

Principles of Economics – Lecture 6 (Capital) • Study Notes

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Big Picture

- **Capital = saved resources used to produce more goods.**
 - Capital is not consumed directly but employed to increase productivity.
 - Every capital good is the result of **delayed consumption** – someone had to save and forego present use.
 - More capital → longer production processes → higher productivity and safety margins.
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Core Claims

1. **What Is Capital?**
2. A form of property used to produce other goods, not consumed directly:contentReference[oaicite:0]{index=0}.
3. Example: a computer for gaming = consumption good; for work = capital good.
4. Same item may be capital or consumption depending on its use.
5. **Capital Lengthens Production**
6. Capital goods require time to produce.
7. Example: catching fish → with hands = short, with spear/boat = longer process, but higher productivity:contentReference[oaicite:1]{index=1}.
8. Capital = longer production process, shorter marginal time per unit.
9. **Saving: Mother of Capital**
10. Without saving, no capital formation.
11. A fisherman must save fish to survive while building a rod or boat:contentReference[oaicite:2]{index=2}.

12. Boeing 787: 9 years of no revenue; required investors to sacrifice consumption to finance production.
 13. **Capital Increases Productivity**
 14. Same worker with capital vs. without capital: huge productivity gap.
 15. Example: fishing trawler worker = 5 tons/day vs. bare hands = 1 fish/day:contentReference[oaicite:3]{index=3}.
 16. Wealth differences across nations stem mainly from differences in capital stock.
 17. **Capital Is Costly**
 18. Requires **delayed gratification**: giving up certain present consumption for uncertain future output.
 19. Faces **risk of destruction**: natural disasters, accidents, obsolescence.
 20. Suffers **depreciation**: constant maintenance needed.
 21. Carries **uncertainty**: future demand or profitability not guaranteed:contentReference[oaicite:4]{index=4}.
 22. **Capital as Responsibility, Not Privilege**
 23. Owners must deploy capital productively or lose it.
 24. Capital only remains capital if it produces outputs valued by others.
 25. Mismanagement → bankruptcy, rust, decay:contentReference[oaicite:5]{index=5}.
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Capital & Time Preference

- Investment decisions hinge on **time preference**: willingness to sacrifice now for future gains.
 - Low time preference → more saving → more capital formation.
 - Virtuous cycle: more capital → higher productivity → better living standards → further lowered time preference:contentReference[oaicite:6]{index=6}.
 - Hans-Hermann Hoppe: civilization itself is the process of lowering time preference.
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Critique of Keynesian View

- Keynesian textbooks downplay saving, treat it as harmful (“paradox of thrift”).
 - Define saving/investment incorrectly:
 - Saving = buying stocks/bonds.
 - Investment = buying capital goods.
 - This disconnect allows them to argue saving causes unemployment.
 - Policy “solution”: government prints and spends → destroys real savings, promotes debt slavery:contentReference[oaicite:7]{index=7}.
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Are There Limits to Capital?

- No natural upper bound.
 - More saving → more capital → more technology and productivity.
 - Technology = non-physical capital (ideas, methods).
 - Limits come only from **time preference** and opportunity cost of foregone consumption:contentReference[oaicite:8]{index=8}.
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Quotable Ideas

- “Saving is the mother of capital.” – Ammous:contentReference[oaicite:9]{index=9}
 - “Capital is a responsibility, not a privilege.” – Mises (paraphrased through Ammous):contentReference[oaicite:10]{index=10}
 - “The longer the production process, the higher the productivity – and the greater the margin of safety from starvation.” – Ammous:contentReference[oaicite:11]{index=11}
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Study Prompts

- What distinguishes a consumption good from a capital good?
 - Explain how saving enables capital formation.
 - Why does capital lengthen production processes but shorten marginal time per unit?
 - List the four costs/risks of owning capital.
 - How does time preference control capital accumulation?
 - Why is capital a responsibility, not a privilege?
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TL;DR

Capital is saved property dedicated to production, not immediate consumption. It lengthens production processes but massively increases productivity. Capital requires sacrifice — saving, risk-taking, maintenance, and foresight — and it survives only if deployed to satisfy others. The more capital accumulated, the safer and wealthier society becomes. Misunderstanding capital, as Keynesians do, leads to debt-fueled policies that destroy savings. The only true limits to capital are time preference and our willingness to delay consumption.
