

Study Questions for George Reisman's *Capitalism: A Treatise on Economics*

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CHAPTER 7. DEPENDENCE OF THE DIVISION OF LABOR ON CAPITALISM III: PRICE CONTROLS AND ECONOMIC CHAOS PART A. PRICE CONTROLS AND SHORTAGES

1. Explain how the definition of inflation as being rising prices implies that businessmen are responsible for inflation.
2. Present two alternative definitions of inflation (which are virtually equivalent to one another).
3. Why are rising aggregate demand and falling aggregate supply the only two possible direct causes of a higher price level? Why must falling supply be ruled out as a cause of the rising prices of the last 60 years?
4. Describe the process by which an increasing quantity of money raises aggregate demand and thus prices.
5. Explain why the imposition of price controls to combat inflation is analogous to an attempt to deal with expanding pressure in a boiler by means of manipulating the needle in the boiler's pressure gauge.
6. "Price controls not only do not stop inflation, but *combine* with inflation to produce a different and worse set of consequences than inflation alone would produce." Discuss.
7. Explain what is meant by a "shortage."
8. Explain how the concept of a shortage differs from that of scarcity.
9. Explain why in a free market scarcities do not result in shortages.
10. Explain why scarcities can result in shortages only when they are accompanied by price controls.
11. Explain how price controls can create shortages even when supplies of goods are at record-high levels.
12. Explain how the combination of inflation plus price controls easily results in large and growing shortages of practically everything.
13. Give an illustration of how shortages cause scarcities.
14. Why is it that in a free market, so far from there being shortages, the typical case is that a seller is in a position to supply more than his present number of customers, even when the overall supply of the item is strictly limited for the time being.
15. Explain why price controls, especially when accompanied by inflation, operate to reduce the supply of goods produced.
16. Explain why rent controls first destroy the housing of the poor.
17. Explain how price controls in a local market operate to deprive that market of supply.
18. Describe the role of price controls in causing the natural gas crisis of 1977.
19. Describe the role of price controls in causing the agricultural export crisis of 1972/73.
20. Explain how price controls foment international hostility and thus serve to promote wars.
21. Explain why price controls that are expected to remain in force for several more years reduce the supplies of goods held in storage.
22. Explain why private hoarding is not responsible for the existence of shortages.

23. Explain why private speculation is not responsible for the existence of shortages even in cases in which suppliers do withhold supplies, in anticipation of the relaxation or repeal of a price control in the near future.
24. Recall your previous answer (to a question on Chapter 6) explaining why speculators cannot gain by attempting to artificially raise the price of something and then sell their supplies at the higher price they themselves have caused.
25. Explain the argument that it would be legitimate for producers in the position of the oil companies in the 1970s to band together to withhold supplies in a deliberate effort to have the controls repealed. Explain also why this did not actually happen and is very unlikely ever to happen, given the state of knowledge and the attitudes of today's businessmen.
26. Explain why in contrast to the case of most goods, price controls on natural resources in the ground are likely to result in a withholding of supplies.
27. Explain how a control on the wage rate of any particular type of labor operates to reduce the supply of that type of labor.
28. Explain how a price control on any particular product of a factor of production, such as milk for drinking, which is made from raw milk, operates to reduce the supply of that product even if the price of the factor of production is also controlled.
29. Practically, the very day on which rent controls were imposed in Los Angeles, apartment-house owners began to convert their units to condominiums. Explain why. Can the landlords reasonably be blamed for this?
30. Explain in what way price controls are tantamount to a prohibition of supply.
31. Explain the likely effect of the combination of price controls and inflation on electric utilities and other regulated industries.
32. Describe the general level of knowledge concerning the cause of shortages.
33. Describe the level of knowledge implied by the New York City law declaring that rent controls could not be lifted until the vacancy rate in the City had first climbed to a certain substantial level.
34. Explain the effect of inflation on nominal profits.
35. Explain the effect of inflation on real profits.
36. "The claim of the city government of New York that in refusing to keep up their buildings landlords were 'milking' their properties is an attempt of the guilty to prosecute the innocent." Discuss.
37. Describe what is meant by the "destructionist mentality."
38. Explain the effect on the tenants and consumers of electricity and oil products, if the landlords, electric utilities, and oil companies that serve them were richer. How well understood are these connections in New York City? In the United States as a whole?
39. Explain why in an inflationary environment, the upward repricing of inventories already on the shelves is in the long-run interests of the consumers as well as the producers.
40. Describe the essential claims made or implied in the campaign against the profits of the oil companies in the early 1970s.
41. Describe the essential facts omitted in the above-mentioned campaign against the profits of the oil companies.
42. Describe the claims made in the more recent attack on the prices and profits of the pharmaceutical companies and important facts omitted in those claims.

43. In the 1970s, the oil companies were widely blamed for having caused the oil shortage. Explain what the oil companies would have had to do in order actually to cause the oil shortage.
44. Describe the ways in which the U.S. government, acting largely under the influence of the ecology movement, has operated to reduce the supply of oil and increase the demand for it.
45. Describe the ways in which the policies of the U.S. government have been responsible for the success of the OPEC cartel. Be sure to include in your answer a discussion of how the competitors of a cartel would normally be the major beneficiaries of its reduction of production and how price controls served to insulate the cartel from competition.
46. Describe the policy of the American oil companies with respect to the increase in the supply of oil.
47. Explain how the profit motive has necessitated that the oil companies strive to increase the supply of oil.
48. "The accusation that the oil companies were responsible for the oil shortage embodies a triple injustice." Explain.
49. What is the gain that oil companies derive from having independent service station owners?
50. Explain how the existence of an oil shortage, caused by price controls, was the cause of efforts by the oil companies to deprive their independent service station owners of supplies.
51. What are the fundamental and radical distinctions that are ignored in the claim that in setting their prices private firms are engaged in a process of price control, with the result that the only choice left is between selfish, private price controls and benevolent, government price controls?

PART B. FURTHER EFFECTS OF PRICE CONTROLS AND SHORTAGES

Explain why price controls and shortages deprive the buyers of economic power over the sellers and place the latter in a more powerful position with respect to ignoring the wishes of the buyers than if they (the sellers) were protected legal monopolists.

1. Explain why price controls and shortages give producers a motive to reduce the quality of their products.
2. Explain how price controls and shortages launch a spiral of mutually reinforcing hatreds between buyer and seller. Illustrate in terms of rent controls in New York City and the treatment of customers during the gasoline shortage.
3. Explain how repeal of rent controls would restore harmony between landlords and tenants.
4. Explain how price controls and shortages create an impetus to higher costs.
5. Explain how price controls result in more than one controlled price being imposed on producers of the same good and the administrative chaos this results in. Illustrate in terms of the price controls on crude oil.
6. Explain how price controls and shortages introduce chaos into the distribution of consumers' goods to individuals.
7. Explain how price controls and shortages introduce chaos into the geographical distribution of goods among local markets.

8. Explain how the existence of a shortage prevents a larger supply from reducing the price of a good.
9. Explain how the severity of shortages in particular localities can depend on the time of year in which the price controls are imposed.
10. Explain how small bureaucratic adjustments in the controls can cause major swings in supply between different geographical markets.
11. Explain how price controls and shortages introduce chaos into the distribution of factors of production among their various uses and make it possible for some products of a price-controlled factor of production to be faced with extremely severe shortages, while other products are faced with only minor shortages. Illustrate in terms of the oil shortage.
12. Explain how the position of the various products in the preceding question can suddenly be reversed by minor changes in the uncontrolled prices of complementary factors of production, by small bureaucratic changes in the price controls, or by anything that results in the slightest changes in the relative profitability of the various products of the factor of production.
13. Explain the relevance of the season of the year in which price controls are imposed to the extent to which different products of a factor of production are faced with shortages. Illustrate in terms of the oil shortage.
14. "Price controls and shortages create tremendous instability in supply. The supply of everything subjected to controls becomes subject to sudden, massive, and unpredictable shortages." Discuss.
15. Explain why price controls and shortages cause hoarding and how hoarding makes shortages more severe.
16. "Under price controls, the most vital and urgent employments of a factor of production are prevented from outbidding not only its most marginal employments, but, from the standpoint of a free economy, employments that could not even qualify as submarginal." Discuss.
17. Explain how the abolition of price control puts an end to hoarding.
18. "The effect of a shortage of any particular commodity is to cause the unsatisfied demand for that commodity to spill over and add to the demand for other commodities." Discuss.
19. "Selective" or partial price controls, that is, price controls imposed merely on certain goods only, are contrary to any rational purpose the government might have in imposing them." Illustrate in terms of the effects of a price control on milk.
20. Explain how selective or partial price controls actually raise prices. Be sure to include a discussion of the effects on the efficiency of production.
21. Explain what is wrong with the claim that price controls "save people money."
22. Explain why rent control on part of the supply of rental housing has the effect of raising rents on the part of the supply that remains free of rent controls.
23. Explain how rent controls and the housing shortages they cause have the potential for bringing about the compulsory assignment of boarders to homes and a system of internal passports so that it requires the government's position to move to various places within one's own country. Illustrate in terms of the conditions of Soviet Russia.
24. Why have rent controls in the United States not resulted in the kind of conditions described in the preceding question?

25. Why does rent control serve to increase the effective cost of constructing new rental housing?
26. Explain how rent controls contribute to the imposition or increase in local sales and income taxes.
27. "The effect of the immediate abolition of rent controls would largely be that the present `beneficiaries' of rent control simply have to change places with an equally large but generally unrecognized class of victims of rent control." Discuss. (Be sure to attempt to identify the kinds of victims of rent control.)
28. Explain why the effect of repealing rent controls in an otherwise unregulated housing market would not be to make people sleep in the streets.
29. Explain how government housing regulations can result in people having to sleep in the streets.
30. Explain why the victims of rent control are suffering substantially more hardship than the `beneficiaries' of rent control would suffer if rent controls were repealed.
31. Explain why there are no beneficiaries of rent control in the long run.
32. Explain how the repeal of our price controls on oil reduced the price received by the OPEC cartel.
33. Explain how the windfall profits tax on the oil industry, enacted in conjunction with the repeal of price controls, contributed to subsequent widespread bankruptcies in the oil industry.

PART C. UNIVERSAL PRICE CONTROLS AND THEIR CONSEQUENCES

1. Explain why price controls tend to spread until all prices and wages in the economic system are controlled--i.e., why partial price controls lead to universal price controls.
2. Explain why the shortages of individual goods that exist under universal price controls tend to be far more severe than the shortages that exist under partial or selective price controls. Illustrate in terms of the case of Soviet Russia.
3. Explain how excess demand under price controls builds up even though people's incomes are controlled.
4. Explain how shortages under universal price controls destroy production. (Recall the various ways previously discussed of how shortages do this and also explain the new and further ways that shortages under universal price controls have this result.)
5. Explain how universal price controls and the shortages they create result in chaos in the allocation of capital and labor among the various branches of production in the economic system.
6. Explain why, under universal price controls, the shortage facing any given industry may not be capable of being overcome, irrespective of any increase in the industry's output.
7. "As the result of the shortages created by universal price controls, capital and labor can be withdrawn from any industry and placed in any other industry, and there is no effect on the rate of profit anywhere."
8. Explain why, under universal price controls and shortages, even though the consumers want more of one good and less of another, say, more shoes and fewer shirts, the producers can go ahead and do the exact opposite and yet suffer no financial penalties.
9. Describe the extent of chaos that is possible in the relative production of consumers' goods under universal price controls. Illustrate in terms of the conditions of Soviet Russia.

10. Explain how the chaos in the relative production of capital goods that results from universal price controls and shortages undermines the subsequent ability to produce, including the subsequent ability to produce capital goods. Illustrate in terms of the conditions of Soviet Russia.
11. Explain why the reduction in the ability to produce capital goods tends to result in a cumulative, self-reinforcing decline in the ability to produce.
12. Explain how universal price controls result in a labor shortage, and the effects of a labor shortage on production.
13. Explain how the combination of inflation and shortages promoted a delusion of prosperity in the United States in World War II.
14. Describe the government's typical response, in the way of the assumption of added powers, to the chaos resulting from price controls and shortages.
15. Describe the U.S. government's response to the chaos that resulted in connection with price controls on oil and the resulting oil shortage.
16. Explain why the government's assumption of the further powers required to deal with the economic chaos caused by universal price controls and shortages represents the de facto socialization of the economic system.
17. Explain von Mises's distinction between "socialism on the German or Nazi pattern" and "socialism on the Russian or Bolshevik pattern."
18. "Nazi Germany was a socialist country. However, Sweden is not a socialist country, nor was Great Britain or Israel when they were governed by socialist parties." Discuss.
19. Explain why a "mixed economy" is more appropriately described as a "hampered market economy."
20. Provide several examples of genuinely socialist economies, including some of those that were socialist only for the duration of World War II.