

Why You Should Accumulate Capital

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Christopher Kalitin Blog (<https://ckalitin.github.io/posts/should-accumulate-capital/>)

What Money Is

This blog post is not “Why You Should Be Rich.” When most people think about being rich the first thing that comes to mind is buying power. “I want to win the lottery so I can live on a yacht with a Lamborghini and an expensive watch.” This is fundamentally spending your money to purchase goods and services - you do not get this spent money back. This spending is used to increase your quality of life or for other mainly hedonistic reasons.

Many self-made millionaire types ([Real estate brokers](https://www.youtube.com/@GrahamStephan) (<https://www.youtube.com/@GrahamStephan>) / [builders](https://www.youtube.com/@ThachNguyen) (<https://www.youtube.com/@ThachNguyen>), [sweaty startup founders](https://sweatystartup.com/businesses-i-love/) (<https://sweatystartup.com/businesses-i-love/>), etc.) often call this hedonistic spending “burning capital.” The transactions described above are not net positives for your bank balance. You spend money to receive goods that depreciate or for services that are consumed. For the purposes of this blog post, I will use this colloquial definition of money.

Fundamentally, prices are a mechanism for the allocation of scarce resources. You spend money to purchase these scarce goods/services. This basic economic principle is why spending money is a net negative for your bank balance.

For this next section, it’s useful to temporarily remove the word money from your vocabulary. We need to solve the problem of allocating scarce resources. You require food, shelter, a mate, etc. to live and all these resources are scarce. This poses the problem of how best to allocate these resources to individuals. Under almost all economic systems you earn the right to scarce resources through providing value - [even under Communism](https://encrypted-tbn0.gstatic.com/images?q=tbn:ANd9GcTiLiHuE3FXrm7BcFTmgEZ3mUhI5EUlt9GyzQ&s) (<https://encrypted-tbn0.gstatic.com/images?q=tbn:ANd9GcTiLiHuE3FXrm7BcFTmgEZ3mUhI5EUlt9GyzQ&s>) this basic meritocratic principle exists. You provide value through your work and are paid in a currency that can be exchanged for resources. For example, in feudal times you could work to produce wheat which is exchanged for other goods and services or given to your lord for the right to produce more wheat. Our modern economic system uses money as a measurement of both produced and consumed value. For this reason, in edge cases, it is possible to gain the right to scarce resources (eg. winning the lottery) without providing value (working).

What Capital Is

Money quantifies inputs into production processes and is often treated as an input itself. Just like all the other inputs - people, materials, land, etc. - it is consumed by an enterprise. However, the most

important difference between money and other resources is that money is both an input and an output of all production processes. Unlike wood or steel, money doesn't constitute any physical object because money is a measurement of value. You cannot recoup the exact wood and steel that were used to build a factory, but you can recoup the exact money that was used to purchase those materials because every dollar is the same as every other dollar. Dollars are measurements, not anything physical.

Because money is fundamentally both an input and output, we don't need to consider it in the same way we consider other inputs. The most important element of capital is that it can gain value over time. Unlike money - which is spent and never returns to your bank account (mostly) - allocated capital can turn into more capital. An investor can put capital into a project and receive more capital in return - they receive the same exact resource they put in. This is not also true of lumber because lumber is consumed and not used as a currency. Fundamentally, money is spent on goods and services while capital is used to make more capital. Unlike money, capital is allocated, not spent. Put more simply, capital is money that turns into more money over time.

Capital is fundamentally productive because each production step adds value. If this isn't true, there is a negative return on invested capital. For any production done in a competitive free market, the value of the output must be greater than the value of the inputs. This is an axiom that applies to all production. If this axiom isn't satisfied, the market quickly corrects itself and either the producer adapts or goes bankrupt.

It should be clear why capital is more useful than money from the perspective of individuals (using the colloquial definitions described above). Capital makes more of itself and can be converted into money at any time by making purchases. This is fundamentally why investing works. Instead of spending your entire paycheck, you can invest in the S&P 500 and bet on the absolute productivity of those 500 companies increasing. Later, you can withdraw your capital and spend it on more goods and services than you could have purchased otherwise.

Capital Is Power

Allocate Capital to Issues You Care About

"A market economy allows accurate knowledge to be effective in influencing decision-making even if 99% of the population does not have that knowledge. In politics, however, the 99% who do not understand can create immediate political success for elected officials and for policies that will turn out in the end to be harmful to society as a whole."

Thomas Sowell, Basic Economics, Chapter 15

Under our current democracy, every voter has roughly even say in all issues. This is inefficient because not every voter has sufficient knowledge in every field to make an effective decision.

Representative democracy tries to solve this by having the voter elect a representative to make decisions on their behalf. The reason this fails is that if you know less than someone in a particular field, you are not the best judge of their skill in that field. You cannot grade a math test if you know less than the students taking the test.

Instead of evenly allocating decision-making on all issues among all voters we can allocate decision-making to those who have capital allocated in a particular field. This solves the problem of having a lack of focus in a democracy where you have a say in all issues. There are likely only a small subset of issues that actually affect you and that you care about. The vast majority of decisions to be made in your country are likely uninteresting and irrelevant to you. If instead, you could allocate your votes to the particular issues you care about, you could have far more of an impact.

This system of allocating your vote to a particular issue exists today. If you want to steer a corporation in a particular direction, you can buy stock and vote as a shareholder. Anyone can acquire enough shares of any company to have more of a say in the management of that company than they do in the management of their country. For example, there are 161 million voters in the US. To acquire one 161 millionth of Tesla, you would need to spend ~\$5,000. It's important to note that your interests may more closely align with a company of a smaller market cap, making your capital more powerful in that company.

Battling in the Free Market Of Ideas Leads to Better Results

"The best way to predict the future is to create it."

Peter Drucker / Alan Kay

This system of allocating decision-making with capital invested in a particular field is even more powerful if you work in that field. Those who have the most power to steer a particular field in a certain direction are those who work in it. If you have your life savings invested in your field, you are likely to have a tremendous knowledge of the field and a great incentive to steer it in the direction you believe is right.

The participants in this kind of democracy are the most invested and most knowledgeable. They battle in the market to see which ideas are the best. Because this is an idea that gets to economic markets, economic principles decide who wins. By extension, the agents in a field that produce the most value are the ones that win. This is an extremely important point to understand because the winners in this battle of capital and ideas are those who will benefit the market - and by extension humanity - the most.

Capital is Meritocratic Allocation of Power Over The Future

"You may not be interested in politics, but politics is interested in you."

Capital allows you to participate in the debate over the future of humanity. What's more important than this is that you aren't being allowed to participate by some other power. You aren't at the behest of the government, which has a monopoly on violence and can forcibly take away your vote if suboptimal events transpire. Your capital is power, and you are the one who decides to enter the game.

This system of allocating power is fundamentally meritocratic. To accumulate a large amount of capital you must first invest a large amount of time, intelligence, and focus into your particular field. These are table stakes to enter the debate over the future of humanity. This is unlike a political class where you only get in the door if you kiss enough ass and backstab a critical mass of individuals. Your success in a free market is dependent on you, and by extension, your influence on the future of humanity is completely dependent on you. Under extremely political systems, power is allocated to those who have the right connections and not those who have demonstrated their ability to do the job. Stalin did not come to lead the Soviet Union by proving his skills in managing a nation.

Distributing Power Is a Moral Good

"The utopians who have dreamed of avoiding this struggle always land in some variant where they force others to perform it for them."

The Capitalist Manifesto, Chapter 2

Under capitalism, power is concentrated under the rich and under the political class. Under communism, there is only the political class. Concentrating power in the hands of a small number of people is how we get evil and suffering. For this reason, distributing power is extremely important to have a bright future for humanity.

The Free Market Allows Autonomy For All

"A government is just a corporation in the limit."

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The defining feature of a free market is that market participants are free to make their own decisions about which transactions to partake in. If you apply this principle to a society, everyone is free from the control of anyone other individual or group - so long as we all have the power to decide if we do or do not want to participate in transactions. Because a true free market allows individuals to make their own decisions, it is not purely rule by capital. A problem arises when you consider how to maintain these individual freedoms and not degenerate into rule by capital, or, in the limit (Using the mathematic definition of a limit), rule by violence.

One of the beautiful manifestations of the mutual benefits of the free market is the "double thank you" as described in chapter 2 of The Capitalist Manifesto. Every time I've sold something on

Facebook Marketplace both I and the buyer say thank you. We both agree to participate in a mutually beneficial transaction and both come out ahead. Thank you for allowing me to purchase this and thank you for taking it off my hands.

Liberal governments (in the classical sense of the word liberal: read *What's Our Problem* by Tim Urban and *The Road to Serfdom* by F.A. Hayek) have historically played the extremely important role of ensuring individuals have the freedom to make their own decisions. Violence is fundamentally required to ensure this fundamental freedom continues to exist because those with the power of violence have the ability to take away the freedom of others. For this reason, along with many others, the government has maintained its monopoly on violence within its own borders.

The issue arises when the government starts to abuse its absolute power of violence to impose its own will on the populace. Using capital to decentralize this power is a step in the right direction because it is far easier for a single entity with absolute power to control you rather than 1000 smaller entities. Individuals or groups with vast amounts of capital can also use this to control you, but from recent events, it is clear that the government exercises this power far more than private entities. The government is just a corporation in the limit. Would you rather have a single monopolistic corporation to transact with, or 1000 smaller corporations in competition where you can choose which one to transact with?

Concluding Thoughts

Get The Fucking Money

Chamath Palihapitiya did a [great talk](https://youtu.be/PMotykw0SIk?si=MgPNG_2_W1JQowS6&t=595) at Stanford in 2018, before the All-in Pod. This was the first place I was exposed to these ideas about gaining capital to be able to steer humanity into the path you see as the best possible future. The [most memorable quote of his](https://youtu.be/PMotykw0SIk?si=P8AEh2uS40QSCtXB&t=1617) from this talk is, "Get the fucking money."

This is all on you. No one is going to implement your vision of the future for you. There's this idea from democracy that you can influence the future just by being given a vote. That is not true. There are vast currents in politics that you have very little control over by design - a tiny drop in a tsunami. You can either work hard to gain political power and become a member of this system that concentrates power or work hard to accumulate power and compete in the free market of ideas.

Capital Vs. Genius

[td;lr \(/assets/images/should-accumulate-capital/Autism.png\)](/assets/images/should-accumulate-capital/Autism.png)

The point of this blog post was to illustrate how you can acquire capital to be able to build your vision of the future and why it is good for many decentralized individuals to all work towards building their own visions of the future. I'm mainly going into this theoretical idea and not how to actually implement it. How to acquire vast amounts of capital is left as an exercise to the reader. However, how to allocate this capital to maximize impact on the future is a theoretical topic that is important to mention in this context.

Capital efficiency is an extremely difficult metric to optimize for. You can't throw capital at this problem because it is fundamentally determined by the intelligence and ability of those involved in a particular enterprise. Companies that amass vast amounts of capital famously become less efficient at spending this capital. Government agencies also suffer from this inefficiency of complacency.

Consider Blue Origin and SpaceX. Blue Origin had more access to capital in its early days while SpaceX was far more limited. This is inferred from Jeff Bezos's higher net worth than Elon Musk at the time. SpaceX has obviously been far more capital-efficient and successful than Blue Origin. This is not purely due to the frugality of a startup with limited ability to raise capital, but also the genius of Elon Musk.

Human capital is what most often drives new advances forward. Once an idea is fleshed out and proven, capital can be thrown at it to scale until it takes over the world. It takes a Fritz Haber to invent and prove the process to synthesise ammonia and a Carl Bosch with a massive corporation, BASF, to scale this technology to the point where it can feed the world. Many have tried to throw capital at reusable rockets and all failed, Elon Musk was the genius that succeeded. This was a situation where genius was far more important than capital. To have extreme impact on the future of humanity you have to be a genius, but we are not all geniuses so the best you can do is accumulate capital and allocate it to where you believe the geniuses are.

You Should Sit In The Sauna

The idea for the blog post came to be when I was half-dead in the sauna. My brain had completely shut down from the complete drain of energy that saunas impose on you, and out of this deep sleepy pit, I recovered my energy and pointed my mind in the direction of thinking about capital allocation. This is a beautiful meditative process and you need to do it. Completely shut down your brain and when it starts back up, point it in a specific direction. I imagine this is what Ayahuasca is like. I agree, I should take LSD.

One of the problems my recovering brain threw at me while I was still recovering my energy is how this philosophy of capital allocation connects with the idea of marriage. All your assets and money is shared in a marriage, which is a completely beautiful thing. But. My primary motivation in life is

to maximize my impact on the future of humanity. Maybe it is wise for buying power (money) to be shared with my wife, and capital to be mine. Yeah, I should just read the Bible and go to church.

If you listen to economists for dozens of hours, you'll learn economics through Osmosis. I was halfway through Basic Economics by Thomas Sowell when I started writing this blog post. Now I'm reading The Capitalist Manifesto by Johan Norberg. Before this I read 1984 and The Road to Serfdom by Hayek. This was all through audiobooks I listened to (and took notes on) while on the bus or Skytrain in Vancouver. You can learn a tremendous amount just through diligent reading and taking notes. You should do this. You'll become a wizard in no time.