AUSTRIAN CAPITAL THEORY

A Modern Survey of the Essentials

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Elements in Austrian Economics

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Abstract: In this Element we present a new framework for Austrian capital theory, one that starts from the notion that capital is value. It is the value attributed by the valuer at any moment in time to the combination of production goods and labor available for production. Capital is thus the result obtained by calculating the current value of a business unit or business project that employs resources over time. It is the result of a (subjective) entrepreneurial calculation process that relates the value of the flow of consumption goods (income, revenue) to the value of the stocks of productive resources that will produce those consumptions goods. The entrepreneur is a ubiquitous calculating presence. In a review of the development of Austrian capital theory, by Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises, Friedrich Hayek, and Ludwig Lachmann, as well as recent contributions, we endeavor to incorporate the seminal contributions into the new framework in order to provide a more accessible perspective on Austrian capital theory.

Keywords: capital, structure, stocks, flows, discounting, capital heterogeneity, calculation, duration, business cycle, Austrian School

JEL classifications: B1, B2, B13, B25, B53, G1

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