

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

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CHAPTER 13. PRODUCTIONISM, SAY'S LAW, AND UNEMPLOYMENT

PART A. PRODUCTIONISM

1. Define the terms "productionism" and "consumptionism."
2. Describe various other leading economic doctrines with which productionism is closely associated.
3. Explain a leading philosophic basis for consumptionism that has become increasingly more influential in recent decades.
4. Explain how businessmen are often led to accept a consumptionist view of things on the basis of misinterpreting their experience.
5. Illustrate in contemporary terms the proposition of Adam Smith that "the desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of building, dress, equipage and household furniture seems to have no limit or certain boundary."
6. In what special sense can one legitimately say that a lack of desire for wealth constitutes an economic problem?
7. What kind of philosophical convictions must be present to induce people to desire additional wealth strongly enough to go out and actually produce it?
8. What is the fundamental basis in human nature for the desire for goods outstripping the willingness and ability to produce goods? Why does this relationship continue no matter what the advances in the ability to produce?
9. What is the fundamental basis in human nature for man's *need* for goods having no limit?
10. Explain why there is an inherent, ineradicable scarcity of human labor.
11. Illustrate the scarcity of labor in relation both to the goods we would almost all like to have and the personal services we would like to have.
12. Explain the proposition that we could work ourselves into the hospital from exhaustion long before we could produce all the goods we would like to have.
13. On the basis of consumptionism, explain why the adoption of labor-saving machinery is held to be a cause of unemployment. Illustrate your answer with the use of diagrams.
14. Explain why, on the basis of consumptionism, it is often held that there is only a fixed stock of work to be done in the world and that it is necessary to "make work." Give some examples of "making work."
15. How does the notion of a limited demand for goods lead to the belief that there is an inherent conflict among groups for limited employment opportunities?
16. How does the notion of a limited demand for goods lead to the belief that war is a source of prosperity? Illustrate your answer with the use of diagrams.
17. How does the notion of a limited demand for goods lead to the belief that the presence of great wealth in a country is a liability, and that its absence is an asset?
18. How does the notion of a limited demand for goods lead to the belief that government spending is a source of prosperity?
19. What is the actual effect of government spending on employment and prosperity?

20. Explain how the notion of a limited demand for goods leads to the belief that increases in population are a source of prosperity. Explain why the ideal role that the larger population should play, according to this view of things, is that of consumers, not producers.
 21. Explain the actual relationship between increases in population and aggregate demand.
 22. How does the notion of a limited demand for goods lead to the belief that a country can gain from following a policy of imperialism?
 23. How does the notion of a limited demand for goods lead to the belief that the gain from foreign trade is in exporting, not importing?
 24. Why does consumptionism imply that advertising is inherently fraudulent?
 25. What is the actual relationship between advertising and aggregate demand?
 26. How does the notion that falling prices are deflation represent support for consumptionism?
 27. Compare and contrast the productionist and consumptionist views on the economic value of technological progress in relation to capital accumulation.
 28. Describe the absurdities of the doctrine of secular stagnation with respect to the role of technological progress in relation to capital accumulation.
 29. Explain what is meant by the consumptionist's dilemma in connection with the consequences of technological progress?
 30. Explain how consumptionism presents parasitism as a source of benefit to its victims.
 31. How has acceptance of the consumptionist premise led serious people to support socialism?
 32. In the light of his views on the economic effects of war and pyramid building, explain whether you would classify Keynes as a productionist or as a consumptionist.
- PART B. SAY'S (JAMES MILL'S) LAW
1. Explain the distinction between monetary demand and real demand and in what circumstances a smaller monetary demand can constitute a larger real demand.
 2. Explain how increases in production and supply create real demand.
 3. Explain why *only* increases in production and supply create real demand, i.e., why increases in monetary demand are not sufficient to create additional real demand, and why increases in production and supply are both necessary and sufficient to create more real demand.
 4. Explain the importance of keeping in mind that Say's Law refers to *aggregate* real demand.
 5. Demonstrate how even in the case of an inelastic industry demand for an individual good, such as potatoes, in which an increase in supply reduces the volume of goods received by the producers in the industry concerned, there is nonetheless an increase in aggregate real demand that is precisely equivalent to the increase in aggregate supply in the economy as a whole.
 6. Show why the losses of the potato growers are more than offset by the gains of producers in the rest of the economy when the supply of potatoes increases.
 7. Explain how even though an industry as a whole may lose when its supply increases, the individual producers within the industry who are responsible for the increase in supply can nevertheless gain.

8. Explain how the potato growers, who initially lose as the result of the doubling of the supply of potatoes, are able to gain from the improvement in the ability to produce potatoes.
9. Describe the process of adjustment, which ends with those who remain in potato growing coming out ahead, the ex-potato growers coming out ahead, and those who were non-potato growers from the beginning coming out ahead.
10. Explain in what sense the initial increase in the supply of potatoes represents an *underproduction* of goods other than potatoes.
11. Explain why if the production of *everything*--from matches and salt to swimming pools and yachts--suddenly doubled overnight, as much underproduction would exist as overproduction.
12. "'Overproduction' is always partial and relative, never general and absolute." Discuss.
13. Explain how the economic system benefits from an increase in the ability to produce goods with which people may already be sated, such as table salt.
14. Explain how the concentration of an increase in the ability to produce in the particular industry in which it originates often represents a less efficient use of the improvement than is possible if that particular industry expands less than the full amount by which the improvement would allow it to expand, and allows other industries to expand instead.
15. Explain why what appears as an overproduction in an individual industry would often cease to appear as an overproduction if other industries could increase their production sufficiently.
16. Explain how the adoption of improvements in the ability to produce can be accompanied by gains to all who adopt them, while the accompanying losses to the industry as a whole are suffered by the producers who fail to adopt the improvements.
17. Explain what is meant by the fallacy of composition.
18. Explain in what sense the belief that a fall in general business profitability is the result of too much production reflects the fallacy of composition.
19. Explain why the general profitability of business is independent of the level of physical production of ordinary goods, that is, of goods other than the monetary commodities gold and silver on a precious metal standard. Explain why, at the same time, the profitability of an individual industry is not independent of its level of physical production.
20. What does the general profitability of business in the aggregate basically depend on?
21. Explain why depressions are not the result of any kind of excess of production, but of a monetary contraction.
22. Explain how the fallacy of composition is present in the belief that what is necessary for the existence of more demand is greater need.

PART C. UNEMPLOYMENT

1. Explain why unemployment exists despite the fact that there is an inherent, ineradicable scarcity of labor and despite the fact that all that is necessary to the creation of more aggregate demand is more aggregate supply.
2. Explain how in a free labor market the existence of unemployment automatically tends to reduce money wage rates to the level required to achieve full employment.
3. Explain how government interference is responsible for the perpetuation of mass unemployment.

4. Explain how government interference precipitates mass unemployment by bringing about a drop in payroll spending.
5. Explain what held back the fall in wage rates in the early 1930's, how this led to a further collapse in investment spending and profitability, more bank failures, and a deepening of the depression.
6. Explain why, when wage rates fall to the necessary level, payroll spending tends to increase, rather than remain the same.
7. Would continuous economic progress hold back investment because investments made in the future would be more efficient than investments made in the present?
8. Explain why the prospect of falling prices due to economic progress should *not* be expected to result in a postponement of consumer spending.
9. Explain why full employment was not achieved under the New Deal in the 1930s, despite a policy of large-scale money creation and rapid increases in total spending.
10. Explain why, in principle, a policy of inflation is unlikely to achieve full employment.
11. Explain what made possible the achievement of full employment in World War II.
12. Explain why any additional employment achieved by a policy of inflation and deficits is likely to represent a *decline* in the standard of living of most people.
13. Describe the effects of the full employment achieved in World War II on the standard of living of most Americans.
14. Explain why many people *believed* that World War II represented a period of prosperity.
15. Explain how *the return to peace* is what made possible full employment with prosperity.
16. Explain how full employment could be achieved and maintained through abolishing government interference in the labor market and establishing a 100-percent-reserve gold standard.
17. Explain how real wages can rise in connection with the fall in money wages that is necessary to achieve full employment.
18. Compare and contrast the views of the author with those of von Mises on the subject of the effect on real wages of the process of eliminating unemployment through free competition.
19. Explain why depressions are not caused by excess inventory accumulation.
20. "Excess inventories and depressions are both the result of the same cause, namely, inflation in the form of credit expansion." Explain.
21. In what sense can inventories be viewed as deficient rather than excessive in a depression--that is, how would a larger volume of inventories serve to stave off bankruptcies?