, it has followed its ideological antagonist to the sink of history.

However, if we consistently apply the viewpoint of economic psychology instead of an ideological approach, we shall discover a significantly different implication.

A Peculiar Commodity: The Relation

Things and persons differ to a degree that makes it impossible to simply apply the logic of handling one of these categories to handling the other one. The point is that things can (but persons cannot) unambiguously be classified by their **attributes** into one of the previously mentioned three groups. Regarding persons, when we try to trace their attributes to explain social phenomena, their causes turn out instead to be **relations**. For instance, someone who belongs to a majority exerts his or her influence differently from someone who belongs to a minority (Moscovici 1976).

Relations have a logic that substantially differs from that of attributes. This fact is particularly evident if we examine how that logic operates when one wants to define his or her social identity in terms of attributes or relations.

An example is the attribute of a fine crop of hair that, if necessary, may clearly differentiate my social category from that of bald individuals. In this case, the attribute and the social category are interrelated. If I want to switch to the other social category, I may be compelled to relinquish my attribute and assume that of the other group. However, if I want to exchange my attribute for the other group's attribute, I must accept that from the moment that I shave my head, I will belong among the bald-headed group.

A well-known tendency is connected with this relation. As soon as a markedly different attribute (e.g., skin color) is noticed on another, he or she becomes susceptible to being classed in a social category that is detached from the category of those who noted the difference. By contrast, when a group of individuals defines their social identity as categorically different from that of others, they become willing to develop an attribute that is equally different (e.g., skinheads).

The case in which two social categories differentiate themselves according to relations instead of attributes is completely different. Unlike an attribute, the value that characterizes a person in terms of a relation can be detached from the social category to which the person belongs. For example, I may belong to those who represent the majority in some regard, whereas the other group represents the minority. It is then possible to change groups without ceasing to be a majority member because my joining may have changed the other group from minority to majority status. Alternatively, I could become a member of a minority without changing groups if several of my fellow members change group.

Therefore, when a totalitarian state tries to apply the same logic to the relations of persons with which the traditional processing industry handles the attributes of things, everything turns upside down.

Until now, the authors of the folk poetry of jokes have taken a greater interest in this upside-down situation than those who should consider it to be a serious matter. For instance, when we want to eliminate a harmful effect of a certain attribute, the technology of exterminating the very last specimen of the things that exhibit this attribute guarantees 100% success. This approach is turned inside out by the following joke in which the technology is applied to relations instead of attributes: "Are there cannibals among you, gentlemen?" the missionary asks the natives. "No, sir," their spokesman replies. "We ate the last one yesterday."

However, this paradox of turning things upside down immediately assumes a serious aspect when we realize that the basic psycho-socio-economic problem that the second modernization must address concerns relations. The point is as follows:

THE OPTIMUM FUNCTIONING OF A **MARKET ECONOMY** REQUIRES THE RELATION OF **PERFECT COMPETITION**, I.E., ONE THAT NO MONOPOLY OF ANY OF THE ECONOMIC ACTORS RESTRAINS

And, on the other hand,

THE OPTIMUM FUNCTIONING OF A **PLANNED ECONOMY** REQUIRES THE RELATION OF THE **PERFECT MONOPOLY** OF THE PLANNING AUTHORITY, I.E., ONE NOT RESTRAINED BY THE COMPETITION OF OTHERS

In fact, by the early twentieth century, it became manifest in the actual psycho-socio-economic relations that competition and monopoly *do* constrain one another. Thus, for the optimum operation of a market-oriented or a planned economy, various totalitarian states of the second modernization period had to operate a peculiar processing industry to transform these ambiguous relations into unambiguous ones (i.e., *either* competition *or* monopoly).

Regarding this processing industry whose raw material is the previously noted ambiguous relation, two paradoxical statements can be made. According to the first,

THE COEXISTENCE OF COMPETITION AND MONOPOLY IS ITSELF A COMPETITION

between interests in competition and interests in the monopoly. However, if this ambiguous relation—as a raw material—is successfully processed, the exclusiveness of either of the two relations turns out to be the final product. Nevertheless,

THE EXCLUSIVENESS OF MONOPOLY OVER COMPETITION AND THE EXCLUSIVENESS OF COMPETITION OVER MONOPOLY IMPLY MONOPOLY.

Whenever in the twentieth century the human processing industry functioned by the principle of the market, it only intervened in the spontaneous events to protect the market from the monopoly and guarantee undisturbed competition. And by this very intervention the competition between monopoly and competition got changed for the monopoly of the competition. This was the primary trend in the development of that kind of totalitarian state that was represented by fascist Italy and national-socialist Germany.

Regarding this type of totalitarian state, it is customary to state that contrary to Bolshevik-type totalitarian states, its economic development does not cease after the collapse of the political regime but continues uninterrupted because, allegedly, these systems have not undermined the market, which is the basis of an economy.

However, there is more to this subject. These totalitarian states tried to process their raw material in such a way that the market would ensure the personal condition of perfect competition (as expressed by such elements of their propaganda as the promotion of dangerous living, or the cult of heroes), whereas those factors of economic life became eradicated that were believed to be the carriers of monopolies (e.g., Jewish businesspeople and trade unions).

"Are there cannibals among you, gentlemen?' "No, sir, we ate the last one yesterday." The paradox of this joke is that it is highly serious. To eradicate monopoly, the fascist and national-socialist totalitarian states made themselves the possessors of an unprecedented power monopoly.

The determination to shape human raw material failed in the case of the fascist, national-socialist totalitarian states; not because the processing technology was morally abject but because of the previously noted logical absurdities, as a result of which the system itself undermined its existence.

In this regard, the Bolshevik-type society was completely different. This difference is not the one that the dominant ideologies of both types of totalitarian state demonstrated as something exaggerated to cosmic proportions (which reveals another facet of their similarities).

The boundaries of difference were determined by the fundamental similarity that both types of totalitarian state were organized by extending the successful technology of the processing industry from things to persons, while, again, both used that double heritage of the world war: soldiers produced from civilians and the know-how accumulated through such processing.

What differentiates the Bolshevik-type society within these frames is that here the human-processing technology, when applied to make ambiguous relations unambiguous, is practiced in the interest of planning to protect the plan from the competition and guarantee the undisturbed monopoly of the planning authorities.

The human processing technology has in any case a paradoxical effect, turning intentions upside down. But

A FASCIST-TYPE STATE, IN ORDER TO GET THE MARKET **PROVIDED** WITH THE **COMPETITION,** ERADICATES **COMPETITION** AND **PROTECTED** FROM **MONOPOLY** CREATES **MONOPOLY**

whereas

TO **PROTECT** THE PLAN FROM **COMPETITION**, A BOLSHEVIK-TYPE STATE ERADICATES **COMPETITION** AND, **PROVIDED** WITH **MONOPOLY**, CREATES **MONOPOLY.**

By the first paradoxical connection, the social structure that is to be constructed **undermines itself**, whereas by the second paradoxical connection, it **establishes itself**. The difference between the two types of paradoxical social structure is particularly important to keep in evidence in order to understand why the fascist-type totalitarian states collapsed after the world war, whereas the Bolshevik-type totalitarian societies began to expand. One cannot simply attribute these facts to the historical eventuality of the fortunes of war.

A Conveyor Belt to Produce Relations

If the preceding argumentation is true and the totalitarian states were "turned upside down" because of the logic of the processing industry (which was developed to process the attributes of things that were applied by things to the relations of persons), a psychosocial feature of the basic organization of the Bolshevik-type society requires special attention.

So far, we have noted the difference between the group-organizing effect of the attributes of individuals and that of relations; for example, how bald individuals and individuals with a fine crop of hair identify themselves and one another, and how members of a majority identify themselves compared with the members of a minority. The Soviet-type societies trace their origin to a social group whose history began by distinguishing itself from an opposing group, not in terms of an attribute but by evoking that relation according to which this group once happened to be **in the majority**, that is, in the group's native Russian, *Bolshevik*. The members of the group continued to identify themselves by this name later. They were Bolsheviks, that is, in majority, even when their fraction happened to be in minority within the Russian socialist democratic party. Later, when this fraction broke with the original party, the *Mensheviks*, those who were **in the minority** not only attained the majority but constituted the totality of the membership. They called themselves by this name when after the revolution those who were "in the majority" liquidated (first in terms of organization and later physically) those "in the minority."

This psychosocial peculiarity of the Bolshevik party deserves particular attention because it constitutes a special case of a general characteristic: those Bolshevik-type parties referred themselves substantially more to **the form of relations** than to **the substance of attributes**. Thus, disciplined unity among the party's rank-and-file was more important than the program in relation to which that unity was established and maintained.

The same indissoluble unity of disciplined members characterized the Bolshevik-type parties when the program called for a fight against social democratic leaders; when later it rallied communists and social democrats in a popular front against Hitler; when it urged a fight against Trotsky, who was accused of having entered into a secret pact with Hitler; when Stalin entered into such a pact, whereby this motive was omitted from the mobilization against Trotsky; when the sole point of the program was mobilization against the Germans in alliance with the Anglo-Saxon states; and when after the World War the mobilization exalted the fight against Anglo-Saxon imperialism.

It is another well-known historical fact that Bolshevik-type parties stress not only their disciplined unity but also efficiently brandish the political weapon referred to as the "salami tactic" against their enemies, whom they can markedly divide into those who are willing and those who are unwilling to enter into a tactical union with the communists.

Typically, this intention to unite and divide is considered from a socio-technical viewpoint in terms of the advantage that a political organization obtains as it approaches the realization of its goals—if it is united and its enemies are divided. However, in the case of the Bolshevik-type parties, a much larger effect than the socio-technical effect is involved, which is, again, mediated by the paradox of relations. Unlike attributes, relations can also be defined by the way in which they are thought about by those who are involved in the relations. For instance, whether individuals elaborate their similarities and differences in a similar or different way may reinforce (or weaken) the elaborated similarity or difference.

If a group is unified by claiming that they are marked by the relation of unity, this relation characterizes it to a certain extent. By contrast, when a consensus is reached about the group being divided, it is less divided. Finally, if a group is divided by the question of whether it is unified or divided, the former opinion weakens and the latter strengthens its grounding by its mere emergence.

By elaborating their relations in this way, individuals define their **social identity**, and by means of these elaboration paradoxes, the defined social identity may either establish or undermine itself. Thus,

A BOLSHEVIK-TYPE PARTY MOBILIZES ALL OF THE PARADOXES OF UNITY AND DIVISION IN SUCH A WAY THAT THE SOCIAL IDENTITY OF ITS MEMBERS TURNS OUT TO BE **ESTABLISHED** AND THAT OF NON-PARTY-MEMBERS IS **UNDERMINED**.

First, by overemphasizing their unity, the members of such a party became more unified simply because this overemphasizing unifies them still more. Thus, the Bolshevik identity that is defined by this relation established itself.

Second, the application of the salami tactic to the non-Bolshevik section of society has the result that those who are willing to enter into an alliance with the communists and those who are unwilling to have relations with them overemphasize their division. Therefore, the non-Bolsheviks manifest their unity in this regard. That is, the non-Bolshevik identity defined by this relation is undermined.

Third, the salami tactic typically appears as an alliance policy of the moderate Bolsheviks, who invite the moderate non-Bolsheviks to think (and act accordingly) that the moderates in- and outside the party are natural allies against the sectarians and extremists of both sides. Meanwhile, the party moderates and the party extremists jointly watch over the strict dividing line that separates the world inside from the world outside the party. Thus, the division of the moderates by the question of whether they are united or divided establishes the social identity defined by the claims of the Bolsheviks to be divided, and undermines the social identity defined by the non-Bolsheviks, who insist on being united.[1]

If all paradoxes work to the benefit of the Bolshevik-type party by establishing the chosen social identity of (the sincerely committed part of) its members and undermining the chosen social identity of the non-Bolshevik section of society, and if we consider that a person's social identity is nothing but his or her specifically elaborated social relations, we can venture the following statement:

THE BOLSHEVIK-TYPE PARTY IS A FACTORY FOR THE LARGE-SCALE PRODUCTION OF RELATIONS.

This statement might sound strange. However, anyone who ventures into a study of modern societies in terms of economic psychology will probably experience a feeling of strangeness from the moment that he or she realizes the connection between the logic applied by a totalitarian state and the logic of large-scale production in the processing industry. This feeling will probably become more intense when, during this intellectual adventure, one cannot help concluding that the technology that is applied

by the totalitarian state according to the logic shared by the processing industry only fails because it can only be used to mass produce attributes, not to mass produce relations. However, we have just identified the conveyor belt for the enlarged production of relations. As a useful product of the material-processing industry facilitates still more production of useful products, then in the same way, producing a division among individuals regarding whether they belong to a definite organization facilitates the production of still more division in this respect, whereas producing the unity of the members of this organization facilitates the production of still more unity among the individuals in the organization.

We may find an additional argument—that Bolshevik-type organizations are a device of an enlarged reproduction of relations, which is another odd feature of such organizations.

THE PATTERN OF UNITY AND DIVISION THAT WAS DEMONSTRATED IN THE RELATION BETWEEN PARTY MEMBERS AND NON-PARTY MEMBERS IS REPRODUCED WITHIN THE PARTY IN THE RELATION BETWEEN THE **CENTER** AND THE **MEMBERSHIP.**

The center is unified. It makes its decisions with a unanimous vote and never by a simple or qualified majority. However, the membership is organizationally divided into primary units, which can only maintain contact through the center because direct communication constitutes the capital offense of factionalism. This pattern is reproduced within the center. Its unified kernel is separated from its institutionally divided membership.[2]

Generally, this aspiration for unity and division within the party and its central structures is also considered from a socio-technical aspect in terms of the gain obtained, because the more unified that a group is within an organization, the more it can divide its potential rivals and the easier it is for it to acquire and retain power. However, there is a larger than socio-technical effect at work in the case of Bolshevik-type parties. Here, the same effect is demonstrable as that of the paradox whose effect on social identity was observed in the discussion of the relation between party- and non-party members. That is, those in the center will be even more unified by uniformly preserving their unity, whereas the membership preserves its unity by being actively unified in watching over its being divided.

The victim's complicity, which suggests that the victim participated with the most active agreement, for instance, in dividing the Party's own ranks, was one of the fundamental determinants of the Bolshevik-type structure. To understand it, we should first clarify the question of what lent so much significance to the unity of the center and the division of the periphery in Bolshevik-type parties.

As has been noted, it is obviously useful for any political organization to be unified and to divide its rivals. However, an organization that has emerged according to an attribute will not make this a matter of primary importance. Some type of unity is ensured within the organization by the fact that its members are, for instance, all workers, and this fact immediately separates the organization's members from outsiders, who are not workers. If **we** are workers while **they** are not, they may be as united in a party of their own as we are without being the same workers as we are, and this relation would not change even if within our party we happen to be divided by factions.

In the Marxian concept of socialism, the most important thesis was the one that claimed that the **universal human** values of socialism were represented by the **particular class** interests of the proletariat, whereby the socialist parties, including the Bolshevik-type ones, were founded as workers' parties. However, Marxian parties did not conceive of worker quality as a sociological attribute. What made worker quality important for them was the relation in which the assumed historical occurrence of the **whole** of society was represented by the activity of its distinguished **part**. Subsequently, the same relation was reproduced by the Bolshevik doctrine of the vanguard, which claimed that the history of the entire proletariat was to be represented by the activity of its distinguished part, that is, the party equipped with the weapon of scientific theory. Similarly, the same relation applies to the party as a whole and a distinguished part of it, the latter first consisting of the professional revolutionaries of the Leninist old guard and later the professional party activists of the Stalinist apparatus.

Whereas the form of the relation attributed to the proletariat thus proved to be transferable to increasingly newer substances, one thing became increasingly more obvious regarding the substance that was constituted by the sociological attribute of the working class. This thing was what in an essay the novelist Semprun (referring to Marx's idea that "there exists a universal class, which means the elimination of all kinds of classes, which can only liberate itself by liberating all the classes of society") expressed as follows: "the main conclusion of at least the century that

separates us from Marx is that this class is not the proletariat". Supposedly, this issue

MADE BOLSHEVIK-TYPE PARTIES **UNDER-INTERESTED IN THE SUBSTANCE OF ATTRIBUTES** AND **OVER-INTERESTED IN THE FORM OF RELATIONS** WITH RESPECT TO VARIOUS SOCIOLOGICAL ENTITIES.

We have previously observed (cf. pp. 3–4 and pp. 6–7) the peculiarities of social organizations that emerge according to relations and not attributes. One of these peculiarities implies that such an organization cannot refer the relation of, for instance, unity and division or separation, to any attribute (e.g., to that of being versus not being a worker) but to the relation itself. Consequently, such an organization has no possibility of tolerating (as proposed above) either **our division** or **the unity of others,** because the only relevant quality that unites **us** and separates us from **them** is that **we are united** while **they are divided**.

Now, we return to that structure of Bolshevik-type societies (constructed like Matryoshka dolls) in each of whose circles there is distinguished a more inner circle (e.g., the working class within society, the party within the working class, the center within the party, the nucleus of the center within the center, i.e., within the central committee, the political committee, the organizing committee, the secretariat, etc., and, finally, at the core of the center, nearly as a matter of course, the leader). It can be stated that *every inner circle has power over the corresponding outer circle*. In addition, it can be established that *this power is taken over from it by the next circle toward the center*. In this manner, in a "dictatorship of the proletariat", the power of the working class over society is exercised by the party; the "leading role of the party" is exercised by the center; and within a system of "democratic centralism", the center's power is finally exercised by the leader.

However, the most peculiar psychosocial feature to be noticed in a Bolshevik-type social structure is the *complicity of the victim*. Each circle voluntarily and actively participates in subjecting itself to the power of the next-innermost circle, no matter how large a role the coercion plays, either in its Stalinist version (which directly threatened one's life) or the post-Stalinist one (which only eliminated a varying number of life conditions).

The inner circle not only surrenders the power that is taken from it by the next-innermost circle but also actively hands over this power to this more central circle.

This phenomenon occurs precisely because the condition of its power is this active handing over. The previously discussed formula may explain this paradoxical condition. That is, *it is not the substance of a social attribute that distinguishes a position of power from positions without power* in any of the circles.

There is a long history of the practice of social scientists, political scientists, Kremlinologists and journalists of trying to pry open the secret of power in Bolshevik-type societies, by searching for the sociological attribute that accounts for the similarity of the incumbent of power—the members of the *new class*—and their difference from those over whom they exercised the power. The discovery that in a "dictatorship of the proletariat" it is not at all the proletarians who have the power was as shocking for the first generations of revolutionaries as it later became commonplace. In addition, other assumptions—whether power was possessed by the officeholders[3] or managers, by those whom the army or the security organs obey, by those who possessed the capital or who knew the doctrine, by those who could put the mass media to good use, who were granted a diploma or who had a history in the workers' movement[4]—could not bring one closer to the secret.

In a Bolshevik-type society, the critical attribute for which we are searching does not exist. The only criterion for a power position is defined in terms of relations:

A POWER POSITION IS THAT THAT IS CHARACTERIZED BY **UNITY,** AS OPPOSED TO THE POWERLESS POSITION OF THOSE WHO ARE **DIVIDED**.

Anyone who hands over his or her power to the more central circle manifests that he or she has joined the side of unity, that is, the side of **power**. This phenomenon explains the extraordinary discipline that is typical of all circles of power. Those who are expelled from a circle rarely protest or argue against their expulsion. They do not establish the "true" Politburo, the "true" central committee (CC), or the "true" party as opposed to the "false" or "treacherous" Politburo, CC, or party. Should they do so, they

would immediately reveal that they had abandoned the position of unity for that of division, that is, for the position of **powerlessness**.

Bolshevik-Type Self-discipline and the Abstraction of the Perfect Monopoly

As previously stated (p. 4), just as the optimum functioning of a market economy requires the relation of the perfect competition of economic actors, the operation of a planned economy requires the perfect monopoly of the planning authorities.

Without the previously analyzed unparalleled self-discipline through which a Bolshevik-type structure makes its victims accomplices,[5] the external disciplinary practice could never have brought society closer to the abstraction of the perfect monopoly even if it had used crueler means than in the past. In every other system, to suppress the outer circles, the innermost circle that monopolizes power must resort to apparatuses of violence in intermediate circles, which, having experienced their efficiency in mediating the central will, may at any moment pit their own will against the former in the competition for social influence.

The self-discipline that could be forged in the Bolshevik workshop of the perfect monopoly had a serious condition. For an outer circle to resign from power in a disciplined manner to the benefit of a more inner circle, it was required that when the outer circle manifests its belonging to the position of unity and not to that of division, this position should in fact be that of power. What enables this manifestation is a construction in which not only the inner circles within the party reproduce the structural pattern of the Bolshevik-type party (as previously stated), but also that the structure extends toward the periphery. The outermost circle must have the possibility to surround itself with formations outside it that must be as divided as related, to it and over which it can exercise power as the bearer of unity. In this manner, the Soviet-Russian state, which contained the Bolshevik party and the outer circle of the non-party society, surrounded itself with an outer circle of other federated republics, which could only communicate with one another through Russia, that is, through the state and party organs that resided in the capital ("the everlasting alliance of independent republics rallied for ever by the great Russia", as was sung in the Soviet national anthem).

Then, the Soviet Union found the chance to surround itself with the state formations of "people's democracies", compared with whose division the Soviet Union as a whole represented the unity.

Next, the attempt followed, which—had it succeeded—would have displayed the entire "socialist camp" as the bearer of the form of unity, surrounded by the colonies liberated in the 1950s to 1960s and, generally, the countries of the Third World, which would have been the outermost circle at the time and constituted new substance for the form of division. The extension of the outer circle around the "socialist camp" was of paramount importance for the structure because this extension would have ensured that the "camp" should appear as the subject of power in its entirety. This extension would have reinforced the camp's readiness to stay in the position of unity by delegating power with the Matryoshka method, which would have produced a social structure that approximated the abstraction of the perfect monopoly, as we previously noted.

It is a common practice that military expenditures are regarded as economic only inasmuch as they imply that they drain resources[6] from areas in which their use would have been productive, whereas their military use, the analysts note, is unproductive. The importance of such analyses for social criticism cannot be sufficiently stressed. However, they are inaccurate in their analytic description of connections, and they ignore the implication by which those expenses are in fact productive. Whether the Bolshevik party leadership uses such expenses to provide economic or military aid to certain components of the outer circle, uses them to arm the members of the inner circles, or actually deploys these means at a certain point of the outer circle (e.g., Afghanistan) that is reluctant to add to the unity of an more inner circle by accepting the division of its outer circle, these expenditures constitute the production costs of the analyzed structure at each point of its extension.

That is, the costs of the production of the human resources are also shaped by their relations.

THE BOLSHEVIK-TYPE SYSTEM FINALLY COLLAPSED IN THIS QUALITY: AS A DEVICE TO PRODUCE HUMAN RESOURCES.

One of the ultimate causes of the Bolshevik-type system's collapse was clearly economic. Undoubtedly, this structure produced human resources but at such high costs that Adam Smith's statement that claimed that the human resource "can be regarded from the same viewpoint as a machine (...) which facilitates and shortens work and which, through causing some cost, recovers this cost with profit," turned out to be no longer valid.

Another important cause of the collapse was psycho-economic, in the sense referred to as the paradox of relations, which has been demonstrated by this chapter.

The coexistence of monopoly and competition is itself a competition, as argued above. Additionally, it was stated that the optimum condition for a market economy is perfect competition, whereas for a planned economy, it is a perfect monopoly.

A competition is perfect when none of the participants has predominance over the others because this predominance might ensure its monopoly. As is known, this condition of the equality of involved factors has never existed in its pure form in the capitalist market. Therefore, the functioning of the market was ensured by a competition that came close to the perfect state for a shorter or longer time at most.

After these precedents, the Bolshevik-type system appeared, which continued to expand its previously outlined system with increasing success. Increasing success in this system did not mean approximating increasingly more closely the abstraction of the perfect monopoly, but increasingly extending the system that was characterized from the beginning by the perfect monopoly in its ideal purity.

While this extension remained within a system (that of the Bolshevik Party, of Soviet-Russia, of the Soviet Union, of the "socialist camp") that could isolate itself, it made irresistible progress, whereas outside the increasingly more hermetically closed borders of this system, an imperfect competition somehow kept the market in operation.

When the extension reached the point at which the Bolshevik-type system, which was constructed in the manner of a Matryoshka doll, tried to construct its outermost circle from the products of the decomposition of colonies, this circle of the system could no longer be isolated from the other system to which these countries formerly belonged. This event triggered a competition between the two systems, which, however, did not fit with earlier forms of the Cold War. The side that had just released these areas that were seized earlier by force of arms could not arouse suspicion by being prepared to recapture them by force. In addition, the other side

could not suggest that it was willing to occupy these areas by force of arms.

Thus, the competition between the systems became an economic rivalry. Because at that time the two systems were of equal might, their rivalry proved to be the first perfect competition in the history of the market.

Therefore, determined to additionally bolster the structure of the perfect monopoly, the Bolshevik-type system ensured perfect competition for capitalism, i.e., the condition that could manifest all of the advantages of a market-oriented over a planned economy, which proved to be increasingly dysfunctional because of the constraint on the perfectness of the monopoly.

These circumstances sealed the fate of the Bolshevik-type system.

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Therefore, today, one can read increasingly often that the world's fate is no longer determined by the rivalry of two superpowers but by the exclusive goodwill of a single superpower.

If this is the case, the current era marks the **end of that competition** and the **start of a new monopoly**.

Thus, in addition, it marks the start of a new paradox.

Notes

1. Taking this psychosocial relationship into account is equally important for understanding why the Bolshevik-type organization resisted with an apparently immovable stability all the sharp turns of history and why it was rapidly reduced to nothing by the emergence of the Gorbachev phenomenon. This phenomenon made it a legitimate communist attitude to consider more important the question of whether someone is a moderate than the question of whether someone is a communist. This change in the viewpoint of moderate communists was supplemented by that of the moderately non-communists who, for some time, considered it to be more important whether one was a communist than whether one was a moderate in one's position.

   Following this change of viewpoints, the paradoxical self-establishing and self-undermining effects of identity do not cease to exist but mutually change sides. The more vigorously that the moderate communists emphasize that they have nothing in common

with the extremist communists, the more markedly they have in common with them precisely this reciprocal definition of their social identity. Additionally, the more they insist that nothing separates them from non-communist moderates, the more markedly they are separated from them, particularly by this separate definition. The self-defined social identity of communists, particularly that of those among them who are moderates, turns out to undermine itself.

Meanwhile, the self-defined social identity of non-communist moderates is established when by claiming their separation from moderate communists they establish this separation. If the moderates and extremists were not united in preserving their division on this non-communist side, we would have the complete Bolshevik structure reversed.

2. It is illuminating to quote at this juncture an offence committed by Boris Yeltsin when he was still a party functionary. While he was the first secretary of the Moscow party committee, he addressed the plenary meeting of the Central Committee as a substitute member of the Politburo without previously presenting to the Politburo meeting his comments, which were highly critical of certain Politburo members who were obstructing perestroika and its organizational possibilities. At the time, Yeltsin's act meant disrupting the unity of the Politburo because he divulged a PB secret to non-PB members, whereby he violated the same structure as any member of a Bolshevik-type party who, disrupting the unity of the party, divulged a party secret to a non-party member. Accordingly, Yeltsin's act resembled a capital offence in the Bolshevik-type structure.
3. In his book on the true ruling class of a Soviet-type system, the Nomenklatura, Voslensky (1980) writes, "Although in socialist countries there is officially no corporation of the functionaries, the Nomenklatura would be satisfied to see an outside observer regard it what for it is not. It carefully disguises itself as an administrative apparatus, and is ready to declare that it agrees with interpretations like that; the point is that its true class character should never be openly revealed. In actual fact, a body of functionaries and the Nomenklatura share nothing in common. The functionaries perform the instructions of the authorities, whereas the Nomenklatura gives the instructions: the resolutions, recommendations and advice by leading party organs. Functionaries are the privileged servants of the state—the nomenklaturists are the masters of the state" (p. 132).

4. If we supposed according to this list that we would find, for example, more officeholders, more of those whom the army or the security organs obey, those who know the doctrine, or those who have a history in the workers' movement in the party than outside it (and more in the party's central organs than in its primary units) or, generally, if we could assume that any of the presumably critical sociological properties appeared in greater density in the central organizations of a Soviet-type structure than on the correlated periphery, then the following should be realized: those who possess these properties do not ascend to the central positions of a Soviet-type structure. Rather, a position close to the center inclines its incumbent to possess such properties. It is sufficient to recall how the leader who is appointed to the most central post of such a structure is attributed in this system by the medium of his charisma all of the previously listed attributes.
5. Including those sentenced to death on false charges, who *confessed to treason against the party only to prove their loyalty to the party.*
6. Regarding Hungary, Andras Brody estimates the cost of military spending (for 1980) at a minimum of 25% of the GNP as opposed to the officially stated 2.5%, and notes that this outlay might have been as high as 45% (Valóság 1990, 33:6. 30–37 [in Hungarian]).

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PART IV

Half of Capitalism—And Its Other Half

CHAPTER 11

Inequalities' Inequality: The Triple Rule of Economic Psychology

Twenty-two years ago, at the Hungarian Academy of Sciences, I delivered a paper about the economic psychology of equality and inequality.[1] I had studied the world of the second modernization for a good amount of time and by my lecture, I meant to provoke the learned audience to discuss a basic dilemma of modernization: that such modernization would be impossible without a high degree of economic inequality because only such a relationship will interest those who benefit from that development—but that it would be impossible *with* a high degree of economic inequality because it would create antagonists of those who suffer in this relationship. Thus, with logical necessity, it would follow that modernization is simply not possible because inequality either is or is not of a high degree. However, notwithstanding this argument, I argued that modernization did occur in some societies.

Now, it turns out that economic psychology may provide us with something that we can use to elaborate a technique to address this inequality dilemma, because interface science addresses not only the attributes of things but also their relations. A longitudinal psycho-economic study between 1946 and 1970 asked the same question ten times to a comparable selected sample of its subjects: whether they were generally "very happy", "fairly happy" or "not very happy" with their subsistence. Unsurprisingly, the answers revealed a strong correlation with income. Surprisingly, however, the response rate turned out to be remarkably stable over a quarter of a century of study (10%–50%–40%, respectively), whereas real income increased on average by 62% over this same period. It

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seems that satisfaction is not primarily dependent on the absolute size of a person's income, but on the relationship of a person's real income with that of other people.

In line with this notion, when Tibor Scitovsky examines the material life conditions of people from the perspective of economic psychology, the item of interest for him is not just how wealthy or poor a person is but how unequal the relationship between the wealthy and the poor is. Scitovsky posits that in modern socio-economic systems, people establish some kind of public preference in the allocation of property and of the income amount judged to be optimal. In addition, Scitovsky argues that when the government addresses the distribution of wealth and income and modifies it to match that public preference, then it provides a public service that is similar to other public goods, such as public transport, urban parks or national defense. This line of reasoning considers that an equitable distribution of public transport involves a common service in which personal taste differences disappear, because your public transport is at the same time my public transport. The current bus itineraries and schedules may fit better to your specific needs than to mine, but we share the same transport network, and there is no way to simultaneously meet your preference for buses and my antipathy toward them. The same is true for the allocation issue: one person's financial situation is better than another's, but the unequal distribution of income and wealth remains the same, and its degree is common for all of us. If the distribution system seeks to adapt to the preferences of the community, it ought to adapt a consensus or compromise among different preferences.

This psycho-economic logic of reasoning is unusual in that the equitable distribution of social equality and inequality is not imposed from the outside as some moral component transplanted onto economic matters; instead, the moral matter is inherently one of economic ones.

The theoretical and empirical investigation, which examines consumers' market behaviors to reveal their preferences and then attempts to define how well the production and distribution of goods and services fits these preferences, may establish how decision makers can satisfy these preferences at the highest level and the lowest cost. Importantly, Scitiovsky argues that this is an integral part of economics.[2]

My study—the results of the above-mentioned lecture presented to the Hungarian Academy of Sciences—fits into such a logical system. The core of the interconnectedness I presented is complex and yet simple: a triple

rule. Under this triple rule, a fantastic amount of inequality and a high degree of equality are linked together in today's societies:

- if a (very) high degree of *wealth* inequalities is associated with a much lower degree of *income* inequality;
- if the latter remains at a high degree but is accompanied by a more equal distribution of *well-being*;
- Finally, if the latter remains not that equal but is nonetheless associated with full equality in *dignity*.

Dignity isn't here a moral quality but a serious psycho-economic factor, defined as that part of consumption that people are not free to choose in attaining pleasure and welfare but which is indispensable for subsistence—not for pure biological subsistence but for the subsistence of human qualities.

Such insights can be built on the triple rule of equality/inequality, which opposes itself to the practice (claimed to be socialist) that seeks to establish a society of people with the same dignity who are equalized with completely confiscated wealth. However, this rule also rejects the actual restoration practice that aims at the primary accumulation of capital, and along with that wealth inequality introduces an unheard-of inequality in dignity between those of ostentatious affluence and those who are paupers.

The orthodox ideology of both socialism and capitalism has the same logic with respect to matters of equality/inequality: this relation is considered as if it were just another block of equality/inequality. However, matters of wealth, income, welfare and dignity can be quite separate from one another. In addition, this separation is performed in the everyday practice of both socialism and capitalism.

Although the formula called "socialism" with respect to assets has fairly consistently stuck to the principle of equality, there have been regularly organized campaigns against "egalitarianism" with respect to income. In addition, although the earnings dispersion was not supposed to be particularly large, a system of free or reduced allocation in kind was nonetheless established that enabled social categories of beneficiaries whose income may barely rise above the social average to enjoy a well-being that was constrained under the ideology of socialism, and the inequality of dignity that the nomenklature assigned to different people exceeded any measure.

The nomenklature was formerly a system of lists that assigned social competence and scope, first to the party, with more central or more peripheral management (to the Central Committee of the Party, to the

Committee in Budapest, to any county, to a district or, finally, to the leadership of the job's party organization), and second, to the people who came into play in terms of the powers in question.

Whether one appears in a more central or a more peripheral list strictly defines a higher or lower dignity for him/her with respect to the end values of this inequality, defined, on one hand, by the personality cult surrounding the leader and, on the other, by the show trials against "enemies of the people". Thus, Bolshevik-type "socialism"[3] implemented an unprecedented degree of inequality while all along insisting on implementing a program of radical equality.

However, the opposite formula, "capitalism", also stuck to its principles regarding asset property, according to which measures to prevent inequality are definitely contra-indicated (because these measures can only be undertaken at the expense of economic efficiency); however, during its "welfare-state" period, limiting measures were inaugurated that previously had only been known in various utopias. The best known among these limiting measures was highly progressive taxation. In addition, the particular version in which the tax base was calculated was in a manner in which income per capita within families was considered for its total amount. In turn, an opportunity has been created, so that in the lower income sector(s), negative "taxes" were "imposed" as a form of social assistance. Thus reducing high incomes and increasing low incomes fits into an integrated system of limiting the inequality of incomes. In such a system, the income originating from a person's work (whether performed by employees or by liberal entrepreneurs) is comparable to that derived from property. By the same token, certain tax systems set a lower tax rate on income originating from work than on income deriving from ownership of property (this distinction has not much to do with socialist ideology and has been practiced by tax systems as diverse as the Swedish and the American).

Of course, the income gap does not disappear, and incomes that are hundreds of times larger and several hundred times smaller might coexist without a problem. To prevent this result, however, the welfare state has taken various measures to limit the inequality of well-being that may arise from such income differences. To this end, the consumer tax was imposed in a differentiated manner: a much higher rate for luxury goods and services and a much lower rate for mass consumption goods, investment assets or goods in common use. Here, too, the "negative tax" application might occur: subsidies were provided for such products or services when the central or local government deemed that recourse to such products

or services was particularly important. Industry and commerce provided a specific device for a type of equalization, in which most commodities introduced into the market were introduced in a version tailored for mass consumption and therefore much cheaper. As a result, there was not a categorical difference between those who have and those who do not have homes, cars, washing machines or personal computers; instead, there was a much less striking difference between those who have better goods and those who have goods that are not as high-quality as others' goods. A slight decoupling of well-being from income is provided by the management of various organizations. Most organizations develop a system of allowances that favor some employees against all other employees, that favor all members of an organization compared with non-members, that favor regular customers as opposed to occasional clients.

All these measures put together may not, of course, eliminate the inequalities of well-being in society—such a development has not yet been even contemplated by contemporary societies. However, there are factors within well-being that are rigorous conditions for a dignified existence. These terms include the indispensable minimums of nutrition, clothing, and housing, without which there can be no meaningful human existence, according to those public preferences for which Tibor Scitovsky has argued (discussed above).

Over time, it has come to be believed that all these factors that were thought to be necessary conditions of human life and thought should be provided equally: many factors of family education, schooling, health maintenance, transport, and justice. It is enough to briefly discuss only one case that in the US generated almost no news: A Michigan court allotted 200 dollars for an accused to shop for clothes because it accepted the defendant's argument that an accused person who is poorly dressed through no fault of his own will not be looked upon favorably by a jury, which would disadvantage the defendant during a trial.

*

This and similar episodes deserve attention and respect. However, because they are unique, not systematic, they do not provide us with any institutionalized implement to disassociate dignity in accordance with the recommendation of the triple rule for equality/inequality management. For this rule's first story, we have progressive taxation; for its second story we have the parallel of luxury consumption and mass consumption, as well as various practices of allowances within various organizations—with the strong restriction that each of these practices and similar institutional

implements is applicable exclusively with respect to its own story. However, even with such a restriction, what implement might be applied to the equality/inequality management concerning the third story, that of the disassociation of dignity from well-being?

In recent decades, the disassociation of dignity from well-being appears time and again as an idea whose institutional implementation might provide such an effective tool: the idea of Unconditional Basic Income (UBI).

The history of this idea goes back to 1516, when it appeared in Thomas More's Utopia. Charles Fourier, John Stuart Mill, and Bertrand Russell, among others, brought the idea into the 20th century. In those years, it was just an underground stream, sailed on here and there, from one state of our globe to another, with no organized movement, going for long periods without having any information from one another.

Then, in the 1980s, the idea changed its name: BIEN, which represented Basic Income European Network at its inception, and some eight years later, Basic Income Earth Network.

It is the history of a stunningly persistent idea[4]—and of an extremely unviable idea at the same time—when, between 1974 and 1979, the government of the City of Dauphin, in the province of Manitoba, Canada, dared to test a pilot program based on this notion.[5]

What was the reason for this strange contradiction?

The first of its premises is hardly necessary to substantiate: it is a well-known pattern of the perseverance of ideas in cultural history. It is notable, however, that when the EU had the chance to initiate the UBI in 2013, and the European Commission put forward a carefully prepared proposal to the European Parliament to introduce the UBI into the 28 Member States, that instead of the one million required signatures necessary for the petition to receive in one year (2 per thousand out of 500 million EU citizens), 285,000 people (0.57 per thousand) signed the petition. Why were so few willing to give Europe the chance to rid itself of inhumane levels of poverty?

I would believe that one of its (weighty) reasons was that the question was not put this way, not in the context of economic psychology's triple rule. The signatories and non-signatories of the petition might have believed that removing the equalizing of well-being was at stake, or, even more, that creating income equality was at issue, and perhaps even creating wealth equality—although such an objective is not only unrealistic but also not desirable for the vast majority.

Regarding the mode of wording of what it is all about, it was suggested time and again that it was a question of whether X ought to bestow to Y or whether the wealthy should subsidize the destitute; although this question is in fact not about the quality of life of someone separate from everyone else. Instead, the true question is that of the relation, i.e., of equality and inequality, and still more concretely the equality/inequality between the wealthy and the destitute, OR between those with high and low incomes, OR between those whose standard of living is privileged and those whose standard of living is underprivileged. In addition, what is most important, as far as the UBI is concerned, is a strictly total (exclusive) identity in dignity economics.

How exciting the equality/inequality problem is for society is vividly illustrated by the recent history of a book, with an unfortunately boring title: Capital in the 21st Century. It was not because of this title that this book from a young and unknown economist, Thomas Piketty, turned the French book market upside down and has been on the US bestseller list for a year, in addition to receiving almost five million hits on a Google search for the name. The theme of the book is inequality. How does what was stated by Marx in *Das Kapital* 150 years earlier remain relevant in the 21st century: that the capitalist mode of production by the force of its own internal laws makes those rich still richer and the poor still poorer. This trend no longer seemed valid—either to Marx's opponents or even to many of Marx's former followers—and seemed proven by the emergence of the welfare states in the post-WWII period. However, the fact that the welfare states—after only thirty years of prosperity—were now gone, forced Piketty to reconsider whether this did not mean that the old truism from Marx had returned to witness the enrichment of the rich and the pauperization of the poor. In this respect, he investigated the capitalist system from the 18th century to the present, and the results of this socio-economic study clearly convinced him, as well as a fast-growing part of the fast-growing mass of his readers, that the only honest answer to his question was, "But, of course, yes!"

But if this discovery was the motive for the enormous interest in Piketty's book, what was the motive for the enormous interest in his discovery? Dare I say that he would state that together with the justification of Marx's claim about the enrichment/pauperization matter, he would make the further part of that claim regarding the revolutionary liquidation of capitalism by the pauperized proletariat?

By no means.

However, there is something rather embarrassing in the overactive interest in the affairs of capitalism: it seems that even without such emergency scenarios, it had suffered through bad times. Since the beginning of the crisis period, even a highly respected liberal economist like Lawrence Summers supposed the possibility of a secular stagnation for contemporary capitalism.

And this possibility is linked to our theme that demonstrates the growth of inequality, as the result of an inquiry that was ordered by the OECD showed[6]. Its results demonstrated that the basic cause—at least one of the chief causes—of the long-term lack of economic growth is growing inequality in society. In addition, if this is so, then the expense that is aimed at undertaking a radical reduction of inequality cannot be described as social expenditure, as care for the poor, or relief—if it required a forced withdrawal of funds from useful economic tasks. Following this argumentation, it must be realized that spending is not aiming here at assistance for deprived persons; instead, it is an investment in society as a whole, because the radical reduction of inequality in the socio-economic system is an economically useful task in itself. In addition, this economic usefulness is based on the need to ensure the functioning of the socio-economic system and the sustainability of solid economic growth.

Hungarian economist Ferenc Jánossy, in a line of thought in his book,[7] whose logic is applicable to this type of relationship, indicated that "the stable factor of economic development when it continued during the recovery period after World War II is humanity itself; not its individuals, but human society as a whole, together with all its experience and knowledge. The people—despite serious and almost immeasurable sacrifices—to this day not only survived all past wars (even a devastating cataclysm such as the Second World War) but also almost completely preserved what from the past was salvaged, and the most important heritage is the accumulated experience and knowledge and those were in some areas even more enriched. (…) The manpower, this substantial bearer of the productive forces, although it was numerically reduced during the war, its structure and its development not only survived but also continued to grow incessantly. (…) And from this fact, objectively, it follows that the trend line continues to rise steadily during the war and after. This conclusion, however, already contains the implicit assumption that the slope of the trend line is ultimately dependent on developments in the labor force."

When Jánossy mentions the developing labor force (rather than simply a given aptitude), and when he attributes to it the trend line slope, he not

only discovers but also describes human capital practically at the same time as Theodore Schultz (although the latter coined the term). Moreover, he even exceeds Schultz with his formula running through the book, according to which it is not the individual but human society as a whole—with all its experience and knowledge—that it is all about. For his part, Schultz speaks only of individuals and individual knowledge. Jánossy here anticipates how the same contexts are managed by economic psychology when he treats human capital as an interconnectedness of the twin factors of knowledge and social identity.

In any case, compelling arguments ensue from these contexts, in addition to what Piketty recommends for the treatment of inequalities: a highly progressive income tax with radically expanded bands and a no less radical relentless inheritance tax. In addition, Piketty, a young professor of the Paris School of Economics, is not alone with this offer. Another young professor who is from the London School of Economics, Gabriel Zucman, presented a similar logical plan for the taxation of the unimaginable magnitude of wealth hidden in tax havens. In addition, his book (titled The Hidden Wealth of Nations, provocatively quoting Adam Smith) is as fantastically successful as Piketty's; after its initial publication by University of Chicago Press, it is forthcoming from 13 more publishers, from the French Seuil to Taiwan's Souler Creative. In addition, the author uploaded the entire text to the Internet in a spirit of a Western "glasnost" to ensure the appropriate participation of all of society in determining how to reduce social inequality by indirect taxation on offshoring.

The arguments are also valid because of two further steps emanating from the triple rule of economic psychology. Thus, for UBI, it is also true that the input in it serves not only the interests of those humiliated by their miserable life conditions but also the interests of the normal growth of the entire capitalist socio-economic system.

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In conclusion (which is just a side note because the comprehensive presentation of the topic requires further in-depth research using the toolbar of economics and not that of economic psychology), the alternative of the "secular stagnation" is imperatively shaped by a further tragic circumstance of our contemporary world. The split of this latter into an elite and the masses, after the cancellation of the welfare state in the Reagan-Thatcher age, did not lead back down the same road from the nineteenth century with a proletariat that was forced into production and excluded from the consumption of those same goods it produced (Marx induced a

vision of an anti-capitalist revolution that would be motivated by just this contradiction). The new lower class, that of the 21st century, is forced out of not only consumption but also of production because it is unqualified in an economic universe that requires highly qualified labor. In addition, when it finds itself cast off by the factor of knowledge management, it may, however, be kept within the social world only by the other twin factor addressing human capital: management of social identity. The application of the triple rule of economic psychology reduces the costs of such management—in our case, that of growing inequality—to a rather moderate level. If the capitalist societies do not take that amount of resources for keeping that treatment within the economy into account, then the non-economic treatment of the problem is again on the agenda, replaying the toolbar of the procedures of twentieth century totalitarian states (ghettoization, deportation, Gulag, Endlösung, etc.).

Notes

1. The text was published in Hungarian by the theoretical journal of the Presidium of Hungarian Academy of Sciences: Magyar Tudomány. XXXVIII. évf. (1993) 8. sz. 967–971. https://www.academia.edu/7524150/Ne_érvényesüljön_erkölcsi_szempont_a_gazdasagin_kivul
2. For more details, see T. Scitovsky. *Human Desire and Economic Satisfaction: Essays on the Frontiers of Economics*. Brighton: Wheatsheaf Books, 1986, p. 4.
3. См. "*The Bureaucratic State Governed by an Illegal Movement*" and "*The Paradoxes of the Bolshevik-Type Psycho-Social Structure in Economy*." In L. Garai (Ed.), *Reconsidering Identity Economics—Human Well-Being and Governance*. NY: Palgrave Macmillan (forthcoming).
4. See: http://www.basicincome.org/
5. Evelyn L. Forget. *The Town With No Poverty*—Using Health Administration Data to Revisit Outcomes of a Canadian Guaranteed Annual Income Field Experiment. University of Manitoba, 2011 February, pp. 0–37. http://public.econ.duke.edu/~erw/197/forget-cea%20(2).pdf Another trial is being undertaken by the local government of one of the 23 districts of Budapest.
6. F. Cingano. "*Trends in Income Inequality and its Impact on Economic Growth*." OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing, 2014. http://dx.doi.org/10.1787/5jxrjncwxv6j

This inquiry in effect confirmed the antecedent that was obtained during the long history of social psychology (that was, for its part, the antecedent of economic psychology). In 1898, in the first laboratory experiment of the

newborn social psychology, N. Triplett ("The Dynamogenic Factors in Peacemaking and Competition." *American Journal of Psychology*, 9, 507–533.) revealed that when an activity was performed not individually, but by a friend, then there emerged a non-evoked, spontaneous competition and, hence a quicker pace-making. However, when repeating the experience, Triplett's findings were somehow partially falsified. Finally, in 2005, M. J. Strube found what he later published under the title, "What did Triplett really find? A contemporary analysis of the first experiment in social psychology." (*American Journal of Psychology*, 118, 271–286.). A competition followed by a quicker pace emerged only between individuals (or groups) without a big inequality; in fact, the big inequality, on the contrary, provoked a slowdown.

7. *A gazdasági fejlõdés trendvonala és a helyreállítási periódusok* (Trend of economic development and recovery periods—in Hungarian). Budapest: Közgazdasági és Jogi Könyvkiadó, 1966, pp. 112–113.

CHAPTER 12

What Kind of Capitalism Do We Want?

The first response to the title question may be "no kind"; for more and more of us, this seems to be the answer.

When the transition from so-called socialism to so-called capitalism occurred, we had not been waiting long for a second "Marshall Plan"; however, many people in Hungary believed that the regime that would bring a pragmatic solution to our social and personal problems was called "capitalism".

The corollary of this belief was that a great number of people wanted such a regime for themselves. Thus, when a prominent leader of the Hungarian Socialist Party declared, "We are here to build capitalism whether you like it or not", those who "liked it" formed a large majority. After a time, the name "capitalism" and the above meaning became disconnected. From then on, fewer and fewer people insisted that "capitalism" should be the name of the system that exists in Hungary. This trend emerged not only in Hungary but in all countries of the region. The region included not only former "socialist countries" but, to some extent, all European countries and even countries beyond European borders.

In the latest elections, the left-wing parties in various countries (not only in Hungary), with their orientation to "build capitalism", lost heavily, succumbing to moderate and extreme right-wing parties that promised voters protection against capitalist regimes.

To quote Hamlet: "The time is out of joint."

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As time progressed, a very interesting development began. In the early 1920s, Austrian economist Joseph Schumpeter put it this way: "Capitalism is…in so obvious a process of transformation into something else". He added: "it is not the fact, but only the interpretation of this fact, about which it is possible to disagree" and that transformed capitalism "will be merely a matter of taste and terminology to call it Socialism or not."

Now, economic psychology sees the essence of this transformation in the extension of modernization from the material to the personal. In capitalism's classical period, in the eighteenth/nineteenth century, capitalism introduced modern treatment methods for material resources: they were no longer merely consumed as they were found in nature, but instead, enterprises invested capital in manufacturing those resources, and when the product was marketed, there was a return on the invested capital, paid off with benefits. Then, in the twentieth century, a second modernization extended the same modern treatment methods to human resources: instead of merely consuming them as they were found in nature, there was a return on the investment in human capital. Thus, the methods of both stages of modernization were very similar: entrepreneurs invested money in the process; its output resulted in revenue; and the money invested was not only recovered but recovered with additional profit. In other words, human capital acted as capital always behaves.

When human capital, as has been observed, had reached a critical mass, more and more people began to talk about this new phenomenon. When Theodore Schultz's book, *Investment in Human Capital*, was published, he had already won the Nobel Prize; perhaps this was a condition that emboldenned him to deal with such an odd field of study as human capital. Thirteen years later, Gary S. Becker won the Nobel Prize for his research on human capital.

Schultz dared to claim that Roosevelt successfully managed to cope with such an immense crisis because the input into human capital increased much faster than the inputs into the three other components of capital: investment in reproducible physical capital (buildings, machinery, etc.); land; and hours worked. Schultz quoted with approval the following statistic: during the twenty years following the 1929–1933 crisis, the contribution of education to economic growth had exceeded that of physical capital, while during the twenty years preceding the crisis, the latter had contributed almost twice as much to economic growth as education.

Schultz shows how, for example, between 1940 and 1958, the proportion of US workers who had 4 years of secondary school education

increased from 38% to 52%, while the proportion of those who had also obtained a bachelor's degree increased from 13% to 19%.

If the workforce is treated as a capital asset, there is an enormous advantage, as we may eliminate the artificial separation between economic and non-economic (social, moral, cultural, sanitary, etc.) factors. Instead, such a practice transforms the expenses of education into *costs of production of human potential*; healthcare expenditures into *maintenance costs*; support related to housing and transport into *installation costs*; spending on culture into *operational costs*; and expenses related to management of unemployment into *amortization costs of human potential* (a component of fixed capital).

This practice, which can be implemented by reframing factors under these new categories, can exhibit spectacular success, going far beyond the aforementioned successes of the Roosevelt administration in managing the great crisis. In the postwar decades, a series of successes was achieved by a social democratic astuteness: in a capitalist society, manpower was managed as capital, and thus, the administration could assemble the manpower interests of modernization and socialist values. During these decades, there existed the best possible distribution of capital by the government for the reproduction of both material and human resources. A welfare state looked after the working man, without extracting resources from production.

Now, a new crisis would provide terrain on which social democratic governments could newly evoke the virtues of previous crisis management and repeat the success story. The question is, why does the old story not repeat itself?

Human Capital: Knowledge and Social Identity—Two Twins

Social democratic management of the current great crisis is more difficult because if one intends to repeat the Rooseveltean New Deal in a still newer deal, one has to understand the nature of the sand that got into the machinery. The successful social democratic government figure in his time could have said to prospective voters: "Proletarian, if you obtain knowledge, you will have better working conditions, and I shall sponsor your learning!—Bourgeois, if you provide the necessary resources, I will ensure you of a manpower needed for a more efficient, profitable return on your capital." It is no wonder that this argument granted electoral trust

to these governments for a long period of time (for example, forty years in Sweden). People were amazed that the funds allowing governments of the welfare state to manage a wide range of training programs began to wane after a few decades and then dried up almost completely. A further oddity was that many people still wanted to spend their time and money acquiring new and still newer diplomas; this was strange because there were already more graduates—possibly double- or even multiple-diplomed—offering their abilities than was needed. Three Nobel Prize-winning economists, Akerlof, Spence and Stiglitz, explored this concept of over-training, trying to find answers to the question regarding what in such conditions cultivate the drive to acquire diplomas.

Their answer is surprising, because it goes against the reasoning adopted by orthodox supporters of the market economy, who were fashionable for decades, proclaiming that the market controls the economy with an invisible hand, i.e., all resources are allocated to their most efficient uses. Hayek, another Nobel laureate and one of the prophets of this doctrine, advanced an argument that the only information market actors need is the price of goods in the market.

In contrast, our Nobel laureate troika found that market actors also need some knowledge about the owner of the commodity and not just its price. The price is not an *attribute* of the commodity, but is a *relationship* the commodity bears with other goods, which will be faced in market exchange. Similarly, for the owner, none of its properties must be known but his/her relationship to other actors of the market.

This very special relationship to be known is the *social identity*. Akerlof, Spence and Stiglitz discovered in their parallel research that if the actors' social identities remain unknown, such a market counter-selects, i.e., the poor articles may prove marketable while the excellent ones may not.

Price and social identity. We all know that price is the most important economic factor in the market. But who would have thought the same about social identity? We know that prices are determined by changes in supply and demand. But what defines the social identity in a socio-economic system? The place where we are born into the society? Or appointed to an office? How we are shaped by our upbringing?

And if any of these factors defines social identity at all, how does social identity relate to the economy?

We do know the answer to this question but—strangely—we do not know that this answer is that answer.

We increasingly speak of corruption, which the World's Corruption Perceptions Index defines as "the misuse of public power for private benefit". And that misuse is effected (economically speaking) just like the use of any services: by buying it in the market. The effecting of market exchange is primarily mediated by money; however, another mediator is the quid pro quo.

All this is well known from nineteenth/twentieth century Eastern and Central European belles-lettres, if not from elsewhere. But what is much less, or not at all known, is the answer to this question: What does one earn in the corruption market in return for his/her money or service?

At first glance, the answer might seem obvious. Why would someone engage in corruption except to obtain some valuable resource for his/her activities? However, Nobel Prize laureate R. Coase observed that economic outcomes always occur in the presence of externalities and that an efficient or less efficient outcome of bargaining between parties depends on higher or lower transaction costs. Now, the corrupt transaction modifies that level. And the mediator of that modification is the social identity relationship between parties; if they belong to the same family, nation, religion, political party, etc., then the cost is, or is considered to be, lower then when they belong to separate social categories. Thus, when a corrupt transaction is effective, it turns out to be part of an identity economic process.

This surprising relationship is complemented by an even more surprising one: in the classical period of the previous system, so-called socialism, corruption was almost non-existent. It is worth considering how and why this was so.

In general, in a contemporary state, there are two types of identity. One is defined by the laws, rules and documents issued by various levels of the state in accordance with the position that the individual or his/her social category occupies in the social structure (e.g., whether s/he is French, Catholic, bourgeois, a high school graduate). The other type of identity depends on occasional interactions between occasional partners. Such interactions include market interactions and interactions related to the management of externalities. Additionally, they include corruption: cases in which the two types of identity—the occasional one and that which would meet bureaucratic standards—collide.

Now, in Bolshevik-type socialism (in its classical Stalinian and semi-classical Khrushchevian periods), corruption was absent because of one of the peculiarities of Bolshevik organization[1]: the *nomenklatura*.

The nomenklatura is a type of clientura but quite an unusual one. With "regular" clientele, the client comes forward by handing over a sum of money or performing a service. This is a type of corruption: in exchange for money or services, the client buys a more advantageous identity for him/herself, an identity that is more likely to produce positive outcomes or less likely to be affected by negative outcomes. In contrast, the nomenklatura are at the center of various levels of Bolshevik party organization and select clients for themselves for special identities. Or else they select identities for given individuals as well as for small or large groups.

To explain this complicated context, I use an entry from the diary of a Hungarian writer. From 1935 to 1937 Ervin Sinko lived in Moscow. Shortly before he moved there, Stalin's wife had died. The Soviet leader was deeply moved, and the words on the cenotaph built by his order on the grave of his late wife soon spread all over the country. When Sinko also wanted to see the monument, the sculptor accompanied him to the graveyard. As they contemplated the really well-constructed memorial, the artist at some point uttered, "I am the Michelangelo of the Soviet epoch." Lest it sounded like the sin of self-glorification, he immediately added: "Tovarish Stalin said so." It turned out that the sculptor interpreted Stalin's words of praise as an appointment. It was possible to interpret it in this way because, after all, the dictator could appoint anyone to any office. Caligula even allegedly appointed his horse as consul. However, within the nomenklatura system, this was not the case: whereas in the Roman office system, a consul's office existed and, thus, the dictator appointed his horse to an existing office, in contrast, in the Soviet office system there existed no office of "Michelangelo of the soviet epoch"; thus, if that sculptor received an appointment to such an office, it occurred at the same moment as that office itself was created.

There is no doubt that this is a grotesque way of manufacturing identities. However, we also know in the classic Bolshevik period two key actors whose identities were manufactured in such a way: the *comissar* and the protagonist of the abominable show trials, when leaders or ordinary soldiers of the revolution or simply average people were designated as *enemies of the people*. However, this identity management is worth considering not because of corruption pause (the notorious Russian corruption before the revolution returned at an even deeper level during the decades of Brezhnev), but because this is the key to answering the title question: "What kind of capitalism do we want?" Actual capitalism is nothing but half a capitalism: it manages material capital but not human capital

at all. And when between the 1920s and 1970s (apart from the WWII period) continued human capital management was nothing but a half of the human capital, the *manufacturing of knowledge* was managed but the *manufacturing of social identity* was not.

However, a long line of psychological experiments[2] shows that managing knowledge strongly depends on managing social identity. Hence, if we succeed in cutting out what is abominable or grotesque in the Bolshevik technique of managing social identity, this purified socialist model provides us with a tool with which to restore the integrity of managing human capital.

And on the basis of this integrity, the integrity of capitalism as a whole can then be restored: a socio-economic system that manages both material and human capital.

Such capitalism is livable. Thus, we can answer the title question: this is the kind of capitalism we do want.

Notes

1. See chapter "Psychology of Bolshevik-Type Systems" of this volume.
2. M. Bray. *The Challenge of Shadow Education*. NESSE, 2011.

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[1]Note: Page numbers followed by "n" denote footnotes

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