

**The Heart of Capitalism:
I Am Capital and We Are Capitalism**

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What Is Capitalism?

First, I'll address what capitalism is.

Then I'll address the misconceptions about capitalism in Africa and around the world.

Then I'll address how capitalism works.

What is capitalism? (Part A)

It is a human phenomenon.

It is an impulse of preservation.

It is about enhancing vitality.

There are no instances where human action is not directed towards goods for the future. **The definition of capital is goods for the future.**



"I AM"



Capital

(in favor of goods for the future)

All human action is done for the purpose of satisfying a perceived need and all action is directed towards the future to satisfy the perceived need as soon as possible.

The human condition is as follows: Current circumstances are going to be changed. This is our vision of the future, and the current circumstances must be changed. Transformation is what is meant by change, in other words, capital is all about transformation.

Capital is in the minds of planning man.

It is a product of reasoning.

Its place is in the human mind.

Natural law defines humans as uniquely different from other creatures and things. Our vision of the future and our understanding of causal relationships are uniquely human.

The end chosen is **goods for the future** and human ingenuity seeks the means and even the best means to attain that end. Goods for the future is the end sought and one of the very best means to attain that end is to use capital, which were the goods for the future in the immediate past. This is a good example of how ends and means are interconnected. My book “Ethical Economics for Today and Tomorrow” deeply explores the interconnectivity of means and ends.

The best means are roundabout methods of production which is the process whereby capital goods are produced first and then, with the help of the capital goods, the desired consumer goods are produced. This brings us full circle, to that important starting point: I AM and YOU ARE capital (**in favor of goods for the future**).

It is not possible to separate human reality from goods for the future since that is the motivating force of human action. It is equally impossible to separate the desire for transformation since that is what must always take place in some form. The desire for transformation is a defining characteristic of what it is to be human according to natural law.

To attain the universally chosen end - goods for the future - means are required. We are living in the modern age which can be described as a time when the attainment of every goal sought is dependent on goods for the future (capital) as the means. We are the beneficiaries of goods for the future laid before us by previous actors in the economy. In other words, we don't have to reinvent the wheel nor most of what we use and certainly take for granted!

Implied in this modern age reality is this: that capital is needed to satisfy any and all goods for the future. Capital is a real factor.



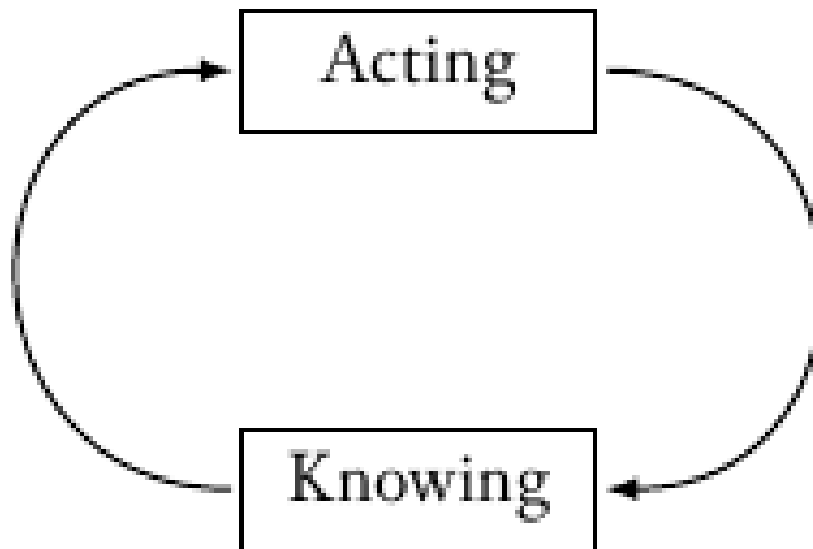
**Capital . . .
determines the course
of human action and is,
in this sense only, a real
factor.**

-Ludwig von Mises

Capital is a product of human reasoning.

We choose and we evaluate our choices.

Capital is a human action concept. Here is the proverbial fountain of human action:





**Capital is a
praxeological concept.
It is a product of
reasoning, and its place
is in the human mind.
-Ludwig von Mises**

Capital is expressed systematically in the economy.

Capital only makes sense in the market economy.

It is inescapably linked with the market economy.



**Capital . . .
is inescapably linked
with the market
economy.
-Ludwig von Mises**

What is capitalism? (Part B)

It is an economic reality.

Capital is all about transformation. Capital accounting establishes, finally, the ultimate outcome of all these transformations.

One interesting economic benefit from capital is the actual generation of information about both revenues and costs as a result of the application of capital in the economy. It is the involvement in the economy by capitalists that creates wages and factor prices (these are their costs) and sales revenues. These wage and factor prices serve as a source of information, enabling entrepreneurs and capitalists to calculate so they can make rational decisions.



**Capital . . .
is a mode of looking at
the problems of acting,
a method of appraising
them from the point of
view of a definite plan.
-Ludwig von Mises**

Capital is always accumulated by individuals or groups of individuals when:

- Production is greater than Consumption.
- Income is greater than Consumption.

This is what leads to savings. Additional capital is accumulated by savings. However, if consumption is greater than income then there is capital consumption.

Capital comes from:

- Restriction of consumption
- Increase in net production.

How powerful is capital?

Capital is the most limiting factor in the economy. Loanable funds are limited. There are many great and many not-so-great ideas out there but not all of them can be executed and that is because there is a lack of capital required to bring them about.

There is no such thing as ‘free capital’ floating around. All capital is embedded in goods of a specific character and in goods of a less specific character (for example, as money).

Wealth consists of:

- Surplus stored for later consumption.
- Surplus used as a means of subsistence of workers engaged in more time-consuming processes (investment).

Capital is what is used to pay for the resources needed to bring the idea to fruition until there is a sufficient flow of revenue to pay for all those factors involved in the production process. But choices must be made since capital is limited.

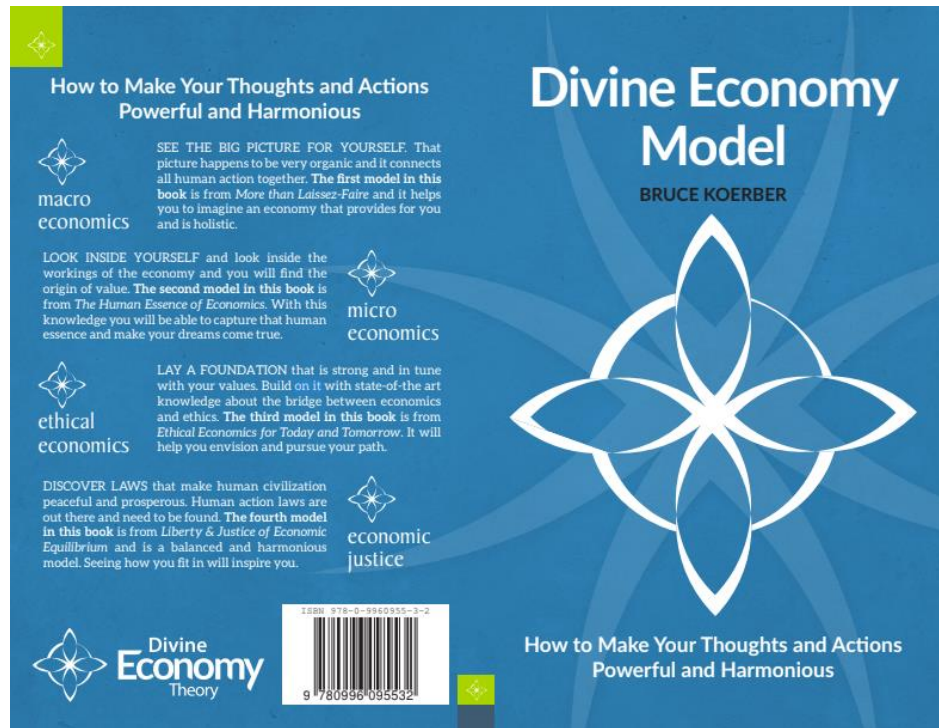
Examples:

1. There is not enough capital to produce all of these:

- Widgets
- Thingamabobs
- Whatchamacallits

So, a choice of what to produce must be made.

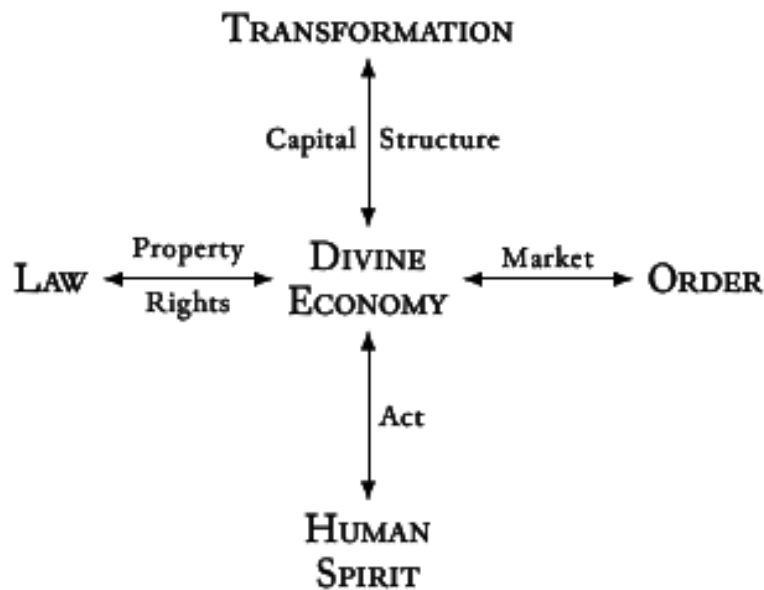
2. There are many requests to produce free copies of the “Divine Economy Model” book for distribution in Uganda and many other English speaking African countries but there is a limit to available capital. This is an example of a great idea and a great product, but it is capital that is limiting its distribution.



What does capital do?

It is capital that yields a cumulative and collective efficiency gain for the economy that dwarfs all the other economic factors. Capital is the key to progress.

Capital is the **agent of transformation** in the economy as you can see in this simple diagram of the economy.



Capital goods are labor, nature & time stored up. **It is the capital structure that transforms all things in the economy.** Nevertheless, capital goods wear out and need to be replenished. In that sense they are transient.

New capital is needed to replenish the depleting capital structure and to enhance and adjust and energize the capital structure.

In the diagram notice the lines with arrows on both ends indicating how everything is reciprocally interconnected. All things are transformed by capital via the capital structure. The capital structure is heterogeneous and in advanced economies its complexity and diversity are remarkable and intricate. Regardless of how developed the economy is the capital structure is essential.

The interconnectivity of economic concepts

Capital Structure Spectrum



Production of all types requires capital. Some capital may be needed for a short time like a day or a week or a month.

Other capital needs to suffice production for years. The picture that emerges is a wide array of production, funded for varying lengths of time, all of which makes up the capital structure funded by savings.

Why does capital come into existence? Because of the disutility of labor! Humans want goods for the future, and they want them with as little labor as possible!

The interconnectivity of economic concepts

Disutility of Labor



There is nothing wrong with the disutility of labor; in fact, the disutility of labor is actually a motive force. It inspires alertness to choices and alternatives. Indeed, disutility of labor underlies entrepreneurship and it also underlies capital.

Capitalism is a human phenomenon. Capitalism is not a political system. It is a synonym for market economy.

What is the distinctive characteristic of the market economy?

The market economy is where money calculation is made possible and capitalism is the means to produce goods for the future.

There are misconceptions about capitalism in Africa, but the misconceptions are not unique to Africa, they are worldwide.

Poor education is the reason for misconceptions about capital and capitalism. Poor education is the consequence of adopting an ideology rather than independently investigating the truth.

The ideology of statism portrays capitalism as a political system. **It is not.** Because of this poor education people are taught to view capital and capitalism negatively. The reality is this: **capitalism is not a political system.** It is poor education that leads to the adoption of the misrepresentation prevalent in the ideology of statism.

Education is a type of capital. The education that is necessary for remedying the problems of economic prejudice and ignorance towards capital and capitalism will not come from institutions that are funded by the interventionists.



The ideology of statism

People who practice State idolatry and the people who unthinkingly go along with it, as Ludwig von Mises says, believe in "policies aimed at the consumption of the spiritual and material capital inherited from earlier generations."

For Africa specifically I ask these two questions:

1. What material and spiritual capital has been and is being consumed?
2. For how many generations has this consumption of material and spiritual capital been taking place?

**A society that chooses
between capitalism and
socialism does not choose
between two social systems;
it chooses between social
cooperation and the
disintegration of society.
- Ludwig von Mises**

The misconceptions about capitalism in Africa and the rest of the world are the consequence of the adoption of the ideology of statism instead of independently investigating the truth.

Why does the ideology of statism misrepresent capitalism?

Since capital is the most limiting factor in the economy the parasitic and predatory State goes after capital and it uses propaganda to hide its intentions.

The interconnectivity of economic concepts

Capital Theory

Capital is the most limiting factor in the economy because it is constrained by loanable funds. The economy is also most limited by capital since capital is the transformational element of the economy which, of course, would make it highly sought after.

In the ideology of statism capital is used to accomplish the goals of the State. The move toward totalitarianism, which is where statism leads, is not in the best interests of humanity.

Capitalism . . .

is the use of capital to advance civilization. Loanable funds are required for the existence of capital.

Statism steals savings and profit and attacks capital, in other words, statism weakens, corrupts, and destroys civilization.

How are savings stolen in the ideology of statism? How is capital weakened in the ideology of statism? In a socialist economy there are capital goods but no new capital. Capital consumption is its mode of operation.

INFLATION

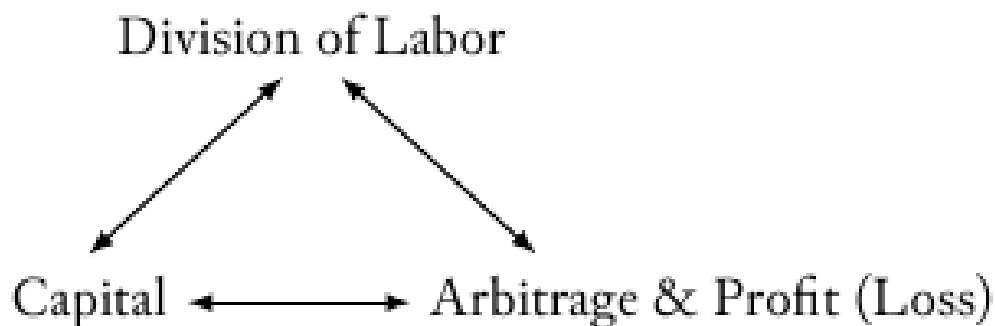
**Leads to the destruction of capital
and
to the consumption of capital.**

**Accounting,
which is vital to all businesses,
is massively distorted.**

All this breeds corruption because inflation redistributes wealth to those who do the bidding of the State.

How capitalism works.

Capitalism is not a political system. It is how the market works. It is an economy that is based on private property, property rights, and entrepreneurship.



1. Division of labor is a specialization that is an expression of human diversity.
2. It creates in the market loci for arbitrage and profit opportunities. This quickly draws the attention of alert entrepreneurs.
3. Savings are then used as capital by the entrepreneurs to pay the wages and factor incomes until the time when revenues can. Sales revenue minus the money costs (wages and factor incomes) eventually yields a profit (or a loss). Some of the net income then re-enters as loanable funds, that is, as 'new' capital.

4. Entrepreneurial alertness also contributes to the identification of ways to specialize, combining with capital to augment the division of labor.

The interconnectivity of economic concepts

Standard of Living



A standard of living needs to be measured in real terms, not in nominal terms. In real terms the standard of living increases as capital increases and as division of labor takes place.

**Capitalism gave the world what it needed:
A higher standard of living for a steadily increasing number of people.**

Ludwig von Mises

When all the incentives are in place (profit & loss, savings, capital, entrepreneurship, property rights), like it is in a contractual society, capitalism turns luxuries into necessities. There are many examples but one that is obvious to everyone is the ubiquitous cell phone.

The interconnectivity of economic concepts

Profit and Loss



The profit motive is a necessary and inherent feature of the human operating system. As humans evolved and as the economy evolved profits enabled producers 1) to provide wages and other factor incomes, and 2) to be one of the sources of the capital that encourages endeavors with lengthier production times.

Capital and its use in the economy builds a solid foundation. Capital is the key to economic development because it is goods for the future.

Capital is a loan of the fruits of past labor. The users of capital—capitalists—pay for the factors needed, either as wages or as factor incomes (to factors other than labor), as part of the production process. These wages and factor incomes are costs to the capitalist.

If the returns to capital are greater than the costs of capital, then the capital value increases. Additionally, if new capital becomes available it is alertly used since capital is the most limiting factor in the economy.

The interconnectivity of economic concepts

Prices of Higher Order Goods



As decisions are made in the market—between consumer goods and higher order goods—a bridge forms between the present and the future. This bridging of the present and the future in the form of capital structure potentially leads to economic development.

Capital originates from loanable funds, that is, from savings.

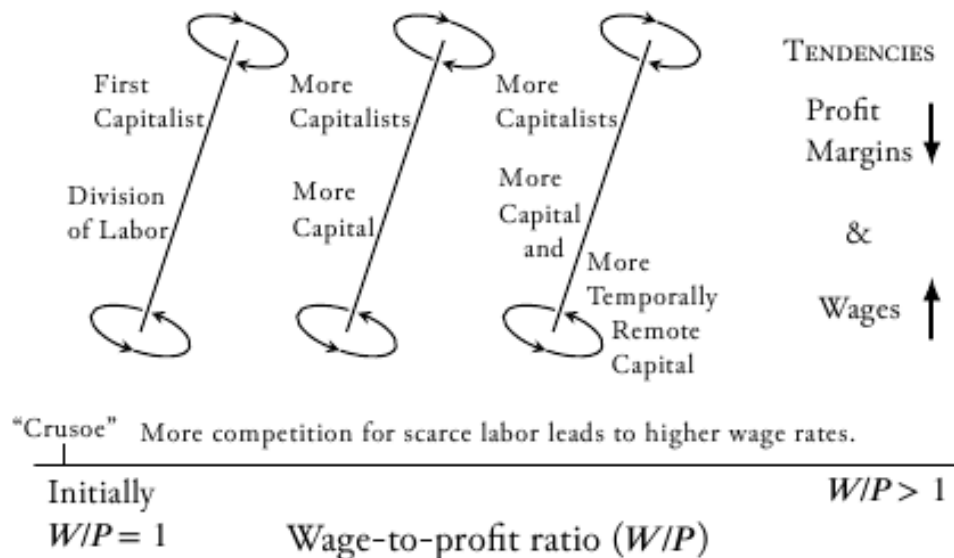
Just as economic growth is limited by capital, consumption is limited by production. **Notice the sequence for an advancing economy: savings then capital then production of goods and services for consumption.**

Of all the factors in the economy capital is the most limiting. Why? People strongly prefer things in the present. Therefore, even under the most peaceful conditions only a small proportion of their incomes will be saved.

Whereas the other half of the loanable funds market is the demand for loanable funds; and that is a function of what can be described as an intense and determined search for capital in the market. Capital is the most limiting factor in the economy because it is constrained by loanable funds. The economy is also most limited by capital since capital is the transformational element of the economy which, of course, would make it highly sought after.

Once the primitive economy moved beyond individuals being self-sufficient, capital became the means of payment to labor and other factors used in the production of goods.

In reality there is no rivalry between labor and capital except in the fictional model of the world imagined by Marx and those who are like-minded, where capital is **selectively excluded** from the economy. Labor is intimately and ultimately the beneficiary of capital just as are the owners of the other factors of production.



1. In a 'Crusoe' situation—one person isolated on an island—the initial payment for his initial work (his wage) equals his profit. He works by climbing a coconut tree and he eats the coconut (profit). At that point the **wage-to-profit ratio** is equal to one.

2. Once there is an opportunity to specialize (trading with others in a market) and there is savings, capital enters the scenario which potentially generates wages and factor incomes.
3. The chasing of capital drives wages up and profits down. The wage-to-profit ratio tendency trends upwards. Capital benefits labor.

Here is the game plan for prosperity:

A good offense consists of:

- Accrue savings
- Use capital
- Nurture entrepreneurship

A good defense consists of:

- Preserve capital
- Protect property rights
- Promote economic freedom

Here are the eight books about the divine economy theory that you can purchase on Amazon (pictured on the next page):

- [More Than Laissez-Faire](#)
- [The Human Essence of Economics](#)
- [Ethical Economics for Today and Tomorrow](#)
- [Liberty & Justice of Economic Equilibrium](#)
- [Macro and Micro Economics Renewed](#)
- [Voluntary Theocracy: Divine Economy Theory](#)
- [Divine Economy Model](#)
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