

## (Chapter 8, Part A)

\_\_\_\_\_ 1. The defining characteristic of socialism is government ownership of the means of production. It is irrelevant to the nature of socialism whether

- a. socialism has been established openly, through the explicit nationalization of all industry, or through the enactment of price and wage controls and the government's seizure of the power to determine what is produced, in what proportions, by what methods, and to whom it is to be distributed, which gives the government *de facto* ownership of the means of production under the outward guise and appearance of private ownership of the means of production
- b. socialism has been brought about through violent revolution or a democratic election
- c. its professed goal is universal brotherly love or the supremacy of a particular race or class
- d. all of the above

\_\_\_\_\_ 2. The findings of economics concerning socialism apply to all variants of socialism, including

- a. the socialism of the Communists
- b. the socialism of the Nazis
- c. the socialism of the Social Democrats
- d. any economic system actually based on government ownership of the means of production
- e. all of the above

\_\_\_\_\_ 3. The findings of economics concerning socialism do not apply to countries such as Great Britain, Israel, and Sweden, which, though governed for extensive periods by political parties espousing the philosophy of socialism, did not implement socialism as their actual economic system.

\_\_\_\_\_ 4. A vital principle to grasp about socialism is that its economic consequences are essentially the same as those which result from universal price controls.

\_\_\_\_\_ 5. The essential economic identity between socialism and universal price controls consists in the fact that both of them destroy the same thing, namely, private ownership of the means of production and its offshoots the profit motive and the price system.

\_\_\_\_\_ 6. Price controls destroy private ownership of the means of production in the very fact of destroying the right to bid and ask prices. In a division-of-labor economy, in which buying and selling are indispensable to production and all other economic activity, the right to bid and ask prices is a fundamental, indispensable right of ownership. Without it, all other rights of ownership are meaningless.

\_\_\_\_\_ 7. The right to own a factory or store is meaningless if the owner is prohibited from charging or paying the prices required to keep his factory or store in existence. Essentially, price controls are fully as destructive of the rights of ownership as socialism itself. And, of course, when price controls are compounded

by shortages, the government's response to the consequences is to seize total control over the means of production and establish *de facto* socialism.

\_\_\_\_\_ 8. What makes price controls produce the chaos they do is precisely the fact that they interfere with the property rights of businessmen. Specifically, they prohibit businessmen from using their capitals in the ways that would be most profitable to themselves. If they did not interfere with the right of businessmen to use their capitals in the most profitable way, then they could produce none of their chaotic effects.

\_\_\_\_\_ 9. Among the elements of chaos that have been shown to result from price controls are

- a. shortages and the destruction of vital industries
- b. the impotence of consumers accompanied by hatred between buyer and seller
- c. an impetus to higher costs
- d. chaos in the personal distribution of goods to consumers
- e. chaos in the geographical distribution of goods among various local markets
- f. chaos in the distribution of a factor of production among its various products
- g. chaos in the distribution of capital and labor among the various industries
- h. all of the above

\_\_\_\_\_ 10. Each of the elements of chaos described in the preceding question results from just one thing: interference with the businessman's property rights and profit motive.

\_\_\_\_\_ 11. Businessmen do not voluntarily sell their goods too cheaply and thus cause shortages. In order for them to do so, their property rights must be violated and they must be forced to do so.

\_\_\_\_\_ 12. Businessmen would not abandon the production of any goods if they were able to obtain profitable prices for them. What causes the abandonment of the production of vital goods is that the government violates the property rights of businessmen and prevents them from charging profitable prices for those goods.

\_\_\_\_\_ 13. Businessmen would never drive away customers offering them profitable business. What makes businessmen drive away customers is that price controls compel them to charge prices that create shortages and thereby make customers economically valueless and a source of expense rather than profit.

\_\_\_\_\_ 14. Businessmen would not run up the costs of production if those costs came out of profits, as they would have to in the absence of price controls and shortages. But in the face of shortages, there is no resistance to a rise in costs.

\_\_\_\_\_ 15. Businessmen do not voluntarily sell out their entire stocks of goods to whomever happens to arrive first, leaving those who come later to go away

empty-handed, when they know that the latter would be willing and able to pay more than some of the early comers. They behave this way only when their property rights are violated and they are prohibited from raising prices to the point required to reserve supplies for late comers.

\_\_\_\_\_ 16. Businessmen would not voluntarily ignore the incomes and preferences of consumers in distributing their goods. They do so only when their property rights are violated and they are prohibited from setting prices that accord with the incomes and preferences of the consumers.

\_\_\_\_\_ 17. Businessmen would not for long saturate some geographical markets at low prices, while starving others offering them high prices. But if their property rights are violated and prices are prohibited from rising even though markets are starved, and cannot fall even when supplies increase because the effect is merely to reduce the severity of a shortage, then such chaos can exist.

\_\_\_\_\_ 18. Businessmen would not use a factor of production to produce some products to excess at low prices, while producing not enough of other products offering them high prices. But again, if their property rights are violated and prices are prohibited from rising even though not enough of some products are being produced, and prices cannot fall when other products are produced to comparative excess because the effect is merely to reduce the severity of their shortage, then, indeed, such chaos can exist.

\_\_\_\_\_ 19. Businessmen would not knowingly and voluntarily overinvest in some industries at low profits or losses, while underinvesting in other industries offering high profits. But if their property rights are violated and prices and profits are prohibited from rising because of price controls, while shortages prevent prices and profits from falling, then the pattern of investment becomes random and can totally contradict the actual wishes of the consumers.

\_\_\_\_\_ 20. What causes all of the above types of economic chaos is the violation of the property rights of businessmen and thus preventing them from doing what is profitable to themselves.

\_\_\_\_\_ 21. The wider principle that emerges from the above questions is that the entire price system and all of its laws and harmonies depend on one essential fact: the observance of private property rights and thus the freedom of businessmen to act for their own profit.

\_\_\_\_\_ 22. Private property rights and the profit motive are the foundation and the motive power that underlie and drive the entire price system.

\_\_\_\_\_ 23. Private property rights and the profit motive underlie and actuate

- a. the uniformity-of-profit principle
- b. the various principles of price and wage uniformity

- c. the cost-of-production principle
- d. the principle that prices are set high enough to limit demand to the supply
- e. the principle that factors of production are channelled to their most important employments
- f. all of the above

\_\_\_\_\_ 24. All of the economic laws pertaining to prices and all of their benevolent consequences are the result of just one thing: private property rights and the profit motive.

\_\_\_\_\_ 25. Socialism destroys all private property rights in means of production. And in so doing, it destroys the operation of the profit motive and the entire price system.

\_\_\_\_\_ 26. Socialism produces the same chaotic effects as price controls, because it destroys the same thing as price controls, namely, the one and only source of economic order and harmony in the world: private property rights and the profit motive.

\_\_\_\_\_ 27. The essential fact to grasp about socialism, which explains why it is essentially identical to price controls, is that it is simply an act of destruction. Like price controls, it destroys private ownership and the profit motive, and that is essentially all it does. It has nothing to put in their place.

\_\_\_\_\_ 28. Socialism is not actually an alternative economic system to private ownership of the means of production. It is merely a negation of the system based on private ownership—a massive act of sheer destruction.

\_\_\_\_\_ 29. In destroying the price system, socialism destroys

- a. economic calculation as the basis of economic planning by individuals and business firms
- b. the means of coordinating the separate economic plans of all the different parties
- c. the intellectual division of labor in the planning process
- d. all of the above

\_\_\_\_\_ 30. Socialism

- a. presents itself as a system in which economic activity will be “centrally planned,” thereby avoiding the “anarchy of production” that allegedly exists under capitalism
- b. as the result of its destruction of the price system and thus the intellectual division of labor in the planning process, places itself in the position in which economic planning must be centralized, because the separate plans of independent planners no longer have a monetary basis and cannot be coordinated
- c. both (a) and (b)

\_\_\_\_\_ 31. Central planning requires that in the planning of each aspect of production, the direct and indirect effects on the entire rest of the economic system be taken into account, since in using factors of produc-

tion that might be used for the production of other things, the production of each thing correspondingly limits the production of other things, and judgments must be made as to which overall arrangement is best.

\_\_\_\_\_ 32. In trying to plan the production of a simple item, such as shoes, a socialist state must take account of the fact that shoes can be produced

- a. in varying quantities
- b. in various styles or combinations of styles
- c. by various methods or combinations of methods, such as by machine or by hand, including the choice between using various proportions of machine or hand production in different parts of the overall process
- d. from different materials or combinations of materials, such as leather, rubber, and canvas, and in different geographical locations, again, in both instances, in varying proportions
- e. and that each of the above choices has a different effect on production in the rest of the economic system
- f. all of the above

\_\_\_\_\_ 33. Under capitalism, decisions concerning the various matters described in the preceding question are made on the basis of economic calculations. Thus

- a. shoe production as a whole tends to be carried to the point where further production would make the shoe industry relatively unprofitable in comparison with other industries
- b. the styles are those which the consumers are willing to make profitable
- c. the methods of production, the materials used, the geographic locations are all the lowest cost except insofar as they provide special advantages for which the consumers are willing to bear the extra cost
- d. all of the above

\_\_\_\_\_ 34. The economic calculations which are the basis for the decisions about production under capitalism in the preceding question

- a. take into account the effect of those decisions on production throughout the rest of the economic system, because that effect is reflected in the prices of the various factors of production
- b. in favoring, other things being equal, production at the least possible cost, serve to make production in the individual instance consistent with maximum production in the rest of the economic system
- c. both (a) and (b)

\_\_\_\_\_ 35. In contrast to capitalism and its use of economic calculation, socialism and its absence of a price system require that the planner or planners must grasp the physical connections, direct and indirect, between the production of each thing and the production of every other thing.

\_\_\_\_\_ 36. Because each of the different choices respecting the production of any one thing makes a different combination of factors of production unavailable for alternative employments (for example, shoes produced by hand reduce the number of handicraft workers available for other purposes, those produced by machine reduce the number of machine makers and the amount of fuel available for other purposes, shoes produced in Minsk leave less labor available for other purposes in Minsk than if they were produced in Pinsk, and so on), it follows that in order to intelligently make the kind of choices that are needed, the planners of socialism would have to be able to know the direct and indirect impact of each of those choices on the rest of the economic system.

\_\_\_\_\_ 37. In drafting its plans for shoe production, or any other good, a socialist government is obliged to consider

- a. the extent of shoe production in relation to the production of all other goods using the same factors of production
- b. such questions as whether shoe production might be expanded with factors of production drawn from the production of some other good, and whether the production of that other good might be maintained by drawing factors of production from a third good, and so on
- c. all of the industries using any of the factors of production used in the shoe industry, what depends on the output of those industries, and what alternative factors of production are available to *those* industries
- d. all of the industries using the alternative factors of production just referred to, what depends on *their* products, and what further alternative factors of production may be available to *them*, and so on
- e. and at each step, the possibility of expanding the overall supply of the factor of production in question, and, if so, by what means, where, and at the expense of what
- f. all of the above

\_\_\_\_\_ 38. In order to deal with the innumerable economic relationships among all the different aspects of production, the economic planning of socialism would require

- a. a superhuman intellect to be able to grasp the physical connections among all the various industries and to be able to trace the consequences of alterations in any one industry on all the others
- b. the ability to hold in mind at one time a precise inventory of the quantities and qualities of all the different factors of production in the entire economic system, together with their exact geographical locations and a full knowledge of the various technological possibilities open to them, i.e., all of the millions of separate farms, factories, mines, warehouses, and so forth, down to the last repair shop, together with a knowledge of the quantity

and quality of all the machines, tools, materials, and partly-finished goods that they contained, and exactly what they were potentially capable of accomplishing and when

- c. the ability to project forward in time all of the different new combinations of factors of production that might be produced out of the existing factors, together with where and precisely when they would come into existence and the technological possibilities that would then be open to them
- d. the ability to make the projection just described for an extended period of time—say, a generation or more—in order to avoid the possibly wasteful production of machines and buildings lasting that long
- e. the ability to pick out of all the virtually infinite number of different possible permutations and combinations of what might be produced and when, that one that on some undefined and undefinable basis it considered “best,” and then order it and all the steps incorporated in it to be undertaken as its economic plan
- f. all of the above

39. Under capitalism the economic system is planned in the light of the magnitude of knowledge indicated in the preceding question, but the knowledge is held in small portions by large numbers of individuals and is manifested in prices, which then serve to coordinate the plans and actions of all the various individuals.

40. Under capitalism,

- a. different individuals in combination—that is, when their knowledge is added together—do know the precise quantities, qualities, locations, and technological possibilities open to all the various factors of production in the economic system
- b. everybody’s production is based on the sum of all of this knowledge, because the knowledge is reflected in the prices of all the various factors of production and products
- c. for example, the price of wheat at any given time reflects the knowledge of each owner of wheat concerning the amount, quality, and location of the wheat he owns; it also reflects the knowledge of each user of wheat about the technological possibilities open to wheat
- d. the knowledge just described enters into the supply and demand and hence the price of wheat
- e. it is the same with every other good: its price reflects the sum of existing knowledge about the amount of it available, the technological possibilities open to it in production, and every other relevant consideration
- f. the future supply, locations, and production possibilities of factors of production are taken into account in the anticipation of their future prices
- g. all of the above

41. Unanticipated events, negative or positive, require the replanning of the entire economic sys-

tem, because in each of these cases, it is necessary to determine which specific products will be produced in lesser or greater quantity, where, by what methods, and to what extent.

42. Thus, for example, if a socialist economy were confronted with the wreck of a tank train carrying a shipment of oil and thus an unexpectedly reduced supply of oil, it would have to replan the economic system in order to decide where to take out the loss. It would have to look at all of the different uses for oil, all the possible remote consequences of its withdrawal from this or that area of production, and it would have to look at all of the alternative employments of factors of production that might be used to replace the lost oil, and all the permutations and combinations entailed in that, and then decide. By the same token, if, as a result of good fortune, a socialist economy had an unexpected increase in the supply of oil, it would have to replan the entire economic system to find the right uses for the extra supply of oil.

43. A capitalist economy

- a. routinely goes about such replanning, on the basis of the price system
- b. responds easily and smoothly to unforeseen changes in economic conditions, because such changes simply bring about a change in the structure of prices and thus generate the most efficient response on the part of all concerned
- c. both (a) and (b)

44. In a capitalist economy,

- a. a reduction in the supply of oil, to continue with that example, acts to raise the price of oil
- b. the rise in price diminishes the consumption of oil in its marginal employments and simultaneously encourages its production—and, of course, at the least possible expense to other productive activities
- c. users of petroleum replan their use of oil and oil products in the light of the availability of alternative fuels and their price; they replan their consumption and production activities, cutting back and possibly abandoning some
- d. in all uses of oil and oil products in production, the plans of customers are taken into account by virtue of estimates of their willingness to pay or not pay prices that cover the higher cost of continuing the operation
- e. routine replanning goes on throughout the rest of the economic system in response to changes in spending patterns resulting from changes in expenditures for oil and oil products
- f. all of the above

45. The insuperable difficulty of socialist planning is that, because of the destruction of the price system under socialism, and thus of the possibility of division of labor in the planning process, it is necessary to plan the production of the entire economic system as an indivisible whole, with one planner having

to plan the entire economic system. But the planning of the economic system as an indivisible whole is simply impossible.

\_\_\_\_\_ 46. Because of the impossibility of planning the economic system as an indivisible whole, by one planner, it should not be surprising that in reality, the actual planning of socialist countries is undertaken by separate government ministries, each responsible for different industries or regions, with even the individual factories undertaking part of the planning process.

\_\_\_\_\_ 47. The—necessarily—decentralized planning of socialism causes chaos, because without a price system—without the foundation and mainspring of the price system, i.e., private ownership of the means of production and the profit motive—the individual planners must operate without coordination and at cross purposes, since nothing is present to harmonize and integrate their separate plans. In such conditions, the very success of any given plan serves to cause the failure of other plans, by virtue of depriving them of factors of production required for their being carried out.

\_\_\_\_\_ 48. The repeated, chronic failure of individual, partial plans under socialism results in part from the fact that every industry's suppliers are in the position of being disinterested monopolists, because they do not have profit-and-loss incentives and need not fear competition.

\_\_\_\_\_ 49. The Soviet quota system assigned physical production goals to each factory, farm, and mine in the Soviet Union, which they were required to meet. Penalties were imposed for failure to meet the goals and incentives were provided to exceed them.

\_\_\_\_\_ 50. The Soviet quota system produced conditions identical to those that exist under a system of universal price controls and universal shortages, for it meant that there was a ready and waiting employment for more factors of production in every branch of production, with the result that any branch was capable of expanding at the expense of any other, more important branch.

\_\_\_\_\_ 51. The physical quotas assigned usually lacked precision. Thus the quota for screw production might be set in terms of overall pounds of screws or a simple overall number of screws. In the one case, the result was the production of a relatively small number of very heavy screws; in the other, a very large number of very small screws. Such results contributed to the economic chaos of the Soviet Union.

\_\_\_\_\_ 52. What gave rise to the Soviet quota system and its stress on meeting and exceeding quotas was the fact that a socialist government

- cannot rationally plan
- wants to expand production, but is unable to trace the connections among the different industries

c. is unable to determine—and is not even aware that it is necessary to determine—the effects of producing more of any one item on the ability to produce other items

d. sees the particular product it wants to produce in each case, but, because it lacks a price system, has no concept of the cost of producing that product or, therefore, of what other products it must forgo in the process

e. can do no more than simply gives orders to produce as much as possible of everything

f. all of the above

\_\_\_\_\_ 53. Socialism's inability to determine costs and consequent lack of concern with costs produces exactly the same kind of labor shortage as exists under universal price controls.

\_\_\_\_\_ 54. A labor shortage exists under socialism because

a. a socialist government desires to produce more of everything and its inefficiency in how it produces anything in particular compounds the problem by increasing the amount of labor required for everything

b. shortages of consumers' goods lead workers to work less, since there is no point in doing work that does not result in one's being able to obtain consumers' goods

c. both (a) and (b)

\_\_\_\_\_ 55. The extent of the labor shortage under socialism is such that factory managers in the Soviet Union routinely hoarded labor, that is, kept it on the payroll in idleness, merely to have it available as and when the need for it might arise.

\_\_\_\_\_ 56. Shortages of consumers' goods are a necessary feature of socialism even without inflation.

They exist as a result of the following factors:

a. the chaos in the production and geographical distribution of the various goods: at any time, goods can cease being produced, or cease being sent to particular localities; this can occur because particular plans are fulfilled that snatch away the necessary factors of production or perhaps the very consumers' goods themselves from other plans

b. when the preceding occurs, the managers of the local stores and warehouses of the socialist society have no incentive and no authority to raise prices

c. nor do the managers have the incentive or authority to try to anticipate such events and build up stockpiles, which would be "speculation"

d. the managers also have no incentive or authority to bring in supplies from other areas (or send supplies to other areas), for that would be another form of activity possible only under capitalism, namely, arbitrage

e. all of the moral and political pressures of a socialist society work against prices being raised

f. all of the above

\_\_\_\_\_57. The moral and political pressures of a socialist society work against prices being raised because

- a. a basic moral postulate of socialism is that goods should be free to whoever needs them, or, if not free, then at least as inexpensive as possible
- b. in the political realm the pressures are exactly the same as those which make rent control so popular in New York City, namely, whoever succeeds in buying at the low price sees his benefit and applauds the government officials responsible; on the other hand, those who are victimized by the shortage the too-low price creates rarely see any connection between the too-low price and their inability to obtain the goods they want; they view the low price as being in their interest, too, and hope to be able to buy at that price
- c. both (a) and (b)

\_\_\_\_\_58. The shortages of consumers' goods under socialism are worsened by

- a. the desire to hoard that necessarily accompanies them
- b. the socialist's government's issuance of additional money to the consumers, which, expands aggregate demand in the face of a given, frozen level of prices
- c. the general decline in production that takes place
- d. all of the above

\_\_\_\_\_59. The most fundamental fact about socialism is that government ownership of the means of production constitutes an attempt to make intelligence and initiative in production a monopoly of the state.

\_\_\_\_\_60. Production depends on the possession of means of production. If the means of production are monopolized by the state, because it arbitrarily claims to own them all, then no one is free to produce on his own initiative and to regard his own intelligence and judgment as the ultimate authority for his action. In a socialist economy, no one can produce without the permission, indeed, without the orders, of the state.

\_\_\_\_\_61. Socialism's attempted monopoly of intelligence and initiative in production is the cause of its anarchy of production, because this monopoly prohibits all of the independent planning of millions of free, self-interested individuals that is required to run an economic system in a rational and ordered way.

\_\_\_\_\_62. Corollary consequences of socialism's monopoly character are

- a. the necessary technological backwardness of socialism
- b. the utter powerlessness of the plain citizen under socialism
- c. both (a) and (b)

\_\_\_\_\_63. Under capitalism, whoever sees a profitable opportunity for action

- a. is free to act on his own initiative

b. is powerfully motivated to act by the prospect of the profit he can make

c. is restrained from rash action by the risk of losing his own money

d. can turn to any one of hundreds or even thousands of independent sources of financing by offering to share his profits with potential backers

e. all of the above

\_\_\_\_\_64. Under capitalism, the actions of the individual innovator constitute a challenge to the established ways of doing things. For if what he is doing is in fact an improvement over present products or methods of production, then those producing the present products or practicing the present methods must copy his or be driven out of business.

\_\_\_\_\_65. Because of its freedom of initiative, its incentives to use that initiative, and its freedom of competition, the products and methods of production of capitalism tend to be literally the very best that anyone in the entire society can think of, and to improve further as soon as anyone can think of any still better idea.

\_\_\_\_\_66. In contrast to capitalism, under socialism

- a. the exercise of individual initiative in production is illegal, because of the state's monopoly on the means of production and the illegality of acting outside its economic "plan"; thus, if an individual does manage to think of some improvement under socialism, he must submit it to the government
- b. the necessity of submitting all new ideas to the government for its approval and implementation means that there is only one or, at most, a handful of chances for the approval and implementation of an idea

c. whatever officials the individual turns to in the government have no economic incentives to adopt his idea, whatever its possible merit, and will be inclined to reject it, in order to spare themselves the difficulties and uncertainties that are always entailed in implementing an innovation—such as the need to find new suppliers of raw materials, obtain new workers, or discharge or relocate present workers; the officials will not want to run the risk of the innovation being judged a failure and thus arousing the displeasure of those in a position to do them harm; in addition, if the innovation were somehow to succeed, by whatever arbitrary standard success is judged under socialism, the effect on the officials would likely be merely the difficulties of establishing the new arrangements and then having their assigned production quotas increased

d. all of the above

\_\_\_\_\_67. Under socialism, very few new ideas are thought of, fewer still are implemented, and virtually none at all are of benefit to the plain citizen.

\_\_\_\_\_68. Under socialism, the fact that the plain citizen is no longer the customer, "who is always

right,” but the serf, who must take his rations and like it results from

- a. the utter inability of the plain citizen to determine what is produced by the way he spends his money, because of the lack of profit and loss incentives and freedom of competition under socialism, the presence of which are necessary if changes in consumer spending are to have an effect on production
- b. the fundamental moral-political postulate of a socialist society, which is that the individual does not exist as an end in himself, but as a means to the ends of “Society”
- c. both (a) and (b)

\_\_\_\_\_ 69. Holding the individual to be the means to the ends of “Society” means that he is placed in a servile relationship to the rulers of the socialist state, because “Society” is not an independent entity with a will and voice of its own and thus the alleged ends of Society are necessarily ends divined, interpreted, and determined by the rulers of the socialist state, which means that under socialism the individual is actually nothing more than a means to the ends of the rulers.

\_\_\_\_\_ 70. A socialist government has no compelling reason to supply the plain citizen with anything more than is necessary to prevent an uprising.

\_\_\_\_\_ 71. In contrast to the politicians, democratic or totalitarian, the people who really do work to improve the economic conditions of the general public, who—literally—stay up nights thinking of ways to provide them with such things as grocery stores, more and better shoes and means of transportation, and everything else they may possibly want, are capitalists, who are continually motivated by the prospect of making or losing a fortune and who can act on their own initiative.

\_\_\_\_\_ 72. The only kind of technological developments that a socialist government is interested in are those which are of value to its rulers, above all, improvements in weapons production and in the kinds of things that add to the rulers’ prestige, such as ‘sputniks’—or pyramids.

\_\_\_\_\_ 73. Because civilian technology is open-ended and thus very broad-based, being made to explore avenues that initially are of value only as subjects of novelty and curiosity, such as the automobile, radio, and personal computer in their early days, repression of the free development of civilian technology in response to consumer demand and profit and loss incentives serves in the long run to cut the ground from under the development of military technology. The tank, for example, could not have been developed in the absence of the prior development of the automobile, which there would have been no basis for developing under socialism.

\_\_\_\_\_ 74. The ability of the civilian economy to benefit from military technology depends on the existence of a capitalist economic system, which provides

the profit-and-loss incentives and the freedoms of initiative and competition necessary to make applications of military technology to civilian purposes.

\_\_\_\_\_ 75. Without the aid of capitalist countries, socialism must revert to feudalism as the result of its inability to coordinate the different branches of production and thus its chronic shortages of supply of vital items, which creates the need for economic self-sufficiency. A series of crop failures and resulting famines, for example, in addition to killing off much of the population would lead most of the survivors to flee the cities for the countryside, where they would have a better chance of obtaining food.

\_\_\_\_\_ 76. The economic inefficiencies of the Soviet Union shed light on its inability to accumulate capital despite a reputedly very high degree of concentration on the production of capital goods, because the resulting output is so low per unit of capital goods expended that it is difficult or impossible to produce a supply of capital goods great enough to equal the supply used up in production.

\_\_\_\_\_ 77. Capital accumulation under socialism is possible only at the cost of human life, on the scale imposed by Stalin. For only if the concentration on the production of capital goods is so great that inadequate resources are left over for the production of consumers’ goods is it possible for socialism to produce more capital goods than it consumes.

\_\_\_\_\_ 78. Market socialism is an imaginary theoretical construction in which capitalism’s price system is appended to the body of socialism.

\_\_\_\_\_ 79. Under market socialism profits will allegedly serve as a “parameter,” that is, as a guide to what to do—though, of course, no one will actually profit from doing what he is supposed to do.

\_\_\_\_\_ 80. The way socialism is to achieve a price system is by dividing the socialist economy up into separate sections or firms. Each will be assigned a balance at the government’s central bank. The government will set prices for all goods and services. At least on paper, these firms will then buy from and sell to each other; they will also sell to consumers and pay wages. They will pay interest on capital to the government’s central bank and even to other enterprises, and they will record profits and losses.

\_\_\_\_\_ 81. Market socialism is similar to socialism on the German or Nazi pattern, in that seemingly separate, independent enterprises will exist.

\_\_\_\_\_ 82. The difficulties of market socialism can be grasped most simply by starting with the existence of capitalism and then imagining two alternative things to occur: (1) the government imposes price and wage controls, (2) the government obtains the power to expropriate any firm’s or individual’s capital and turn it over to any other firm or individual at its discretion.

\_\_\_\_\_ 83. Advocates of market socialism assume that the government can set prices and then vary them in just the same way that this is done under capitalism, a belief which is totally contradicted by actual experience of price controls.

\_\_\_\_\_ 84. Rent controls and price controls on oil are set in exactly the same way that landlords and oil companies would set their rents and prices, which is why these parties were always very well satisfied with the controls.

\_\_\_\_\_ 85. Government price-control officials do not and cannot control prices in the way a free market would have set them. For the driving force of the free market's prices is the self-interests of the different individuals concerned, acting in an environment of freedom of competition. Government control of prices nullifies this driving force.

\_\_\_\_\_ 86. Market socialism in its logically consistent form wants to entrust the supreme management of

the socialist economic system to firms and individuals who will have absolutely no security of property or incentives of ownership, and then to give them discretion as to its investment. Their powers of discretion in investment would be genuine powers of ownership, but they would last no longer than the state desired. They would be in the position of people facing the constant threat of expropriation.

\_\_\_\_\_ 87. Market socialism in its logically consistent form might achieve an economic system at the level of, say, Turkey under the arbitrary, despotic rule of the sultans, when no one could be secure in the possession of any property, when no one dared to improve his house or fields, let alone build a factory, for fear of having them seized by the government.

\_\_\_\_\_ 88. The world-wide abandonment of socialism means that the debate over market socialism is now closed and the correctness of von Mises's position definitively established.

### (Chapter 8, Part B)

\_\_\_\_\_ 89. Where the government owns all the printing presses and meeting halls and is the sole employer, freedom of press and speech is impossible.

\_\_\_\_\_ 90. It is not accidental, but logically necessary that wherever socialism has actually been enacted, as in the Communist-bloc countries and Nazi Germany, violent and bloody means have been used to achieve it and/or maintain it. And where socialist parties have come to power but abstained from wholesale violence and bloodshed, as in Great Britain, Israel, and Sweden, they have not enacted socialism, but retained a so-called mixed economy, which they did not radically or fundamentally alter.

\_\_\_\_\_ 91. Even if democratically elected, a socialist government must begin with an enormous act of force, namely, the theft of all privately owned means of production.

\_\_\_\_\_ 92. It takes the Communists to establish socialism, for the same reason that those who seriously want to steal must go armed and be prepared to kill those whom they plan to rob, should the latter offer resistance, which they almost certainly will in a case in which their property is to be taken en masse without compensation.

\_\_\_\_\_ 93. The social democrats are unwilling to take the bloody steps necessary to establish socialism and so leave the existing economic system essentially unchanged.

\_\_\_\_\_ 94. The leaders of a socialist society find themselves in a dilemma in that socialism assumes responsibility for people's lives and promises them a life of bliss but delivers a life of hell. In the face of inevitable public outrage logically directed at the rulers, the maintenance of power requires hysterical propaganda, periodic purges, and a reign of terror. In the absence of

these measures, socialism would be characterized by an endless series of coups and civil wars.

\_\_\_\_\_ 95. The requirements merely for effectively imposing a system of price controls are an army of spies and informers, draconian penalties for their violation, and administrative tribunals to convict and punish the transgressors.

\_\_\_\_\_ 96. Black market activity under Russian-style socialism implies the theft of state property and under both Russian and German-style socialism, the crime of *sabotage*, because it disrupts the execution of the national economic plan. Hence, it is not surprising that such "economic crimes" under socialism result in the execution of those found guilty.

\_\_\_\_\_ 97. Under socialism it is dangerous to be a production manager, because one may find oneself being blamed for inevitable plan failures. To avoid this, production managers under socialism need strong political connections and subordinate officials available for sacrifice.

\_\_\_\_\_ 98. Forced labor is implied in the very idea of socialist planning. If the state is to plan the production of all commodities, it must also plan the skills that the workers will possess who are to produce those commodities, and where those workers are to live and work. It is incompatible with socialist planning for private individuals to have the freedom to acquire the skills *they* want and to live where *they* want. Such freedom would alone make socialist planning impossible.

\_\_\_\_\_ 99. What brings about forced labor under socialism even though it cannot plan is the existence of a labor shortage that results from socialism's attempt to encourage the maximum possible production of each item. In such conditions, vital and urgent employments

of labor can be deprived of labor. To prevent this, the socialist state exercises the power to order labor into the employments it considers vital and urgent.

\_\_\_\_\_ 100. Forced labor existed in the Soviet Union in that

- a. millions were forced to toil in concentration camps—the infamous Gulag system, which in the Stalin years may have held as many as 20 to 30 million slave laborers, a large proportion of whom died in captivity
- b. all people living on collective farms—as much as 40 percent or more of the Soviet population—were prohibited from moving away from those farms without the permission of the collective farm managements
- c. at harvest time, all available urban workers could be forced into the countryside to help bring in the harvest
- d. every graduate of a university or technical school in the Soviet Union was compulsorily assigned to a job for a period of two to three years following graduation
- e. every remaining worker in the Soviet Union was compelled to have a labor book that detailed all of his previous employment, including comments by the government officials who were his former employers, reasons for changing jobs, and so on. This arrangement discouraged the worker's leaving any given job against the government employer's wishes, and was, in fact, a forcible deterrent to changing jobs inasmuch as one could not obtain employment without presenting it
- f. it was illegal in the Soviet Union to be unemployed
- g. all of the above

\_\_\_\_\_ 101. During World War II, workers in Great Britain, Australia, and Canada could not quit or change their jobs without government permission, and they could be ordered to work wherever the government required them. Similar legislation was proposed to the Congress of the United States by President Roosevelt in his State of the Union Message of January 1944 but was not enacted.

\_\_\_\_\_ 102. By its nature socialism is a system of aristocratic privilege, in which the citizens are viewed as means to the ends of the rulers, an outcome which follows inexorably from viewing the individual as the means to the ends of society.

\_\_\_\_\_ 103. In the Soviet Union, a system of aristocratic privilege was manifested in such facts as

- a. government assignment of different grades of housing based on rank in the government or Communist Party
- b. government determination of who could and who could not buy an automobile

- c. the government's maintenance of special stores that were closed to the general public and which exclusively served high government and party officials and their favorites in the arts and sciences; these stores carried many kinds of Western imports, from clothing to tape recorders, and the limited supplies of whatever worthwhile goods as were produced in the Soviet Union itself; while such things as meat were unavailable throughout most of the Soviet Union for months on end, the privileged customers of these stores were supplied with caviar
- d. all of the above

\_\_\_\_\_ 104. The existence of a system of aristocratic privilege is incompatible with the slogan from each according to his abilities to each according to his needs.

\_\_\_\_\_ 105. A socialist society has no incentives of any kind.

\_\_\_\_\_ 106. A socialist society has incentives that are geared to the achievement of the values of the rulers, not to the achievement of the values of the plain citizens. Its system of incentives is comparable to that of an army, in which there are incentives for privates to attempt to be promoted to corporal, and so on, but in which the purpose is to make the army a more effective instrument in achieving the goals of the commanding general, not the goals of the privates.

\_\_\_\_\_ 107. In contrast to socialism, the incentive system of capitalism compels the "captains of industry" to serve the needs of everyone.

\_\_\_\_\_ 108. As a result of a socialist state's twin powers over the individual's work and consumption, everyone's life comes to depend unconditionally on the good graces of every government official with power or influence. In such circumstances, not only are people stopped by terror from criticizing anything the government or any government official does, but a competition breaks out in the positive praise and adulation of the government and its officials.

\_\_\_\_\_ 109. The socialist society that so many intellectuals have yearned for is a society in which the only way that intellectuals can advance is by means of displaying the most abject servility to Neanderthals.

\_\_\_\_\_ 110. While private slave owners in the days of slavery were at least motivated to treat their slaves with the same consideration they gave their livestock, forced labor under socialism goes even beyond slavery and results in mass murder, because under socialism, the slaves are "public property"—the property of the state—and those who have charge of the slaves, therefore, have no personal economic interest in their lives or well-being. The slaves of socialism are slaves, but they are no one's property and therefore no one's loss.

Answers to Questions 1-110 on Chapter 8

Question #	Correct Answer						
1	d	36	T	71	T	106	T
2	e	37	f	72	T	107	T
3	T	38	f	73	T	108	T
4	T	39	T	74	T	109	T
5	T	40	g	75	T	110	T
6	T	41	T	76	T		
7	T	42	T	77	T		
8	T	43	c	78	T		
9	h	44	f	79	T		
10	T	45	T	80	T		
11	T	46	T	81	T		
12	T	47	T	82	T		
13	T	48	T	83	T		
14	T	49	T	84	F		
15	T	50	T	85	T		
16	T	51	T	86	T		
17	T	52	f	87	T		
18	T	53	T	88	T		
19	T	54	c	89	T		
20	T	55	T	90	T		
21	T	56	f	91	T		
22	T	57	c	92	T		
23	f	58	d	93	T		
24	T	59	T	94	T		
25	T	60	T	95	T		
26	T	61	T	96	T		
27	T	62	c	97	T		
28	T	63	e	98	T		
29	d	64	T	99	T		
30	c	65	T	100	g		
31	T	66	d	101	T		
32	f	67	T	102	T		
33	d	68	c	103	d		
34	c	69	T	104	F		
35	T	70	T	105	F		