

## CHAPTER 9 INFLUENCE OF THE DIVISION OF LABOR ON THE INSTITUTIONS OF CAPITALISM

### PART A: PRIVATE OWNERSHIP OF THE MEANS OF PRODUCTION

- \_\_\_\_\_ 1. The belief that only the owners gain from privately owned means of production is manifested in
- the belief that if you advocate capitalism, you must be a capitalist
  - the media's surprise when a blue-collar district votes for a pro-free-enterprise candidate
  - the belief back in the days of the cold war that in order to save a country from communism, it was necessary to create more capitalists
  - all of the above
- \_\_\_\_\_ 2. In a non-division-of-labor society,
- privately owned means of production, such as a farmer's field and his tools and animals, are used to produce for the consumption of their owners and the owners' families
  - the beneficiaries of the privately owned means of production are the owners and the owners' families
  - in order to benefit from means of production, one must be an owner of the means of production
  - all of the above
- \_\_\_\_\_ 3. In a division-of-labor, capitalist market economy, such as our own,
- privately owned means of production are used overwhelmingly to produce for the market and only to an insignificant extent to produce for the consumption of their owners
  - in order to benefit from privately owned means of production, it is not necessary to be an owner of the means of production but merely to be in a position to buy the products
  - the privately owned means of production physically serve nonowners as well as owners, and, indeed, the nonowners to a far greater extent than the owners
  - all of the above
- \_\_\_\_\_ 4. The factories and machinery of General Motors and the oil wells, pipelines, and refineries of Exxon produce products which are consumed for the most part by
- businessmen and capitalists, out of profit and interest income
  - by ordinary people, out of wages and salaries
- \_\_\_\_\_ 5. In a division-of-labor, capitalist market economy, such as our own, privately owned means of production are the source of the demand for the labor of the nonowners of the means of production.
- \_\_\_\_\_ 6. The more numerous and more wealthy the capitalists are, the greater is the demand for the labor of wage earners and thus the higher is the level of
- wages and the greater the ability of wage earners to consume the products of the means of production.
- \_\_\_\_\_ 7. The benefit to the nonowners from other people's private property in the form of means of production—of capital—is that it is the source of
- the supply of what the nonowners buy
  - the demand for what the nonowners sell
  - both (a) and (b)
- \_\_\_\_\_ 8. The benefits of privately owned means of production to nonowners are generally recognized, as, for example, in the case of tenants in New York City, who recognize the value to themselves of having landlords who are rich and own many excellent buildings rather than poor and own only a small number of old and run-down buildings.
- \_\_\_\_\_ 9. The accumulation of capital and thus the demand for the labor of the nonowners of means of production and the supply of goods produced and available for the nonowners to buy is the greater, the more secure is the institution of private ownership of the means of production and thus the greater the prospective benefits from saving and accumulating capital.
- \_\_\_\_\_ 10. The institution of private ownership of the means of production operates to the benefit of the nonowners of the means of production by providing them with the benefit of profit-and-loss incentives and the freedoms of individual initiative and competition in the production of the goods and services they (the nonowners) buy.
- \_\_\_\_\_ 11. The benefit of privately owned means of production to nonowners is the greater and the more rapidly increasing, the more the property rights of the owners are respected.
- \_\_\_\_\_ 12. The benefit of privately owned means of production to nonowners is the greater and the more rapidly increasing, the more the property rights of the owners are respected. This is the case because of
- the encouragement given to saving and capital accumulation by respect for property rights
  - the encouragement given to improvements in products and methods of production by the prospect of keeping more of the profits earned thereby and the concomitant absence of taxes and subsidies that perpetuate the use of inefficient methods of production and the production of products no longer desired by the consumers
  - the major positive effects on capital accumulation of the freedom to use methods of production that achieve the highest possible output per unit of existing capital goods

d. all of the above

\_\_\_\_\_ 13. The institution of private ownership of the means of production is to the material self-interest

- a. of the owners
- b. of everyone, both owners and nonowners

\_\_\_\_\_ 14. The benefit that owners of the means of production derive from them that nonowners do not is

- a. the receipt of profit and interest
- b. the ability to consume a portion of the profits or interest and the potential of consuming the accumulated capital

\_\_\_\_\_ 15. Profits and interest that are saved and invested

- a. represent a special benefit that the owners of the means of production receive and that the nonowners do not
- b. operate in the same way as the original capital, to which they are added, and serve to benefit the nonowners by means of raising the demand for their labor and increasing the supply of the goods and services they buy

\_\_\_\_\_ 16. The potential enjoyed by the owners of capital of consuming their capital is

- a. typically taken advantage of
- b. usually not taken advantage of by large capitalists but is of great psychological comfort simply as a potential

\_\_\_\_\_ 17. The consumption of the businessmen and capitalists includes such things as the support of opera companies, universities, and hospitals, and to this extent is of benefit to a substantially wider circle of people than just their own families.

\_\_\_\_\_ 18. Advocates of the redistribution of wealth typically regard the wealth of capitalists as a vast supply of consumers' goods, most of which the rich capitalists do not need but which poor starving wage earners and others desperately need.

\_\_\_\_\_ 19. Enacting a policy of redistribution of wealth is in fact a policy of "eating the seed corn," in that the overwhelming bulk of the wealth of the capitalists is not in supplies of personal consumers' goods but in means of production, including funds for the payment of wages; it could be used to serve the consumption of the poor only at the expense of reducing the ability to produce and the ability to employ labor, which would result in greater poverty than had existed before.

\_\_\_\_\_ 20. What is available from the significant-sized capitalists for redistribution without directly and immediately encroaching on their capitals is merely what they consume.

\_\_\_\_\_ 21. The attempt to limit the consumption of capitalists destroys their motivation to accumulate capital or maintain capital they have already accumulated, because capital that can never be consumed or used to augment one's consumption is of no value. Thus the re-

sult of a redistributionist policy confined to seizing what the capitalists consumed would serve to reduce production by more than the amount seized.

\_\_\_\_\_ 22. A policy of strict protection of property rights, as opposed to any form of policy of redistribution of wealth, makes possible continued increases in the goods and services going to nonowners of means of production, repeatedly doubling and redoubling their real incomes.

\_\_\_\_\_ 23. Government ownership of business enterprises

- a. should be welcomed by people because then the business firms become theirs
- b. should be opposed by everyone because it serves to deprive consumers of the benefit of profit-and-loss incentives and the freedoms of individual initiative and competition in the production of the goods and services they buy

\_\_\_\_\_ 24. The superiority of public ownership over private ownership is confirmed by the level of service and efficiency displayed by the US Postal Service and Amtrak in comparison with private suppliers of communications and transportation services.

\_\_\_\_\_ 25. Public ownership of means of production provides the same special benefits of ownership as does private ownership of the means of production in that the dividend payments it makes enable its owners to consume, while the value of its shares and the potential of selling them provides a nest egg for its owners.

\_\_\_\_\_ 26. Public ownership of means of production

- a. provides dividends for its owners to consume
- b. is the cause of higher taxes, to cover the deficits entailed in its inherently inefficient operation

\_\_\_\_\_ 27. A major factor bearing on the superiority of privately owned enterprises over government-owned enterprises is the fact that the former are characterized by what von Mises calls profit management, while the latter are characterized by what he calls bureaucratic management.

\_\_\_\_\_ 28. The institution of inheritance is of benefit to heirs; nonheirs derive benefits from it only insofar as inheritances are taxed and the proceeds spent for the public benefit.

\_\_\_\_\_ 29. The institution of inheritance

- a. promotes the accumulation of capital to the extent that funds are accumulated and maintained for the purpose of being transmitted to heirs
- b. by virtue of (a) serves to increase the demand for the labor of nonheirs and the supply of products available for nonheirs to buy
- c. the existence of the institution of inheritance is in the material self-interest of everyone
- d. all of the above

\_\_\_\_\_ 30. Only capitalists are advocates of policies favoring capital accumulation, because only capitalists have something to gain from capital accumulation, in-

asmuch as more capital increases neither the demand for labor nor the supply of consumers' goods.

\_\_\_\_\_ 31. The true advocates of the interests of the masses are politicians urging policies of capital consumption.

\_\_\_\_\_ 32. Inheritance taxes serve to reduce capital accumulation and thus hold down both the demand for labor and the supply of consumers' goods, on both of which the well-being of nonheirs depends.

\_\_\_\_\_ 33. Taxes that fall heavily on saving and capital accumulation include

- a. the inheritance tax
- b. the progressive income tax
- c. the corporate income tax
- d. the capital gains tax
- e. social security taxes
- f. all of the above

\_\_\_\_\_ 34. Government budget deficits and inflation undermine capital accumulation.

\_\_\_\_\_ 35. From the point of view of any given individual, the most beneficial tax cut is a cut in the taxes that he himself pays. It follows from this that if one is a wage earner, a tax cut that reduced one's own taxes by, say, \$1,000 per year and the taxes of tens of millions of other wage earners by that amount, would be more beneficial than a tax cut of the same overall aggregate amount going to business and rich capitalists.

\_\_\_\_\_ 36. The economic interests of wage earners and capitalists are mutually opposed.

\_\_\_\_\_ 37. Private ownership of land and natural resources encounters special hostility because of the belief that landowners are in a position to pocket all of the gains of economic progress simply by waiting for population growth and accompanying diminishing returns to raise land rents.

\_\_\_\_\_ 38. In fact, private ownership of land operates to provide the incentive basis for continuous and rapid increases in the productivity of land, which serves to increase the supply of agricultural products and of minerals and thus to reduce their prices and thereby land rents and the economic significance of land rent.

\_\_\_\_\_ 39. In 1750, the source of most wealth in Great Britain was ownership of land. By 1850, it was commerce and industry.

\_\_\_\_\_ 40. The economic significance of land rent in the 19th century was reduced by great improvements in the productivity of land due to the greater operation of the incentives provided by private ownership, which was made possible by

- a. the establishment of private ownership of land in the territory of the United States from the eastern seaboard to well west of the Mississippi river

b. the enclosure movement in Great Britain, which brought about the privatization of large areas of land previously owned and controlled communally

c. the establishment of private property rights in land on the European continent, where, prior to the French Revolution, most land was in the hands of the feudal nobility, as a monopoly privilege under which they alone had a legal right to own it

d. all of the above

\_\_\_\_\_ 41. Today, the economic significance of mining rents derived from the ownership of oil deposits has been increased by policies opposed to private property rights in land.

\_\_\_\_\_ 42. A policy of privatization of lands presently owned by the Federal government in the western states and in Alaska, and of the continental shelf, and of full respect for the property rights of its owners would result in a substantial increase in the supply both of oil and its substitutes, such as coal, atomic power, and natural gas. This would reduce the price of oil and the mining rents derived from the ownership of oil fields.

\_\_\_\_\_ 43. Insofar as it prevents improvements in agriculture and mining, the environmental movement operates to increase the economic significance of land rent.

\_\_\_\_\_ 44. Again and again, especially in Europe and Asia, the ownership of land can be traced back to violent appropriation from previous owners. Nevertheless, once land ceases to pass by violent appropriation and a free market in land is established, in which land thereafter passes by purchase and sale, the stain of violent appropriation is progressively washed away. For each set of owners is obliged to devote his land to the demands of the market, a market in which everyone's purchasing power is more and more based on having successfully served the market in the past.

\_\_\_\_\_ 45. In cases in which large landed estates exist that are less economic than would be the same land divided into numerous small parcels

- a. land reform consisting of the forcible breakup of the estates is necessary
- b. a free market would bring about the breakup voluntarily by making the sum of the value of the small parcels greater than the value of the present estates, in the same way as it does when farmland is subdivided for housing plots, commerce, and industry; the alleged need to resort to forcible land reform implies the opposite of this condition

\_\_\_\_\_ 46. Just as it is not necessary for the consumers of products to own the means of producing those products, but merely to be free to buy them, so it is not necessary for a country to have sovereignty over the industries and natural resources that supply its citizens,

but merely for its citizens to be free to buy from those sources of supply, wherever they might be located.

\_\_\_\_\_ 47. The citizens of Germany need iron and steel products. But the iron mines are in France, not Germany. Therefore, the self-interest of Germans requires the conquest of France.

\_\_\_\_\_ 48. A country that pursued a policy of protection of property rights, including the equal protection of the property rights of foreign investors, coupled with policies of free trade in imports and exports, and free immigration, would give the maximum possible benefit of its industries, land, and natural resources to the world as a whole. Conquest of such a country by a socialist, fascist, or any other such power would be against the material self-interests of all other countries and probably even against the material self-interest of the conqueror, since the policies it would impose

would serve to reduce what is available from the country for its benefit too.

\_\_\_\_\_ 49. The development of a backward country's natural resources by foreign capital

- represents economic exploitation of the poor for the sake of profit
- enables the world to gain from the resources in question
- increases the local demand for labor and thus local wage rates, and, by providing foreign exchange earned by the sale of the resources around the world, makes possible the import of goods incapable of being produced locally
- all of the above
- (b) and (c) but not (a)

## Part B: ECONOMIC INEQUALITY

\_\_\_\_\_ 50. The prevailing belief concerning economic inequality is that

- one man's gain is another man's loss
- the rich get richer and the poor get poorer
- one man's gain is not another man's loss
- one man's gain is another man's gain
- all of the above
- (a) and (b)

\_\_\_\_\_ 51. The proposition that one man's gain is another man's loss

- rests on the assumption that the amount of wealth in the world is a fixed, static sum
- does not apply in division-of-labor society, since it makes possible a continuous increase in the total of the wealth produced
- both (a) and (b)

\_\_\_\_\_ 52. In a division-of-labor society, differences in wealth and income among individuals are the result of

- being unfairly favored or ignored by the distribution fairy
- differences among individuals in their capacity for looting wealth from nature and/or from one another
- differences in their positive productive contribution, as judged by the market

\_\_\_\_\_ 53. In a division-of-labor society, the expression "distribution of wealth" realistically refers to

- an actual, physical distribution of wealth by the distribution fairy
- the arithmetical expression of the wealth produced by various individuals or groups as a percentage of the total of the wealth produced in the society

The following is a five-part question. A desert island is occupied by Crusoe and Friday. Initially, they each gather five coconuts per day. But then Crusoe finds a way to gather ten coconuts per day, while Friday continues to gather only five per day. Taking total output as representing "national income,"

\_\_\_\_\_ 54. Calculate the respective shares of national income initially going to Crusoe and Friday.

\_\_\_\_\_ 55. Calculate the respective shares of national income going to Crusoe and Friday after Crusoe's increase in production.

\_\_\_\_\_ 56. If unequal shares of national income going to groups comprising equal percentages of the population is unjust, then it is unjust in the present case for Crusoe to increase his production.

\_\_\_\_\_ 57. Crusoe's increase in production will be the source of Friday increasing his production once he copies Crusoe's improved method of gathering coconuts.

\_\_\_\_\_ 58. By the time Friday copies Crusoe's improved method, Crusoe may have gone on to a still further improvement, in which case economic inequality would both exist alongside general economic improvement and be a foundation of such improvement.

\_\_\_\_\_ 59. In a division-of-labor society, one man's gain is other men's gain on the foundation of

- the process of productive emulation, which is present in competition
- the nature of free exchange, in which both parties must benefit
- the sharing of the growing gains from the division of labor in the form of increasing quantities and improving quality of goods
- all of the above

\_\_\_\_\_ 60. The notion of a distribution of wealth leads to the conclusion that it is unjust for one person to produce more than another.

The following is a five-part question.

\_\_\_\_\_ 61. Great fortunes are accumulated by

- earning a low rate of profit and consuming it all
- earning a low rate of profit and saving it all
- earning a high rate of profit and consuming it all
- earning a high rate of profit over many years and in each year saving and reinvesting the far greater part of it

\_\_\_\_\_ 62. The earning of a high rate of profit over many years typically requires the introduction of a *series* of important innovations, since competition eliminates the premium profit earned on any given innovation as soon as it can.

\_\_\_\_\_ 63. To the extent that profit is saved and reinvested, i.e., added to capital, it increases the demand for labor and the supply of products.

\_\_\_\_\_ 64. Both in their origin and in their use, great fortunes are a source of gains to everyone who participates in the economic system.

\_\_\_\_\_ 65. Henry Ford's accumulation of \$1 billion after having started with about \$25,000 was the reflection of a series of important innovations he made in the production of automobiles, such as the moving assembly line and interchangeable mass-produced parts. These were the basis of his continuing high rate of profit. The saving and reinvestment of those profits was the basis of the physical expansion of the Ford Motor Company from a single barn-like structure when it started, to the vast plants, and all the equipment they contained, at the time of Ford's death. In effect, Ford's profits were the reflection of the improvements he provided for the automobile-buying public and his fortune was the means of physically producing and delivering them to that public on an expanded scale.

\_\_\_\_\_ 66. What is true of the origin and disposition of Ford's fortune is true, *mutatis mutandis* (i.e., with the necessary changes), of great business fortunes in general.

\_\_\_\_\_ 67. Relative rates of growth or decline in accumulated wealth are the result of a combination of relative rates of profit and relative degrees of saving out of profits.

\_\_\_\_\_ 68. If 10 percent of the population in a division-of-labor society owns 90 percent of the wealth of the society, what that signifies is that

- some people have contributed more to production than others—in the more important cases, introducing a series of major improvements into production, and then saving and investing very heavily out of the higher incomes they earned

b. the 90 percent of the wealth that is owned by the 10 percent then serves the 90 percent of the population that did not contribute as much to production

c. because of the freedom of the 10 percent to create and earn the wealth and income they do, there is incalculably more wealth

d. because of the freedom of the 10 percent to create and earn the wealth and income they do, there is more saving and the means of production that exist at any given time are more efficiently used, both of which facts are causes of the continuous further increase in the supply of means of production—of capital goods—that are used to produce overwhelmingly for the benefit of the 90 percent of the population that allegedly owns only 10 percent of the wealth of the economic system

e. all of the above

\_\_\_\_\_ 69. If 10 percent of the population in a division-of-labor society, capitalist society owns 90 percent of the wealth of the society, what that actually signifies is that

a. 90 percent of the wealth of the society is not only owned but was also created and earned by the 10 percent who own it (or by their parents or grandparents)

b. 10 percent of the society makes possible the far greater part of the real incomes of the 90 percent

c. both (a) and (b)

\_\_\_\_\_ 70. According to the Marxian doctrine on economic inequality

a. the inequality between capitalist and worker is essentially no different than the inequality that prevailed in earlier periods of history between master and slave or between lord and serf

b. all of history is the record of one continuous class struggle that has been carried on in different forms and under different guises—in the Ancient World, between master and slave; in the Middle Ages, between lord and serf; in modern times, between capitalist and worker

c. the worker under capitalism is a slave—a “wage slave”

d. the capitalist is an “exploiter,” even more ruthless than the feudal lord or ancient slave owner

e. all of the above

\_\_\_\_\_ 71. The essential differences between economic inequality under capitalism and economic inequality under feudalism are

a. economic inequality under feudalism is the result of theft by the nobility from the serfs, with the result that the enrichment of the nobility is at the expense of the impoverishment of the serfs

b. economic inequality under capitalism is the result of differences in positive productive contribution, in which the greater productive contribution of the businessmen and capitalists serves to in-

crease the wealth available to all and from which all gain  
c. both (a) and (b)

The following is a five-part question. John Kenneth Galbraith wrote: "The worker in a Calcutta jute mill who loses his job—like his American counterpart during the Great Depression—has no high prospect of ever finding another. He has no savings. Nor does he have unemployment insurance. The alternative to his present employment, accordingly, is slow but definite starvation. So though nominally a free worker, he is compelled. The fate of a defecting southern slave before the Civil War or a serf before Alexander II was not appreciably more painful. The choice between hunger and flogging may well be a matter of taste." (*The New Industrial State*, 2d ed. rev., p. 141.)

\_\_\_\_\_ 72. Galbraith claims that what we think of as constituting free labor is so in name only, while in substance it is the same as slavery. Thus, as in the novel *1984*, for Galbraith, "freedom is slavery."

\_\_\_\_\_ 73. An essential difference, ignored by Galbraith, in the relationship between a slave owner and the suffering of his slave, on the one hand, and an employer and the suffering of his poor, hungry worker, on the other, is that the slave owner and his whip are the *cause* of the slave's suffering, while the employer and the wages he pays are the cause of the *alleviation and prevention* of the worker's suffering hunger

\_\_\_\_\_ 74. A further essential difference, ignored by Galbraith, is that what keeps a worker at his job under slavery is physical force: chains, whips, and guns; while in the case of the worker in the Calcutta jute mill, physical force would probably need to be applied to keep the worker *from* his job, because it is the positive source of what keeps him alive and what he desperately wants to have, not what he desperately wants to run away from.

\_\_\_\_\_ 75. Yet another vital aspect of freedom ignored by Galbraith is that it is essential if the worker is to be able choose the best of whatever employment opportunities may be open to him, and that even if no other such opportunities are currently open to him, it is almost certain that some will be at some point. The free worker can then choose the best among them; the slave cannot.

\_\_\_\_\_ 76. Lack of employment opportunities is itself the result of the violation of freedom, i.e., the freedom to offer and accept the lower wage rates which would serve to increase the quantity of labor demanded to the point of sufficient jobs being available to provide opportunities for alternative employment.

\_\_\_\_\_ 77. According to feudalism, landed estates were not the property of any given individual, but of his *bloodline*, and thus of his unborn children and

grandchildren, and their descendants, as much as himself. On this basis, the sale of land by the nobility or its possible loss as collateral on loans was forbidden.

\_\_\_\_\_ 78. The feudal nobility were not landowners in the proper sense of the term, because

- a. they lacked essential rights of owners, in that they could not sell the lands that were allegedly theirs, nor fire workers who became unnecessary, nor seek to attract workers from the estates of other noblemen
- b. they possessed powers that are no part of ownership, such as those of "low" and "high" justice (i.e., the respective powers to flog and hang)
- c. their position was actually that of government officials, analogous in effect to that of hereditary commanders of military bases
- d. all of the above

The following is a six-part question.

\_\_\_\_\_ 79. Socialism views the individual not as an end in himself, but as a means to the ends of "society."

\_\_\_\_\_ 80. The ends of "society" can easily be learned by asking it in person, or, if you know its phone number or address, by means of a telephone call or correspondence.

\_\_\_\_\_ 81. The ends of "society" can never be directly known, since "society" is not a real, living entity, but only an idea or abstraction, and thus any ends that it may allegedly have must first be interpreted or divined by a special class of people, namely, the rulers of the socialist state.

\_\_\_\_\_ 82. Socialism's view of the individual as a means to the ends of "society" reduces to the view of the individual as a means to the ends of the rulers of the socialist state.

\_\_\_\_\_ 83. Socialism, rather than capitalism, by the nature of its view of the purpose of the individual, represents a revival of the conditions of feudal-type inequality.

\_\_\_\_\_ 84. The existence, in the days of the Communist bloc, of special stores, housing, schools, and hospitals reserved exclusively for members of the Communist Party and government elite followed from the nature of socialism's view of the purpose of the individual.

\_\_\_\_\_ 85. The law of diminishing marginal utility is used to justify attempts to equalize wealth and income, e.g., by means of progressive income taxes, on the grounds that the marginal utility of a unit of wealth is less to a richer, higher income individual than it is to a poorer, lower income individual and thus that an increase in overall marginal utility to society can be achieved by transferring units of wealth from the rich to the poor.

\_\_\_\_\_ 86. The use of the law of diminishing marginal utility to justify the seizure of others' wealth or income ignores the fact that

- a. “society” is not a living, valuing being and is thus incapable of experiencing marginal utility of any kind
- b. all judgments of value and marginal utility must always be those of specific individuals
- c. to any given individual the marginal utility of his  $n^{\text{th}}$  unit of wealth or income can be and usually is greater to him than the marginal utility to him of the first unit of wealth enjoyed by strangers—e.g., that he values a desert in his own stomach above the value he attaches to essential nutrition in the stomach of a stranger
- d. from the perspective of the individual, the loss of his desert for the purpose of feeding an anonymous stranger most likely represents a loss of utility, which is demonstrated by the fact that when they are free to choose, most people continue to eat desert (or at least substantially beyond the minimum essential for bare survival) rather than sacrifice it for the benefit of others
- e. all of the above

87. If an individual benefits from something, he implicitly benefits from what created and now maintains that something. Thus an individual who benefits from his ownership of an automobile, say, implicitly indirectly benefits from the automobile factory that produced the automobile and all of the other complementary means of production directly or indirectly required to produce his automobile. He also benefits from the gas he buys to keep his car running and the oil changes needed to maintain its performance.

88. The selfish thing for the owner of a car to do is to refuse to buy gas for his car, because the gas benefits the car, not him.

89. The selfish thing for a parent who loves his child to do is to refuse to buy food for his child, since the food benefits the child, not him.

90. The selfish thing for a person who values a friend to do is never to help that friend, because only the friend would benefit, not him.

91. Human beings can be *selfishly* concerned with the well-being of the rest of mankind

- a. in the same way that when they watch movies or read novels, they are concerned with innocent victims escaping harm and generally value happy endings
- b. up to a point that is probably no greater than their concern with literature and art
- c. both (a) and (b)

92. The solution to the problem of massive, overwhelming poverty on a global scale is

- a. private charity
- b. governmental foreign aid
- c. knowledge of the science of economics and the establishment of capitalism, to make it possible for average people everywhere to support themselves in abundance

93. The doctrine of external benefits goes beyond the egalitarian version of diminishing marginal utility in that, according to its logic, if a painting is stolen from the private collection of a millionaire who does not appreciate it very highly, and is stolen not merely by someone who appreciates it more, but by someone who exhibits it to multitudes of others, many of whom also appreciate it more, then what is present is not only the alleged gain in marginal utility that exists by virtue of the painting falling into the hands of the more-appreciative thief, but also the further alleged gain of the more-appreciative multitude’s enjoyment, which is an alleged “external benefit” of the theft.

94. As an attempt to wring benefits for others from sacrificial victims, by means of force, the external-benefits doctrine destroys the basis of the existence of benefits to others being a value to an individual, for he is being asked to value the satisfactions of his tormentors. It is thus a self-nullification.

The following is a four-part question. “Abilities are much more equally distributed than are incomes . . . . While human traits seldom differ by more than a factor of 3, high incomes today are more than 100 times greater than the lowest.” (Paul Samuelson and William Nordhaus, *Economics*, 13th ed. (New York: McGraw-Hill Book Company, 1989), p. 649.)

95. The meaning of the above quotation is that economic inequality has little or nothing to do with ability, inasmuch as the “distribution” of income does not follow the pattern of distribution of ability, as indicated, for example, by IQ tests. In the case of IQs, approximately 99 percent of the population has an IQ between 50 and 150, i.e., the inequality is rarely greater than a factor of 3.

96. According to the logic of the above quotation, what would be necessary for intelligence to be the explanation of inequalities of income would be if the earnings of those with IQs of 150 were only three times as high as those with IQs of 50, rather than one hundred or more times as high—in other words, if the earnings of geniuses were only three times those of morons, rather than a hundred or more times those of morons.

97. The “distribution” of income and wealth is more skewed than the normal curve, because contrary to the above quotation, the effect of intelligence, when present in appropriate combination with other necessary factors, is *exponential*, not linear. That is, each additional few points of intelligence, or, better, productive ability (however that might be precisely gauged) should be expected to yield exponentially increasing results. Those of average ability, represented by IQs of 100, should be expected to earn substantially more than twice as much as morons, represented by IQs of 50. Productive geniuses who revolutionize the

work of hundreds of thousands of individuals and the consumption of hundreds of millions, should be expected to earn and accumulate many thousands of times the wealth and income of the average person, which, in fact, is what they do. In connection with productive geniuses, moreover, it should be recognized how crucial is that extra measure of intelligence and ability which separates them from individuals who are merely very bright, and which gives the geniuses the ability to conceive of the new and original, not merely repeat what others have done, which is all that even the merely very bright can do.

98. The “distribution” of income and wealth is more skewed than the normal curve, in part because the success of men of exceptional ability so radically increases the wealth and income of all individuals of lesser ability. This makes the negative deviations from the mean value of wealth and income much smaller than the positive deviations. Thus, while productive geniuses may earn a thousand or more times what the average individual earns, productive morons, to coin a phrase, earn many times more than one one-thousandth of what a person of average ability earns.

99. The equality-of-opportunity doctrine

- a. views opportunities as fundamentally external to the individual—in effect, as various dishes carried by waiters on trays, which, under capitalism, are arbitrarily served to some and withheld from others
- b. wants the government to seize control not, it says, of the distribution of wealth and income, but merely of the distribution of these dishes, as it were—that is, of the opportunities to earn wealth and income—and so give everyone an equal chance
- c. provides a basis for the confiscation of inheritances, public education through the postgraduate level, and laws preventing private discrimination on the basis not only of such factors as race, religion or national origin, but also age, medical condition, and physical handicap, which laws are advocated as necessary to the provision of equal opportunities
- d. is a fallback position for advocates of economic equality
- e. all of the above

100. Besides inequality of financial inheritance, other factors that affect the opportunities a child has, including his opportunity to earn wealth and income, are

- a. the intelligence of his parents, their education and vocabulary, their system of values, and their love for him and treatment of him, not to mention their level of income and the kind of material life they lead and thereby expose him to while he is growing up
- b. his genetic inheritance, especially as it relates to his intelligence, looks, and health
- c. both (a) and (b)

101. To achieve equality of opportunity, it would be necessary not only to abolish or otherwise equalize financial inheritances, but also to bring children up in the same environment, i.e., in government orphanages, and give them equal genetic inheritances, i.e., adopt a program of eugenics and genetic engineering.

102. The doctrine of equality of opportunity is as much against the nature of reality as is the doctrine of the out-and-out equality of wealth and income.

103. The last time the appointment of a new President of General Motors was considered, my name did not appear on the short list of candidates, or even on the long list. Thus I did not have any equality of opportunity in connection with the choice of a new President by GM’s board of directors. The same is true in relation to the appointment of virtually all company presidents over the course of my lifetime. As far as my chances of being made a company president are concerned, I have never been able to play on a level field. In fact, it would be more accurate to say that I’ve been totally off any kind of field, in a deep ditch. In all such cases only individuals who had already achieved high-level executive positions were considered for the job of president. Those who, like myself, had not been a high-level executive, were simply not given an opportunity to be considered.

104. Opportunities

- a. are occasions on which successful action is possible
- b. exist every time there is the possibility of improving oneself in any way, such as in terms of knowledge and skill
- c. are never a matter merely of external circumstances that are served up on a plate, as it were, but always depend on what the individual himself brings to the external circumstances in the way of skills and abilities, which in turn are the cumulative product of what the individual has done with his life up to that point, reflecting his initial choices to use his genetic inheritance to deal with external circumstances in ways that developed certain skills and abilities, and then further choices to use those skills and abilities to deal with further external circumstances in ways that developed still further skills and abilities, and so on up to the present moment
- d. are created by individuals on the basis of previous choices that have developed various skills and abilities
- e. all of the above

105. A child who chooses to use his mind to learn arithmetic thereby creates an indispensable precondition for the potential opportunity to learn algebra. Unless and until he learns arithmetic, there can be no possibility of any opportunity for him to learn algebra.

106. The individual who exploits the opportunity to become a worker in a factory thereby creates a

possible basis for his later on becoming a foreman there. If he becomes a foreman, he creates a possible basis for later promotion to a higher managerial position, and so on.

\_\_\_\_\_ 107. Opportunity presents itself as the rungs of a ladder. Each rung is open only to those who have climbed within reach by ascending previous rungs.

\_\_\_\_\_ 108. It is ludicrous to think that what a person does is the outcome merely of his environment and genes. In between the environment and the genes is a lifetime of choices, each of which has a vital bearing on the individual's ability to deal with his environment and to make further choices.

\_\_\_\_\_ 109. It is not necessary that people make the choices that develop their skills and abilities at any precise moment. There is considerable leeway. And it is never completely too late to start. For example, someone can learn to read even in old age and then begin rapidly to build on that foundation.

\_\_\_\_\_ 110. In a free society, everyone, whatever his starting point in life, is able to raise himself very far, if that is what he chooses to do. He can miss many, many opportunities, and still there will be more. He can begin improving his ability to exploit them at any time, and start moving up from that moment.

\_\_\_\_\_ 111. The freedom of opportunity means the ability to exploit the opportunities afforded by reality, without being stopped by the initiation of physical force.

\_\_\_\_\_ 112. Given man's limitless need and desire for wealth and the fact that production is limited only by the availability of labor, it follows that employment opportunities are potentially far in excess of the ability of people to work and that choices must be made between which employment opportunities are to be exploited and which are not to be exploited.

\_\_\_\_\_ 113. What explains the side-by-side existence of virtually limitless employment opportunities and mass unemployment is violations of the freedom

of people to exploit employment opportunities, as in the case of employers being prohibited from paying, and wage earners from receiving, wage rates below coercively imposed labor-union scales or legal minimum wages, which lower wage rates would expand the quantity of labor demanded and open up jobs for all who wanted a job.

\_\_\_\_\_ 114. If two individuals in a free society were born equal in every respect, except that one had richer parents than the other, and if they both actively and constantly chose to develop their skills and abilities from birth on, the one with the richer parents would probably always be ahead of the one with the poorer parents.

- a. this is an embarrassment to a free society
- b. it is perfectly just that things be this way, because what else is wealth for if not to provide benefits compared with not having it?; moreover, the greater wealth of the one can benefit the other not only in the ways explained in connection with the discussion of the general benefits from the institution of inheritance, but also in the more specific way of the two possibly becoming unequal partners in an arrangement that enables the poorer partner to increase his wealth far more rapidly than he otherwise could, thanks to the use of the richer one's capital

\_\_\_\_\_ 115. On the basis of the fact that the individual creates his own opportunities, it is possible for a child born to poor parents, and suffering numerous other disadvantages, ultimately to far outstrip in his accomplishments practically everyone else, including children born to extremely wealthy parents and enjoying all manner of other initial advantages.

\_\_\_\_\_ 116. One of the consequences of the equality-of-opportunity doctrine is that it causes some parents deliberately to do less for their children than they otherwise would, on the grounds that other parents are unable to do as much.

### Part C: ECONOMIC COMPETITION

- \_\_\_\_\_ 117. Competition in the animal kingdom is
- a. competition in the grabbing off of limited supplies of nature-given necessities, such as nuts and berries growing on trees or zebras and gazelles roaming the forest or plain
  - b. won by those animals with the keenest senses, the greatest speed, and the strongest teeth and claws; they get the food; the older, weaker animals die of starvation and disease
  - c. the law of the jungle, the survival of the fittest
  - d. all of the above

\_\_\_\_\_ 118. Animals must take their environment as they find it; they lack the power to adapt it to themselves. Thus, for example, lions in the jungle are inca-

pable of enlarging the supply of the animals they require as food.

\_\_\_\_\_ 119. In sharpest contrast to the animals, man's possession of reason enables him to identify the conditions on which his well-being depends and to take effective action in improving those conditions, from actually growing food for the animals he wants to eat, to reshaping the chemical elements of the earth into an ever expanding array of products, from air conditioners to zippers, and doing all of it ever more efficiently.

\_\_\_\_\_ 120. Economic competition, in contrast to competition in the animal kingdom, is competition in the positive creation of new and additional wealth.

\_\_\_\_\_ 121. IBM and Apple, General Motors and Toyota, are in competition

- a. for limited supplies of computers and automobiles growing on the computer and automobile trees
- b. in the positive creation of new and better computers and automobiles

\_\_\_\_\_ 122. Economic competition has in common with athletic competition an upward ratcheting of standards accompanied by continual efforts to match and exceed the rising standards.

\_\_\_\_\_ 123. The effect of competition among food growers and pharmaceutical manufacturers on the hungry and the sick is to

- a. grab away their food and medicines
- b. provide them with food and medicine, and more and better as time goes on

\_\_\_\_\_ 124. Because it is competition in the positive creation of new and additional wealth, in the nature of the case there are no long-run losers as the result of economic competition.

\_\_\_\_\_ 125. Everyone is related to the process of economic competition in his capacity both as a consumer and as a producer.

- a. as a consumer, he simply benefits from all of the competition that takes place in the production of whatever he buys
- b. as a producer, he may sometimes lose his job or ownership position as the result of the competition that takes place in the good he produces, in which case, his benefit from this specific competition may be delayed until such time as he has reestablished his position as an income earner and now benefits in his capacity as a consumer even from the improvement that initially displaced him
- c. both (a) and (b)

\_\_\_\_\_ 126. Under economic competition, individuals can sometimes lose their jobs, or even ownership positions, as the result of the adoption of labor-saving improvements or of the products their firms produce being made obsolete. In such cases, there are short-run loss periods of different length for unskilled workers, skilled workers, and those who lose invested fortunes.

\_\_\_\_\_ 127. The short-run loss periods for

- a. unskilled workers can be as short as a few days or weeks
- b. skilled workers can be as long as several years—however long it takes to acquire a comparable level of skill and ability in a different line of work and thereby earn a level of income comparable to what one earned initially
- c. the losers of invested fortunes, can be as long as the rest of their lives
- d. all of the above

\_\_\_\_\_ 128. Blacksmiths and horsebreeders who were displaced by the automobile

- a. died of starvation

b. ended up with the benefits of the automobile and of more efficient transportation in the production of virtually all of the products they bought, thanks to trucks displacing horse-drawn wagons

\_\_\_\_\_ 129. Once individuals who lose a given competition succeed in acquiring a level of skill and ability in a different line of work comparable to what they possessed in their initial line of work, and thereby reestablish their position as income earners, they end up benefitting even from the very improvements in production that initially caused them a loss.

\_\_\_\_\_ 130. Under continuing competition and resulting economic progress, a young man who loses an invested fortune (presumably inherited) as the result of competition, and who is thus reduced to the status of an average wage earner, could nevertheless ultimately still come out ahead in terms of his material standard of living, assuming that there is enough economic progress to make the standard of living of the average wage earner two generations later surpass that of millionaires when the fortune was lost.

\_\_\_\_\_ 131. A sixty-five year-old man who loses an invested fortune will probably never reestablish his position as an income earner. And if he loses his fortune in his youth, the fact that in his old age his standard of living as an average wage earner may finally surpass what it was when he was a millionaire is not sufficient compensation, since he will not be alive long enough to make up for his loss. Thus, the losers of invested fortunes who cannot quickly reacquire their fortunes can legitimately claim that economic competition reduces their standard of living.

\_\_\_\_\_ 132. The losers of invested fortunes who cannot quickly reacquire their fortunes, and skilled workers who lose their jobs and cannot acquire skills and earning capacity in other lines of work comparable to what they had before, can legitimately claim that

- a. economic competition harms them
- b. that it now gives them less than it used to give them, while still giving them virtually everything they have, inasmuch as it underlies virtually the whole of what is produced and the efficiency with which it is produced

\_\_\_\_\_ 133. Those who denounce competition as the “law of the jungle” implicitly support the real law of the jungle, insofar as they imply a case for the use of physical force to maintain their standard of living through suppressing the economic competition of others, an act which constitutes the human equivalent of living by means of teeth and claws.

\_\_\_\_\_ 134. Economic competition, rather than being in conflict with economic security, is in fact an essential foundation of economic security, in that it underlies the existence and availability of the material goods on which economic security depends.

\_\_\_\_\_ 135. The hardships of those who lose their jobs as the result of economic competition would be al-

leviated if there were more freedom of competition rather than less, for what anyone who loses his job requires is the fullest possible freedom to compete in the rest of the economic system, so that he will be able to exploit the best of the opportunities available to him.

\_\_\_\_\_ 136. Seniority systems artificially increase the length of the short-run loss periods.

\_\_\_\_\_ 137. Restrictions on economic competition create a seeming need for further such restrictions, in that, by closing off opportunities for employment, they make the consequences of losing a given competition more severe.

\_\_\_\_\_ 138. The law of comparative advantage shows that there is room for everyone in the economic competition of a division-of-labor society, even if he is productively less capable than other people in every respect.

\_\_\_\_\_ 139. If country A is only half as efficient as country B in the production of every good, then  
 a. country A simply cannot compete with country B  
 b. country A can compete with country B, provided its wages rates are half of those of B

\_\_\_\_\_ 140. Country B is more efficient than country A in the production of every good without exception. Its productive superiority ranges from twice as efficient to ten times more efficient, with an average superiority of five times the efficiency. (Twice as efficient means B requires only half the labor of A. Ten times as efficient meant that it requires only one-tenth the labor.) Thus

- a. country A simply cannot compete with country B
- b. country A will outcompete country B in the production of all goods in which its productive inferiority is less than a factor of five, provided its wages rates are one-fifth of those that prevail in country B

\_\_\_\_\_ 141. Free international trade does not cause unemployment if a country's relative wage rates are free to adjust to correspond to its relative productivity level.

\_\_\_\_\_ 142. Select the best of the choices below.  
 a. Free international trade promotes world peace.  
 b. Government-supported labor-union interference stands in the way of free international trade by preventing the necessary adjustment of relative wage rates to the relative productivity of labor, thereby making substantial unemployment the price of free trade.  
 c. Free international trade depends on free labor markets domestically.  
 d. all of the above

\_\_\_\_\_ 143. A productive genius as great as Edison can benefit from being able to employ the humblest cleaning lady, despite the fact that he could almost certainly clean his office in the barest fraction of the time it takes her to clean it. His gain is the release of his

time for tasks in which his comparative advantage is greater, indeed, infinite.

\_\_\_\_\_ 144. Even though it might take Edison one-tenth the time to clean his office as it takes the humble cleaning lady of the previous question, she can easily outcompete Edison for the job of cleaning lady if the hourly wage that would have to be paid to Edison is a thousand or more times higher than the hourly wage that has to be paid to her.

\_\_\_\_\_ 145. The fact that Edison is there to do the job of Edison is very much to the material self-interest of the humble cleaning lady, because it will enable her to obtain goods which, left to herself, she would probably never have been able even to imagine, such as electric light and the phonograph.

\_\_\_\_\_ 146. The pyramid-of-ability principle shows how the competitive success of the more able serves to raise the productivity and standard of living of the less able in a division-of-labor society.

\_\_\_\_\_ 147. The scarcity of labor in relation to people's need and desire for products and services guarantees that in a free market there is room for all in the economic competition of a division-of-labor society, with comparative advantage and relative wage rates determining who will go where.

The following is a six-part question.

\_\_\_\_\_ 148. When a more qualified individual succeeds in outcompeting a less qualified individual, his gain is also the gain of the consumers of the product he produces or helps to produce.

\_\_\_\_\_ 149. If I could be president of a major corporation, my income and standard of living would dramatically improve. However, I have no hope of obtaining such a position through free competition. Thus free competition stands in the way of my standard of living.

\_\_\_\_\_ 150. If, despite my lack of qualification, I became the president of a major corporation and misdirected the labor of hundreds of thousands of workers and the use of tens of billions of dollars of capital, the magnitude of the losses I caused to others would far exceed the increase in my own income and wealth.

\_\_\_\_\_ 151. If, throughout the economic system, others equally unqualified as myself came to occupy similar positions of major responsibility which they proceeded to abuse, I would lose back in my capacity as a consumer far more than I gained in greater income and wealth. I would not be able to trust the airlines I flew, or the medications I consumed, or the surgeon who might be called upon to operate on me. It is to my self-interest, and the self-interest of everyone, that more qualified individuals be free to outcompete less qualified individuals—from more qualified executives outcompeting less qualified executives down to more

qualified workmen, such as mechanics, plumbers, and electricians, outcompeting less qualified workmen.

\_\_\_\_\_ 152. When understood as a principle operating throughout the economic system, the competitive success of the more qualified individuals over the less qualified individuals is the source of gains

- a. only to the more qualified individuals, who win the competitions
- b. to the less qualified individuals, who lose the competitions, as well as to the more qualified individuals who win the competitions

\_\_\_\_\_ 153. In a division-of-labor society with a free market, the less qualified individuals who lose the competitions must

- a. die of starvation
- b. find other jobs, in which their comparative lack of ability is least and is more than offset by their acceptance of lower wage rates, which assures that these are competitions that they win

\_\_\_\_\_ 154. Select the best of the choices below.

- a. The law of comparative advantage shows the gains to the more able of cooperating with the less able in a division-of-labor society.
- b. The pyramid-of-ability principle shows the gains to the less able of cooperating with the more able in a division-of-labor society.
- c. Both principles are aspects of the wider principle of the harmony of rightly understood material self-interests of all men in a division-of-labor society.
- d. all of the above

\_\_\_\_\_ 155. Competition is

- a. in conflict with social cooperation
- b. the process of organizing and improving the efficiency of the division of labor, which is the sum and substance of social cooperation

\_\_\_\_\_ 156. Competition is the process of organizing the division of labor with respect to

- a. persons for jobs, e.g., who will be company president, who will be janitor, and who will fill any other position
- b. products for markets, i.e., which products and which models will supply which markets to what extent
- c. which methods of production will be used and to what extent
- d. all of the above

\_\_\_\_\_ 157. Population growth in a non-division-of-labor society can represent a competitive conflict of interests as the larger numbers more and more encounter the effects of diminishing returns.

\_\_\_\_\_ 158. In contrast, population growth in a division-of-labor society

- a. makes possible an extension of the division of labor
- b. increases the likelihood of technological progress by virtue of increasing the numbers of people

engaged in the discovery and application of new scientific and technological knowledge

- c. can easily more than offset the effects of diminishing returns through accelerating the pace of technological progress
- d. all of the above

\_\_\_\_\_ 159. The large populations of great cities is what makes possible the great variety of shops and cultural attractions to be found in them, in that, in them, even needs and desires that appear in only modest frequency amount to sufficiently great absolute numbers to make it worthwhile for people to specialize in meeting those relatively infrequent needs and desires.

\_\_\_\_\_ 160. If, on a given day, only one person in a hundred thousand is interested in buying a 19th century mystery novel, that nevertheless represents the potential of a hundred customers per day in a city of ten million inhabitants.

\_\_\_\_\_ 161. Freedom of immigration into a division-of-labor, capitalist society would

- a. reduce the wage rates of unskilled labor relatively to the wages of skilled labor
- b. probably enable the middle class to afford to employ servants
- c. serve to accelerate the rate of economic progress as immigrants with talent, and the talented children of immigrants, came into an environment in which they were free to develop and apply their talents
- d. all of the above

\_\_\_\_\_ 162. The existence of a fixed quantity of money, and a corresponding fixed volume of spending in the economic system, would represent a situation in which

- a. there was a genuine conflict of interests as a result of the fact that the competition of larger numbers of workers would drive down wage rates
- b. the competition of larger numbers of workers would drive down prices as well as wage rates, and to a greater degree than wage rates insofar as it served to increase the productivity of labor, i.e., the output per worker

\_\_\_\_\_ 163. The existence of a fixed quantity of money, and a corresponding fixed volume of spending in the economic system, would represent a situation in which an increase in output on the part of one group relative to that of other groups would serve to increase the money income of that one group while equivalently reducing the money income of all other groups. This would

- a. represent a conflict of interests among the groups
- b. not represent a conflict of interests among the groups, because the resulting fall in prices would offset the fall in money incomes, and the fall in prices would be greater than the fall in the money income of any group to the extent that it increased its productivity.

Answers to Questions 1-163 on Chapter 9

Question #	Correct Answer										
1	d	29	d	57	T	85	T	113	T	141	T
2	d	30	F	58	T	86	e	114	b	142	d
3	d	31	F	59	d	87	T	115	T	143	T
4	b	32	T	60	T	88	F	116	T	144	T
5	T	33	f	61	d	89	F	117	d	145	T
6	T	34	T	62	T	90	F	118	T	146	T
7	c	35	F	63	T	91	c	119	T	147	T
8	F	36	F	64	T	92	c	120	T	148	T
9	T	37	T	65	T	93	T	121	b	149	F
10	T	38	T	66	T	94	T	122	T	150	T
11	T	39	T	67	T	95	T	123	b	151	T
12	d	40	d	68	e	96	T	124	T	152	b
13	b	41	T	69	c	97	T	125	c	153	b
14	b	42	T	70	e	98	T	126	T	154	d
15	b	43	T	71	c	99	e	127	d	155	b
16	b	44	T	72	T	100	c	128	b	156	d
17	T	45	b	73	T	101	T	129	T	157	T
18	T	46	T	74	T	102	T	130	T	158	d
19	T	47	F	75	T	103	T	131	F	159	T
20	T	48	T	76	T	104	e	132	b	160	T
21	T	49	e	77	T	105	T	133	T	161	d
22	T	50	f	78	d	106	T	134	T	162	b
23	b	51	c	79	T	107	T	135	T	163	b
24	F	52	c	80	F	108	T	136	T		
25	F	53	b	81	T	109	T	137	T		
26	b	54	50:50	82	T	110	T	138	T		
27	T	55	2:1	83	T	111	T	139	b		
28	F	56	T	84	T	112	T	140	b		