

# Principles of Economics – Lecture 4 (Labor) • Study Notes

By Saifedean Ammous

---

## Big Picture

- **Labor is the first way humans economize.** We dedicate our time and bodies to produce things we value.
  - Leisure = activities enjoyed for their own sake.
  - Labor = activities done for their output, not for enjoyment.
  - Mises: “Labor is the employment of the physiological functions of human life as a means.”
  - Labor has **negative utility** – we’d prefer leisure, but work promises greater future reward.
- 

## Core Claims

1. **Labor and the Future**
2. Children seek immediate gratification; maturity comes with sacrificing the present for the future.
3. Reason allows humans to grasp that working today improves tomorrow.
4. Not working ultimately means death.
5. **Production as Alteration by Reason**
6. Production = altering nature with designs of reason.
7. Ideas, recipes, and plans are what turn raw inputs into useful goods.
8. Human action is fundamentally **mental before material**.
9. **Consumer vs. Producer Goods**
10. **Consumer goods** (final/first-order): directly satisfy wants.

11. **Producer goods** (capital, higher-order): indirectly satisfy wants by producing consumer goods.
  12. All capital goods are the result of **foregone consumption**.
  13. **All Action as Exchange**
  14. Production = exchange of leisure (present satisfaction) for future goods.
  15. Price = what you give up in an exchange.
  16. Cost = subjective value of what is sacrificed.
  17. Profit = the subjective gain in happiness from successful action.
- 

### **Productivity of Labor**

- Productivity = output per unit of input.
  - Wage labor dominates modern economies because workers and employers trade voluntarily.
  - **Marginal Revenue Product (MRP):**
  - $MRP = \text{marginal product of a worker} \times \text{price of output}$ .
  - A worker is hired if  $\text{wage} < MRP$ .
  - Example: If a worker produces 20 extra sandwiches a day, sold for \$5 each, with \$2 ingredient cost  $\rightarrow MRP = \$60$ . Hire if  $\text{wage} < \$60$ .
  - Businesses that ignore this arithmetic go bankrupt.
- 

### **Labor vs. Capital**

- Labor is **non-specific** — human skills can be repurposed widely.
  - Capital is rigid, tied to specific uses.
  - Demand for human time is insatiable because of labor's adaptability.
  - Industrial Revolution + fossil fuels = huge labor productivity gains.
-

## Inflation, Unemployment & Intervention

- Unemployment is **not natural** in free markets.
  - 20th century inflation and minimum wage laws created mass unemployment.
  - Inflation erodes employer and worker wealth → layoffs and bankruptcies.
  - Business cycles (credit inflation booms → busts) cause sector-wide unemployment.
  - Minimum wage laws make it illegal to hire low-productivity workers.
  - Example: Switzerland under gold standard had **no inflation and no unemployment**. After leaving gold in 1970s → unemployment emerged like elsewhere.
- 

## Will Work Ever End?

- Keynes predicted a 15-hour work week by 2030.
  - Reality: rising living standards but people still work long hours.
  - Scarcity of time means there's always reason to economize and work for future gain.
  - Humans always face trade-offs between labor (future) and leisure (present).
  - Work never ends as long as humans are mortal and time is scarce.
- 

## Labor and Exploitation?

- Marx's **labor theory of value**: all value comes from labor, so capitalist profit = exploitation.
- Refutation: Capital goods are essential — try being a cab driver without a car.
- Capitalists sacrifice consumption to provide tools → enabling higher worker productivity.
- Workers freely choose to work with capitalists because it makes them more productive.

- Destroying private capital always leads to famine and collapse.
- 

### **Quotable Ideas**

- “Labor is the employment of the physiological functions of human life as a means.” — Mises
  - “All capital goods are foregone consumption.” — Ammous
  - “Unemployment is not a natural part of capitalism; it is the result of inflation and intervention.” — Ammous
- 

### **Study Prompts**

- Define labor and contrast it with leisure.
  - What is the difference between consumer and producer goods?
  - Explain why all capital goods are foregone consumption.
  - How does inflation create unemployment?
  - Why is labor not exploitation?
- 

### **TL;DR**

Labor is how humans trade time and effort today for better conditions tomorrow. Production relies on reason, turning nature into goods through plans and capital — which always requires foregoing consumption. Wage labor is voluntary, guided by marginal productivity. Unemployment and the notion of exploitation are not products of free markets but of intervention, inflation, and faulty theories. Time remains scarce, so the need to work never ends.

