

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

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CHAPTER 14. THE PRODUCTIVITY THEORY OF WAGES

PART A. THE MARXIAN EXPLOITATION THEORY

1. Explain what is meant by the Marxian exploitation theory.
2. Describe Marx's "absolutist" version of the labor theory of value. Explain how it differs from the labor theory of value of the classical economists.
3. Explain how Marx's version of the labor theory of value implies that all value is added exclusively by fresh labor.
4. Explain the implications of Marx's doctrine for such cases as the greater value of aged wine over newly fermenting grape juice.
5. Describe Marx's version of the "iron law of wages." Explain how it differs from the classical economists' version of the iron law of wages.
6. Describe Marx's "rate of exploitation formula."
7. What is Marx's explanation of the existence and magnitude of profit and all other forms of "surplus value"?
8. Explain Marx's doctrine of the progressive impoverishment of the masses. Describe the various ways in which the capitalists are supposed to increase "the rate of exploitation" and what allegedly drives them to it.
9. Explain why, according to the Marxists, the wage earners under capitalism are essentially in the same economic position as slaves or serfs.
10. Explain the influence of the exploitation theory on the interpretation of modern economic history--i.e., on the explanation of why conditions were very bad in the past and what made them improve.
11. Show point for point how the Marxian exploitation theory underlies the present-day "liberals'" beliefs concerning minimum-wage, prounion, maximum-hours and child-labor legislation. Show how it underlies their views concerning confiscatory taxation and social welfare spending.

PART B. THE PRODUCTIVITY THEORY OF WAGES

1. What facts make the exploitation theory appear plausible?
2. Explain why the need of wage earners to work and their willingness to work for minimum subsistence if necessary is *irrelevant* to the wages they must actually accept. (Recall the case of the late model car owned by someone who can no longer afford to keep it.)
3. Explain why the desire of employers, like any buyers, to pay less rather than more, i.e., lower wages rather than higher wages, is also irrelevant to the wages the workers must actually accept.
4. Explain why the rational self-interest of employers and all other buyers is not to attempt to pay the lowest price they can imagine or would desire, but merely the lowest price that is simultaneously *too high* for any other employer or buyer who would otherwise obtain the labor or good in question.
5. Explain how money wage rates are determined by the limited supply of labor on the one side and the quantity of money and volume of spending in the economic system on the other.

6. Explain why the fall in wage rates required to eliminate unemployment does not represent the possibility of subsistence wages, but rather tends to raise real take-home wage rates.
7. Explain how real wage rates are determined primarily by the productivity of labor. Using the formulas for the price and wage level, illustrate in terms of the effect on average real wages of (a) a doubling of the productivity of labor while the quantity of money and the monetary demands for consumers' goods and labor remain unchanged, (b) a doubling of the monetary demands for consumers' goods and labor while the productivity of labor remains unchanged, (c) a doubling of the quantity of money and the monetary demands for consumers' goods and labor accompanied by a doubling of the productivity of labor.
8. In the light of the formulas for the price and wage level and the critical role of the productivity of labor, explain how phenomena which begin by reducing money wage rates, such as immigration or a larger labor force due to population growth or the participation of more married women, as well as the elimination of unemployment, need not reduce real wage rates but can actually raise real wage rates.
9. Explain how a rising productivity of labor is essential if a rise in money wage rates is to represent a rise in real wage rates.
10. Explain what is responsible for rising money wage rates for any labor force whose size does not diminish.
11. "Improvements in the productivity of labor raise real wages by reducing prices not by raising money wages." Discuss.
12. Explain why it is that as real wages have risen, so too have money wages.
13. Explain how the productive contribution of businessmen and capitalists is manifested precisely in the determination of the exchange value of products largely by the quantity of labor required to produce them.
14. Show mathematically how, starting with the formulas for the price and wage level, real wage rates are expressible as the product of the productivity of labor times the "distribution factor." Explain the meaning of the "distribution factor."
15. Explain the connection between real wages and the supply of capital goods per worker.
16. Name the two main determinants of the supply of capital goods.
17. Explain the meaning of "the economic degree of capitalism" and state the two ways in which real wages vary in the same direction as it does.
18. Explain the relationship between the economic degree of capitalism and the productivity of labor and real wages by way of the determination of the relative demand for and production of capital goods.
19. Describe the relationship between the economic degree of capitalism and real wages by way of the "distribution factor."
20. Describe the role of saving in capital accumulation.
21. Explain why under the conditions of an invariable money an increase in saving and the relative demand for capital goods stands in the same relationship to capital accumulation as does force to acceleration in physics.
21. Explain the role of technological progress in capital accumulation.
22. Explain the reciprocal relationship between technological progress and capital accumulation.

23. Explain the role of free trade and of economic freedom in general in the accumulation of capital. Name the concept that subsumes both economic freedom and technological progress as causes of capital accumulation.
24. Explain the effect on real wages of the activities of businessmen and capitalists insofar as these groups are motivated to save and productively expend and to improve the methods of production.
25. Explain how the ultimate foundations of capital accumulation and a rising productivity of labor and real wages are freedom and reason.
26. Describe the leading ways in which government intervention undermines capital accumulation and real wages.
27. Explain the rapid economic progress of Japan and other East Asian countries in the light of the theory of capital accumulation presented in Chapter 14. Present your analysis in terms of Figures 144 and 145.
28. Explain the relative stagnation of the American economy in the last generation in the light of the theory of capital accumulation presented in Chapter 14. Present your analysis in terms of Figures 144 and 145.
29. Explain the stagnation or retrogression of socialist economies, notably Soviet Russia, in the light of the theory of capital accumulation presented in Chapter 14. Present your analysis in terms of Figures 144 and 145.
30. Explain why capital accumulation under capitalism is nonsacrificial.
31. Rebut the argument that capital accumulation which comes about by virtue of a rise in the demand for capital goods at the expense of the demand for labor is against the interests of the wage earners.
32. Explain the bad economic conditions of the average worker in Great Britain in the early years of the Industrial Revolution in a way that is consistent with the nonsacrificial character of capital accumulation under capitalism.
33. In the light of the productivity theory of wages, explain the low real wages, long hours of work, and poor working conditions that characterized much of the nineteenth century.
34. In the light of the productivity theory of wages, explain not only how real wages rose, but also how the hours of work shortened, how child labor disappeared, and how working conditions improved over the course of the last two centuries.
35. Explain what is meant by "the fable of the company towns."
36. Explain why the rise in the productivity of labor is the only possible cause of a sustained, significant increase in real wage rates.
37. Explain the futility of attempting to raise real wage rates by almost all of the possible methods of raising money wage rates, i. e., by means of (a) increasing the quantity of money and volume of spending in the economic system, (b) decreasing the supply of labor available to work, (c) increasing the demand for labor at the expense of the demand for capital goods, (d) increasing the demand for labor by means of taxation the proceeds of which is used to pay wages.
38. Explain the limited context in which it is possible to raise real wage rates by means of raising the demand for labor and thus money wage rates.
39. Explain how a reduction in government spending and taxation could make a significant one-time contribution to raising real wage rates by means of raising the

- demand for labor. Describe a more important, continuing contribution of cutting government spending and taxation to raising real wage rates.
40. Explain the destructive consequences of efforts to "redistribute" wealth and income in the light of the productivity theory of wages.
 41. Explain the error of believing that the existence of profits signifies an ability to pay higher wages. In your answer, be sure to explain how the profits in question may already have been expended for productive purposes and what distinctly different concept profits are being confused with.
 42. "The general public and the labor unions are mistaken in believing that raising money wage rates is the means of raising real wage rates." Discuss.
 43. Explain the nature of the connection between the productivity of a given individual's labor and his ability to earn higher money wages. Be sure to explain the specific aspect of the individual's productivity of labor that does explain his ability to earn higher wages and the aspect that does not explain it.
 44. Explain the effect of a higher productivity of labor on the part of any given individual or group of individuals on the money incomes of those with whom they compete.
 45. Explain the lack of direct connect between the average productivity of labor in the economic system and average money wage rates.
 46. Explain the effect (or lack of effect) both on average money wage rates and on average real wage rates if all individuals increase their productivity of labor to the same extent, e.g., by a factor of two.
 47. Explain how increases in the productivity of labor in some contexts, such as the adoption of the piece work system, can result in a reduction in the average wage rates of the category of workers concerned. Explain how it nevertheless operates to raise the average of real wage rates in the economic system as a whole and, in the long run, the real wage rates of the specific group of workers whose money wage rates have fallen.
 48. If all wage earners in the economic system increase the productivity of their labor, but do so in unequal degrees, explain the effect on both the money wages and the real wages of those whose productivity increase is below average; likewise, for those whose productivity increase is above average.
 49. Describe the indirect connection between a higher average productivity of labor and higher average money wage rates under a system of commodity money, such as the gold standard.
 50. "The efforts of individuals, who must operate under the freedom of competition, to raise their real wages by means of earning more money are perfectly reasonable, fully consistent with the productivity theory of wages, and serve to raise the average level of real wage rates. However, the attempt to raise the average money wage rate of wage earners as a group, by means of violating the freedom of competition, serves to cause unemployment and lower real wages." Discuss.
 51. Explain the consequences of prounion legislation in the light of the productivity theory of wages.
 52. "The effect of labor unions is either to raise the wage rates of some groups of workers artificially while more than equivalently reducing the real wage rates of other groups of workers, or else it is to cause unemployment." Discuss.
 53. "Labor unions are an antilabor institution in that they actively combat the rise in real wages by combatting the rise in the productivity of labor." Discuss.

54. Explain and criticize the labor unions' conception of how the standard of living of the average worker is increased.
55. "Even when the labor unions recognize a connection between the productivity of labor and wages, the connection they seek to establish is wrong, in that they seek to connect a higher productivity of labor to higher money wages rather than to lower prices." Discuss. (Be sure to include in your discussion the implications of the unions' views
56. for the wages of groups like workers in the computer industry, where there has been an enormous rise in the productivity of labor, and groups like waiters in restaurants, where there has been virtually no rise in the productivity of labor for many generations.)
57. Explain the consequences of minimum-wage legislation in the light of the productivity theory of wages.
58. Explain the consequences of maximum-hours legislation in the light of the productivity theory of wages.
59. Explain how maximum-hours legislation reduces real wages even when hourly wage rates are increased to offset the reduction in hours, leaving weekly wage rates unchanged.
60. Explain the consequences of child-labor legislation in the light of the productivity theory of wages.
61. Explain the consequences of forced improvements in working conditions in the light of the productivity theory of wages.
62. In the light of the productivity theory of wages, explain the effect on real wages of freedom of competition in the employment of women and members of minority groups despite a possible reduction in the money wage rates of those already employed.
63. Explain the very different effects of the competition of women and members of minority groups in the face of prounion and minimum-wage legislation and racial and sexual quotas.
64. Explain the relationship of the productivity theory of wages to the classical economists' doctrine of the wages-fund theory.
65. Explain why John Stuart Mill's recantation of the wages-fund doctrine was not justified.
66. Explain the essential differences between the productivity theory of wages and the so-called *marginal*-productivity theory of wages.
67. Explain the difficulties encountered in attempting on a case by case basis to derive the value of a factor of production from the product that is lost when a unit of a factor of production is withdrawn.