

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

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CHAPTER 8. THE DEPENDENCE OF THE DIVISION OF LABOR ON CAPITALISM IV: SOCIALISM, ECONOMIC CHAOS, AND TOTALITARIAN DICTATORSHIP

PART A. THE CHAOS OF SOCIALISM

1. Explain what characterizes an economic system as fundamentally capitalistic or as socialistic.
2. In the light of the above distinction, is Sweden a socialist economy or, in the words of von Mises, "a hampered market [viz., capitalist] economy"? How about Israel? Great Britain under the Labour Party?
3. Explain once more the distinction von Mises makes between Russian-style socialism and German-style socialism, or between socialism on the Bolshevik pattern and socialism on the Nazi pattern.
4. Provide examples of the two types of socialist economies in the twentieth century.
5. "The essential economic identity between socialism and universal price controls consists in the fact that both of them destroy private ownership of the means of production and its offshoots the profit motive and the price system." Discuss. (Hint: Explain how price controls effectively destroy private ownership of the means of production in the context of a division-of-labor society in the very fact of destroying the right to bid and ask prices.)
6. Describe the kinds of problems a socialist government must face in trying to plan the production of a simple item, such as shoes. In your answer, be sure to explain why decisions about all of the choices that arise in connection with planning the production of shoes are important not only from the standpoint of the consumers of shoes, but, no less, from the standpoint of the production of all other goods.
7. "In planning the production of shoes, or any other individual item, a socialist government is logically obliged to consider its effect on the production of *all other items in the economic system*." Explain.
8. "The insuperable difficulty of socialist planning is that under socialism, it is necessary to plan the production of the entire economic system as an indivisible whole. That would be the only rational procedure. But the planning of the economic system as an indivisible whole is simply impossible." Discuss in terms of the kind and number of items that the individual planner would have to keep in mind and over what period of time.
9. Explain how 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.
10. Explain why unanticipated events, such as a train wreck, a snowstorm, even unanticipated favorable events, such as a better-than-expected harvest, require the replanning of the entire economic system.
11. Describe how a socialist economy would have to go about such replanning.
12. Describe how a capitalist economy goes about such replanning.

13. The essential problem of socialism is that it requires economic planning to take place without benefit of a division of intellectual labor. Discuss.
14. "It follows from the preceding, that in reality, the actual planning of socialist countries must be undertaken by separate government ministries, each responsible for different industries or regions. Even the individual factories undertake part of the planning process." Discuss.
15. "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 at cross purposes." Explain and illustrate.
16. Describe the effect on the ability of an industry to carry out its plans successfully when its suppliers are disinterested monopolists, which is the case under socialism, where there are no profit-and-loss incentives and no freedom of competition.
17. What was meant by the Soviet quota system?
18. How was the Soviet quota system similar to the conditions that exist under universal shortages?
19. Illustrate how the lack of precision of the Soviet quota system further contributed to economic chaos.
20. What facts pertaining to socialism's lack of ability to plan gave rise to the Soviet quota system?
21. Explain why a labor shortage is a necessary feature of socialism.
22. Explain why shortages of consumers' goods are a necessary feature of socialism.
23. Explain why as a result of government ownership of the means of production, 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.
24. Explain how its attempted monopoly of intelligence and initiative is the cause of socialism's anarchy of production.
25. "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." Discuss. (In your answer, compare and contrast capitalism and socialism with respect to the number of chances they offer for new ideas being tried in production, and with respect to the incentives to develop and implement such ideas, as well as with respect to the need to serve the buying public in deciding which new ideas to implement.)
26. "Under socialism, the plain citizen is no longer the customer, 'who is always right,' but the serf, who must take his rations and like it." Discuss in the light of the importance of profit-and-loss incentives and the freedom of competition in the satisfaction of the citizen's wants.
27. "A socialist government has no compelling reason to supply the plain citizen with anything more than is necessary to prevent an uprising." Discuss.
28. "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." Discuss.

29. "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." Discuss in the light both of the economic powerlessness of the plain citizen under socialism and the fundamental moral-political postulate of a socialist society respecting the individual's status as a means to the ends of society.
30. Explain why it is impossible significantly to develop military technology, or any other aspects of technology of special interest to the state, while repressing civilian technology.
31. What is the significance of your answer to the preceding question for the ability of a free society to develop superior military technology in the long run in comparison with a slave society?
32. Why does the ability of the civilian economy to benefit from military technology depend on the existence of a capitalist economic system?
33. "Without the aid of capitalist countries, socialism must revert to feudalism. In the long-run, it is incompatible with the existence of an extensive division of labor." Discuss. (In your answer, be sure to explain whether or not conditions in the Soviet Union and its dependence on outside aid contradicted or confirmed these propositions.)
34. Explain how the inefficiencies of the Soviet Union explained its inability to accumulate capital despite a reputedly very high degree of concentration on the production of capital goods.
35. "Capital accumulation under socialism is possible only at the cost of human life, on the scale imposed by Stalin." Discuss.
36. What is meant by "market socialism"?
37. "Under market socialism, profits will 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." Discuss.
38. How is socialism to achieve a price system according to the market socialists?
39. The absurdity 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." Discuss.
40. "The debate over market socialism is now closed and the correctness of von Mises's position definitively established." Discuss.

PART B. THE TYRANNY OF SOCIALISM

1. "Where the government owns all the printing presses and meeting halls and is the sole employer, freedom of press and speech is impossible." Discuss.
2. "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." Are these phenomena accidental or necessary? Discuss in the light of what is implied by the nationalization of all of the means of production.

3. Why does it take the Communists to establish socialism, while the social democrats are unwilling to take the necessary steps?
4. "The maintenance of socialism requires a reign of terror." Discuss in the light merely of the requirements of effectively enforcing a system of price controls.
5. Explain why 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* as well.
6. Why is it dangerous to be a production manager under socialism?
7. "The fundamental fact driving socialism to a reign of terror is the incredible dilemma in which the socialist state places itself in relation to the masses of its citizens." Discuss in terms of the promises versus the necessarily hateful reality of socialism, and the requirements of remaining in power in such conditions. Be sure to relate your answer to the phenomena of repression, periodic purges, and hysterical propaganda.
8. How do the policies pursued by Gorbachev, and his removal from office, relate to the preceding quotation?
9. How is forced labor implied in the very idea of socialist planning?
10. Explain what factors bring about forced labor under socialism even though it cannot plan. (In your answer, be sure to explain the essential role of labor shortages.)
11. Describe the factors causing or intensifying labor shortages under socialism.
12. Describe the extent of forced labor in the Soviet Union.
13. Describe the circumstances that almost led to the establishment of forced labor (on the home front) in the United States in World War II.
14. "Socialism is a system of aristocratic privilege and a court society." Elaborate with respect to the following: (a) Describe the extent of aristocratic privilege in the Soviet Union, in terms of housing, the possession of automobiles, and access to shops. (b) Explain how the existence of a system of aristocratic privilege is compatible with the slogan "from each according to his abilities to each according to his needs." (c) Describe the factors, both economic and in terms of fundamental moral-political principle, that positively generate a system of aristocratic privilege under socialism.
15. "A socialist society does have some incentives. But the incentives are geared entirely to the achievement of the values of the rulers. There are no incentives to the achievement of the values of the plain citizens." Discuss. (In your answer, be sure to include the analogy to the system of incentives that exists in an army.)
16. Describe the status of intellectuals under socialism.
17. Explain why, 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.
18. How can private ownership of the means of production be established in the formerly socialist countries? Explain the essential requirements.