

RESPONSE TO REISMAN ON *CAPITALISM*

ALEXANDER TABARROK

Reisman's *Capitalism* is longer than either Mises's *Human Action* or Rothbard's *Man, Economy, and State*. It thus seems unreasonable to object to my review because it ignores major portions of his work. Reisman's other objections are similarly weak.

Capitalism has surprisingly little to say on entrepreneurship or other typically Austrian and Objectivist themes. I do not think any objective reader would infer from my statement that Reisman is a socialist. Nevertheless, this is Reisman's reading. For the record, Reisman is a strong proponent of capitalism. In *Human Action*, Mises (1966, p. 253) calls entrepreneurs the "pioneers of economic improvement." In Ayn Rand's works, the great capitalists are heroes and visionaries, every bit as creative as the great artists and scientists. In Reisman's book, capitalists are mostly owners of capital. One will not find stirring descriptions, for example, of Carnegie, Rockefeller, Groves or other titans of industry in *Capitalism*. As I stated in my review, I do not object to Reisman's not placing entrepreneurship at the heart of the economic process. I am merely surprised.

Reisman believes that I did not explain in what respects his book is distinctive. He has no difficulty understanding, however, that I imply that the uniqueness of *Capitalism* "is defined by its unintelligible peculiarity, a peculiarity reinforced by its being subject to the influence of the classical economists." Yes, that is it.

One distinct idea in Reisman's book is his rejection of the "primacy of wages doctrine." Here we have an all-too-typical move by Reisman. A doctrine is introduced and stated to be of great importance in classical and contemporary economics. Reisman then demolishes the doctrine and establishes his own unique views. All this would be most impressive if the doctrines Reisman demolishes actually existed. True, a plausible case can be made for many of the Classicals believing something like the primacy of wages doctrine, but to suggest that Rothbard (along with "virtually all economists" other than Reisman) believes wages are primary and all other incomes are deductions from wages is absurd.

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Reisman's discussion of the primacy of wages doctrine did not escape me; I ignored it to concentrate on better aspects of his book. Alas, he is not grateful for my oversight. For what it is worth, the contemporary view (going back to John Bates Clark [1899]), is that profits (in the sense of capital income) are not deducted from labor income, nor is labor income deducted from profits. Instead, both capital and labor income are determined jointly according to their marginal product.

I indeed failed to understand that Reisman wants the classical notion of demand and supply to apply only to the economy as a whole. But the misunderstanding could have been avoided had Reisman chosen to express himself in standard terms. If in the equation $P=D/S$, P is the price level, D is aggregate spending on consumer goods and S the aggregate supply of consumer goods, then Reisman's theory is nothing more than the quantity theory of money, $P=M\cdot V/Y$, because $M\cdot V$ is spending on consumer goods and Y is the supply of consumer goods.¹

In the last 40 years, the methods and tools of economics have increasingly come to be applied to fields like political science, law, sociology, and ethical philosophy. Mises's insistence that economics is but one part of a larger field which studies purposeful human action thus looks prescient. Reisman, in contrast, favors a much older definition of economics, "the science that studies the production of wealth under a system of division of labor." In a footnote to my review, I pointed out that Reisman's definition suffers by contrast with Mises's because it cannot make sense of the post-1950s expansion of economics into cognate fields. It is unclear why Reisman finds my statement of his views to be in error. On page 42 of *Capitalism*, he discusses "the mistaken claim that economics is a science of choices rather than a science of wealth," and later on the same page, "To claim that economics is on this account a science of human choices rather than a science of wealth is to confuse an aspect of the science with its totality." The last statement is especially difficult to understand. Is it not clear that the science of wealth is but a part of the science of human choice?²

In another footnote to my review, I said that Reisman rejects the time-preference theory of interest. In his reply Reisman tells us that he only rejects "the traditional version" of the time-preference theory. One might similarly say that Ayn Rand didn't reject altruism, only the traditional version of altruism. In another distinction without a difference, Reisman claims that he rejects the traditional theory not because it explains the rate of return in terms of goods (as I stated) but rather because it *fails* "to explain the rate of profit and interest in terms of money."

¹Reisman also creates confusion by introducing the classical concepts alongside the standard concepts as if they were alternatives (see pp. 152–53). Furthermore, on p. 152, Reisman refers to P as "the price." Elsewhere (for example, p. 560) he refers to P as the "price level" but there he gives the equation as $P=D_c/S_c$ where D_c is the monetary demand for consumer goods and S_c is the supply of consumer goods. If P is always meant to refer to the price level, as he claims in his reply, why the distinction between D and D_c and S and S_c ?

²I did not mention in my review that by wealth Reisman means physical goods, which only makes his definition all the more odd.

Readers can judge for themselves the uniqueness of Reisman's insights on national income accounting by comparing the quotations from Reisman with those of Rothbard and Skousen given in my review. Also, as I said in my review, Reisman's perspective on capital accumulation is essentially a modified version of Solow's growth model.

In my review, I praised many aspects of Reisman's *Capitalism*. I also pointed out that *Capitalism* has some errors and peculiarities. In his reply, Reisman found it necessary to focus on those errors and peculiarities. This is unfortunate, but does not detract from the better aspects of Reisman's book.

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