

Business Socialism Command Economy

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Published 2014

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1. Socialism Command Economy

- Lesson 15: The Failures of Socialism—Theory
- Lesson 16: The Failures of Socialism—History

4. Chapter: Lesson 15: The Failures of Socialism—Theory

1. Lesson 15: The Failures of Socialism—Theory Questions

4.1.1. Explain the term command economy.

Author: Robert Murphy

Explain the term command economy.

- The term refers to the fact that under (State) socialism, a group of a few (or one) political authorities controls all productive resources, including labor.

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4.1.2. What is the incentive problem inherent in the slogan, "From each ac..."

Author: Robert Murphy

What is the incentive problem inherent in the slogan, "From each according to his ability, to each according to his needs"?

- The policy of this slogan severs the connection between work and reward. It is unlikely that workers would contribute as much to the pile of total output, if the amount they got to consume (or give to their family) had nothing to do with their contribution.

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4.1.3. Could a socialist government use punishment to overcome the problem...

Author: Robert Murphy

Could a socialist government use punishment to overcome the problem of shirking among workers?

- For certain, simple tasks—such as garbage collection and painting barns—a socialist government could use punishment to get workers to carry out their assigned duties. But many jobs require creativity and other unobservable aptitudes. A market economy allows workers to choose their own occupations and discover the fields where they can contribute the most. Even with the use of punishment, socialist officials wouldn't be able to force their subjects to produce the same output. (Could you really use a whip to force someone with nimble hands to spend years training to become a brain surgeon?)

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4.1.4. What do beer companies and electric utilities have to do with socia...

Author: Robert Murphy

What do beer companies and electric utilities have to do with socialism?

- The argument in the text is that during summer months, companies that enjoy government-granted monopolies such as electric and water utilities often restrict their service, whereas private companies in open competition (such as beer and soda producers) welcome the boost in demand for their products.

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4.1.5. *Why doesn't a market economy suffer from the same calculation prob...

Author: Robert Murphy

*Why doesn't a market economy suffer from the same calculation problem that plagues the socialist planners?

- The market overcomes the calculation problem because no one group is "in charge" who needs to decide everything. The decisions are instead dispersed among all the owners of producer goods (including labor). The profit and loss test, as revealed by market prices, guides the owners when they decide how to deploy their resources.

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4.1.6. What is the incentive problem for workers under socialism?

Author: Robert Murphy

What is the incentive problem for workers under socialism?

- If people are not paid in accordance with their productive output—if they're paid according to "need"—then they might not work as hard under socialism as they would under capitalism. There would be fewer goods and services produced overall, meaning that the average standard of living would have to fall.
Sample Partial Credit Answer
People would have no reason to work as hard.

Check the answer of this question online at QuizOver.com:

Question: [What is the incentive problem for workers by Dr. Robert Murphy @Mises](#)

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4.1.7. Describe socialism's "calculation problem" (which is NOT the same a...

Author: Robert Murphy

Describe socialism's "calculation problem" (which is NOT the same as the incentive problem).

- If the government owns all of the resources, then there can be no market prices for them. That means the government, when drawing up the detailed plans for what should be produced, won't have any way to quantify the costs of their decisions. The planners won't know if they are using resources efficiently.

Sample Partial Credit Answer

The government won't be able to calculate if it is doing a good job in its plan for the economy.

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4.1.8. What is ironic about the various schemes that can be implemented to...

Author: Robert Murphy

What is ironic about the various schemes that can be implemented to "cure" socialism of its problems?

- In order to solve the problems of socialism, the central planners might (say) allow workers to swap their finished goods with each other and to vote on what gets produced, and the planners might also allow the factory managers some discretion in how much they produce, based on their expectations of customer demand. Yet with each refinement, the system would more closely resemble capitalism.

Sample Partial Credit Answer

The socialist system turns into a capitalist one.

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4.1.9. Explain why you probably receive better service at Walmart than at ...

Author: Robert Murphy

Explain why you probably receive better service at Walmart than at the Department of Motor Vehicles.

- The DMV has a monopoly on its "services" and thus has little incentive to keep its "customers" satisfied. In contrast, if Walmart employees consistently treat customers rudely, Walmart will lose market share and eventually go out of business if the problem is severe enough.

Sample Partial Credit Answer

Walmart has competition.

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4.1.10. Contrast the very worst that a capitalist "tyrant" can do to you (a...

Author: Robert Murphy

Contrast the very worst that a capitalist "tyrant" can do to you (as a malcontented worker or an obnoxious customer) versus what a socialist tyrant can do to you.

- A capitalist boss can at worst fire a worker or refuse to sell to a customer. In contrast, the socialist ruler can assign an enemy to grueling work in Siberia (or its equivalent), deny educational opportunities to his children, provide inadequate health care, etc.

Sample Partial Credit Answer

A capitalist boss can fire you, that's really it.

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Question: [Contrast the very worst that a capitalist by Dr. Robert Murphy @Mises](#)

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4. Chapter: Lesson 16: The Failures of Socialism—History

1. Lesson 16: The Failures of Socialism—History Questions

4.1.1. *Does the historical record prove that socialism is a flawed econom...

Author: Robert Murphy

*Does the historical record prove that socialism is a flawed economic system?

- No, because we can never know how history would have unfolded in an alternate timeline where socialism hadn't been implemented.
(For an analogy, if someone has a headache and takes an aspirin, and then the headache gets worse, that doesn't prove that "aspirin makes your head hurt." It's probably the case that the headache would have gotten really bad had the person never taken an aspirin.)

Check the answer of this question online at QuizOver.com:

Question: [Does the historical record prove that socialism by Dr. Robert Murphy](#)

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4.1.2. *Explain this subsection title: "Close to a Controlled Experiment."

Author: Robert Murphy

*Explain this subsection title: "Close to a Controlled Experiment."

- There can never be a truly controlled experiment in the social sciences, because people learn from experience; thus the original experiment cannot be recreated, save for one minor adjustment. (This is the hallmark of a controlled experiment.) Even so, the examples of East and West Berlin, and especially North and South Korea, cast considerable doubt on the efficiency of socialism as an economic system.

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Question: [Explain this subsection title Close to a by Dr. Robert Murphy @Mises](#)

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4.1.3. Compare and contrast communism and fascism.

Author: Robert Murphy

Compare and contrast communism and fascism.

- Communism achieves total government control of the means of production through a workers' violent revolution.
Fascism allows citizens to retain nominal ownership of factories, stores, etc., but it heavily regulates them to the point that they are merely following the government's orders. Historically communism focused on international class struggle while fascism tended to be nationalistic and racial.
Sample Partial Credit Answer
Under communism the government owns everything, but under fascism the government technically allows private owners who have to obey all the government's orders.

Check the answer of this question online at QuizOver.com:

Question: [Compare and contrast communism and fascism by Dr. Robert Murphy](#)

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4.1.4. Explain how the conventional "Left Wing/Right Wing" dichotomy (or L...

Author: Robert Murphy

Explain how the conventional "Left Wing/Right Wing" dichotomy (or Left/Right Spectrum) with communists on the left and fascists on the right makes little sense in terms of economics.

- Both communism (extreme left wing) and fascism (extreme right wing) are examples of socialism. It is more useful to group Stalinist Russia and Nazi Germany in the same category of totalitarianism, and contrast it with a society based on private property where government officials can't violate individual rights.

Sample Partial Credit Answer

Both are socialism.

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4.1.5. Does the material in this chapter show that we prove economic theor...

Author: Robert Murphy

Does the material in this chapter show that we prove economic theory with experimental evidence?

- No, we can never have a truly controlled experiment in economics. However, our deductive logic might give us true principles that, in practice, are insignificant and/or are swamped by other factors that we didn't include in our reasoning. Looking at history is thus a useful "check" on our principles or laws.
Sample Partial Credit Answer
No, we are just seeing if our economic laws are illustrated in history.

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