

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

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### **CHAPTER 11. THE DIVISION OF LABOR AND THE CONCEPT OF PRODUCTIVE ACTIVITY**

#### **PART A. THE ROLE OF MONEYMAKING IN PRODUCTIVE ACTIVITY**

1. Describe the influence of the doctrine that productive activity is synonymous with manual labor--i.e., state who are the leading parties that accept the doctrine and what prominent activities of a capitalist society it implies are unproductive.
2. Explain how the doctrine is a heritage from the non-division-of-labor societies of old.
3. Explain why, in the context of a division-of-labor society, money making is an essential aspect of productive activity.
4. Explain why bank robbery does not qualify as productive activity even though it may bring in money to its practitioners.
5. Explain why in the context of a division-of-labor society, activity that physically results in the production of a product represents consumption if it is not carried on for the purpose of earning money.
6. Define productive expenditure and consumption expenditure and explain and illustrate why the distinction between them is important.
7. Define capital goods and consumers' goods and explain what is the essential difference between them.
8. Explain why machines are not necessarily capital goods. Give examples of machines, tools, and implements that are everyday consumers' goods.
9. Explain why government is essentially a consumer and its expenditure, consumption expenditure.
10. Explain the difference between producers' labor and consumers' labor and why the distinction is important. What is the leading example of consumers' labor today?
11. Explain what is meant by producers' loans and consumers' loans and why the difference between them is important.
12. Explain why government borrowing represents consumer borrowing.
13. Describe an essential difference between government borrowing and private consumer borrowing.
14. Define capital and distinguish it from the broader concept of wealth.
15. Define investment.
16. Explain and illustrate how the concept of capital value differs from the concept of capital.
17. Explain the relationship between productive expenditure and capital value; explain why not all productive expenditure results in capital value.
18. Explain why expenditures for consumers' goods that are necessary to keep one alive and able to work do not qualify as productive expenditures. (In your answer, be sure to include an analysis of the effect of such a procedure on the calculation of a person's net income and thus of his gain from working.)
19. Explain whether consumption expenditures imposed by the earning of an income, such as a working mother's employment of a housekeeper, should be counted as a productive expenditure and a cost of earning the income.

20. Explain why consumption expenditures of a kind that save money, such as the purchase of a home in comparison with renting or the purchase of a washing machine in comparison with using a laundromat, should not be treated as productive expenditures on the grounds that they are income producing.
21. Should government expenditures that increase the capacity of the citizens to pay taxes be regarded as productive expenditures? Discuss.
22. Should workers employed in a charity's fund raising activities be regarded as producers' labor? Discuss.
23. Explain why expenditures for education should not normally be regarded as productive expenditures.
24. Explain why improvements in an individual's personal capacities, including his ability to earn an income, should not be regarded as capital or any kind of wealth.
25. Explain how the artificial capital constituted by the market value of slaves in a society that sanctions slavery operates to prevent the formation of genuine capital. Illustrate in terms of the economic differences between the North and South in the period before the Civil War.
26. What two criteria did Adam Smith use in distinguishing between productive and unproductive labor? Why is one of them misleading and irrelevant? Discuss.
27. Explain what is meant by the concept of imputed income and describe the contradictions to which it leads.
28. Explain what is meant by the doctrine of opportunity cost and the contradictions to which it leads.
29. Does the fallaciousness of the opportunity-cost doctrine imply that alternative uses for factors of production do not influence costs or that indeed they do, insofar as they influence the formation of the money prices of the factors of production.

## **PART B. THE PRODUCTIVE ROLE OF BUSINESSMEN AND CAPITALISTS**

1. Describe the productive functions of businessmen and capitalists.
2. Explain how businessmen and capitalists (a) create division of labor, (b) coordinate the division of labor, and (c) improve the efficiency of the division of labor.
3. Describe the productive role of financial markets and financial institutions. Be sure to explain the effect both on the accumulation of capital and on the efficiency with which capital is used if financial markets and financial institutions did not exist.
4. Explain the productive role of the stock market in view of the fact that most of its activity does not center on the market in new issues and thus the direct channeling of funds from stock purchasers to business firms.
5. Explain how the existence of the division of labor is what makes retailing and wholesaling necessary.
6. Describe the productive role of retailing.
7. Describe the productive role of wholesaling.
8. Explain how it is possible, without any injustice being committed, for the retail price of a good to rise at the same time that the price paid to the farmers or manufacturers who physically make the good falls.
9. Explain how the existence of the division of labor is what makes advertising necessary.
10. Explain the productive role of advertising.
11. Explain why there is an important gain from advertising even in conditions in which its use leads to a rise in the price of the product being advertised.

12. Explain why there is a limit to any rise in price that advertising might ever cause.
13. Explain why normally advertising serves to reduce prices.
14. Explain how advertising serves to promote the introduction of new and improved products. In your answer, be sure to explain advertising's effect on the extent to which it pays to engage in research and development.
15. Explain in what way the expenditure for advertising is comparable to a seller's posting a bond with the public.
16. Explain why advertising does not dictate what people consume.
17. Explain the statement that advertising pays only when it is for products that people will like when they try them.

### **PART C. BUSINESSMEN AND CAPITALISTS: CLASSICAL ECONOMICS VERSUS THE MARXIAN EXPLOITATION THEORY**

1. Describe the essential claim of the Marxian exploitation theory.
2. Name and briefly describe two leading doctrines of classical economics that are closely associated with the exploitation theory.
3. Briefly describe how the abandonment of classical economics in the late 19th century led to the promulgation of major anticapitalistic doctrines in the 20th century.
4. Explain why Adam Smith can properly be called the father of the Marxian exploitation theory.
5. Describe and illustrate Smith's confusion between labor and wage earning. (Quote him on the subject.)
6. Explain why Smith denies that profits could be an income attributable to the labor of those who make profits.
7. Name some everyday cases in which profits obviously are an income attributable to the performance of labor on the part of those who make them, and explain how the doctrine of "opportunity cost" serves to obliterate this fact.
8. Describe conceptual framework of the exploitation theory, as presented by Adam Smith. In your answer, be sure to explain Smith's "primacy-of-wages doctrine" and what that doctrine implies about the status of profits and the effect on the income of wage earners of the coming of capitalism and capitalists.
9. Explain how Adam Smith viewed the effect of private ownership of land on the incomes of wage earners.
10. On the basis of what you have learned earlier in this chapter, and in Chapters 6 and 9, explain the actual effect of the activities of businessmen and capitalists and private ownership of land on the real incomes of wage earners.
11. Compare and contrast Smith's view of an alleged "early and rude state of society" and the alleged effects of the coming of capitalism and capitalists with Marx's  $C-M-C$  and  $M-C-M'$  sequences.
12. Explain why *profits*, rather than wages, are the original and primary form of income.
13. Explain why businessmen and capitalists are not responsible for the coming into existence of the phenomenon of profit, but rather for the coming into existence and subsequent increase in the relative size of the phenomena of productive expenditure, wages, and costs, and for the reduction in the proportion of income that is profit.
14. Explain what is meant by the "primacy of profit" as opposed to the "primacy of wages."

15. Explain how, while important passages in Adam Smith's *The Wealth of Nations* support the primacy-of-wages doctrine, the doctrine of John Stuart Mill that "demand for commodities is not demand for labor" opposes it.
16. "Ricardo's doctrine that profits fall as wages rise and rise as wages fall pertains to *nominal* profits and wages in the context of an *invariable money*, and is perfectly consistent with real wages and real profits rising together, as Ricardo's own example clearly demonstrates." Discuss.
17. Explain how, when taken in conjunction with J. S. Mill's proposition that "demand for commodities is not demand for labor," Ricardo's doctrine that profits fall as wages rise and rise as wages fall actually supports the primacy-of-profit doctrine and the harmony of interests of wage earners and capitalists, rather than class warfare.
18. Explain how precisely the conditions of Adam Smith's "early and rude state of society" and Marx's "simple circulation" support the proposition that profit is an income due to the performance of labor.
19. Explain how under the more complex conditions of modern society and of Marx's "capitalistic circulation" profit continues to be a labor income, indeed, the income of the most important workers.
20. Compare the underlying standard of attribution used in your answer to the preceding question with that normally employed in fields outside of economic activity, such as history.
21. Explain how the proposition that profits are a labor income is consistent with their variation with the size of the capital invested.
22. Explain how using their variation with the size of the capital invested to deny the attribution of profits to the labor of businessmen and capitalists implies that hardly any production can be attributed to labor in any form and thus contradicts Adam Smith's proposition that labor is the source of all wealth.
23. Explain the implications of the primacy-of-profit doctrine and the application of the normal principle of attribution to the economic realm, for the doctrine of "labor's right to the whole produce." When is this right satisfied under capitalism?
24. Explain the implications of the primacy-of-profit doctrine and the normal principle of attribution, for the treatment of the subject of "passive" recipients of dividends and interest. If the receipt of these incomes represented an exploitation of labor, be sure to explain who the exploited parties would be and what important groups the category of "exploiters" would include.
25. Explain why in fact there is no genuine exploitation in the case described in the preceding question and how the so-called passive incomes can in fact be the result of the application of potentially limitless amounts of labor.
26. Explain why the magnitude of income requiring no labor of any kind in order to be earned would be extremely small under laissez faire capitalism and how government intervention makes such income economically significant.
27. Explain whether Böhm-Bawerk, who is regarded as the leading critic of the exploitation theory, supports the primacy-of-profit doctrine or the primacy-of-wages doctrine.
28. Compare and contrast the labor theory of value held by the classical economists with the labor theory of value held by Marx. In your answer, be sure to deal with the

differences between the two with respect to the role of (a) scarcity, (b) the time factor, (c) the rate of profit,

29. (d) differences in wage rates between countries and occupations.

30. Explain how the labor theory of value held by the classical economists can be harmonized with recognition of the productive role of businessmen and capitalists.

31. Explain what is meant by the "iron law of wages."

32. Compare and contrast the version of the iron law of wages propounded by the classical economists with the version propounded by Marx with respect to (a) the cause of the alleged tendency of real wages toward minimum subsistence, (b) the closeness of the alleged connection, and (c) the possibility of escaping the alleged connection altogether.

33. Explain why the "iron law of wages," as propounded by the classical economists, could seem reasonable in the early 19th century, when Ricardo wrote.

34. Describe the revisions that must be made in classical economics in order "to transform it from a source of support for the exploitation theory into a source of complete and total opposition to the exploitation theory."