

*'The Economic' According to Aristotle: Ethical, Political and Epistemological Implications*

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Abstract:

A renewed concern with Aristotle's thought about the economic aspects of human life and society can be observed. Aristotle dealt with the economic issues in his practical philosophy. He thus considered 'the economic' within an ethical and political frame. This vision is coherent with a specific ontology of 'the economic' according to Aristotle. In a recent paper, I analysed this ontology and left its consequences, especially for Ethics and Politics, for another paper. In this article, I firstly summarise the reasoning and conclusions of the aforementioned paper. Then, I extract the ethical and political "lessons" of the Aristotelian conception. I finally add a section with epistemological "lessons", and consequences for the teaching of Economics.

Key words: Aristotle, Economics, Ethics, Politics

If one reads the economic passages of the *Politics* (specially Book I, Chapters 3-13) and the *Nicomachean Ethics* (in particular Book V, Chapter 5) without a special attention, one may overlook the richness hidden in an apparently naive exposition of the ways of managing the household, including the members of the family, the slaves and the material possessions. But if one makes an effort to leave aside the old-fashioned and outdated elements of these passages, relevant concepts and teachings for the present days can be discovered. In this paper, I will leave out the relationship between the husband-father-master and the other members of the household, and I will concentrate on what is of interest to us, the relation with the possessions.

In a recent paper, I analysed what is 'the economic' for Aristotle, i.e., the ontology of 'the economic' for him. In that paper, I left the consequences for Ethics and Politics of this ontology for a further paper (Crespo 2006, p. 780). Here, I firstly summarise the line of

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inquiry and conclusions of that paper: I provide an account of the meaning of 'the economic' for Aristotle. I suggest a fourfold meaning of the term. From these meanings – a human action, a capacity, a virtue and a science – I then extract lessons for today concerning the fields of personal behaviour (ethics), politics and economic policy. Then, I list a section with epistemological lessons, and consequences for the teaching of Economics. Finally, a number of conclusions are drawn from this analysis. I do not try to appraise concrete current economic theories from Aristotle's perspective but only to highlight possible Aristotelian contributions to them.<sup>1</sup>

### 1. What is *oikonomiké*?<sup>2</sup>

The economy of Aristotle's time differs from contemporary economy, and Economics as such had not yet been founded; he only devoted a few pages to these issues. However, in those pages he left some ideas that may clarify basic notions of the philosophy of 'the economic' and Economics.

First of all, I want to clarify the scope of economy according to Aristotle. Most historians of economic thought correctly translate *oikonomiké* as 'household management' which marginalizes his contribution to economic analysis. However, Aristotle held that *oikonomiké* ('the economic') and its related technique, chrematistics, referred not only to the house but also to the *polis*. Chrematistics "is a form of acquisition which the manager of a household must either find ready to hand, or himself provide and arrange, because it ensures a supply of objects, necessary for life and useful to the association of the polis or the household" (*Politics* I, 8, 1256b 26-30).<sup>3</sup> Some authors have interpreted that chrematistics is a technique which serves both *oikonomiké* and *politiké*. Given that the former deals with the house and the latter with the *polis*, they consider that "political economy" would be a contradiction in terms for Aristotle.<sup>4</sup> In my opinion, however, regardless of the terms adopted, they stress something that could be left aside because the criteria proposed by Aristotle for using properties in the house and in the *polis* are the

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<sup>1</sup> On Aristotle and modern economic theories, see Pack in this special issue.

<sup>2</sup> Parts of this section are extracted from my paper 2006.

<sup>3</sup> Cf. also *Politics* I, 10, 1258a 19-21 and I, 11, 1259a 33-6.

<sup>4</sup> See Barker (1959, p. 357) and Arendt (1959, p. 28).

same. These are the teachings with which we are here concerned. Thus, in this paper I integrate in the term *oikonomiké* the use of wealth as regards the household as well as the civil community.

*Oikonomiké* is the Greek adjective usually Aristotle used to refer to anything which is related to the use of wealth in order to achieve the *Good Life*. He does not use it with corresponding nouns. Thus, it is in fact a substantivated adjective. What is the meaning of this 'the economic'? What kind of reality it is? My hypothesis is that it is an analogical or "homonymous *pròs hén*" term. To argue for this I will turn both to explicit quotations of Aristotle and to the application of other elements of his system to this topic. Homonymous *pròs hén* terms have different however related meanings, one of which is the "focal" or primary meaning to which the other, derivative meanings, refer and are connected.<sup>5</sup> What are these different meanings?

#### 1.1. A human action:

Let us begin with the focal meaning. It is likely that the focal meaning of 'the economic' for Aristotle will be found precisely in his definition of the economic. We will confirm this hypothesis when we compare it with other entities he also calls "economic". Aristotle sets the definition of *oikonomiké* by comparing it to *chrematistiké*. *Oikonomiké* is the use of wealth, while *chrematistiké* is the acquisition of wealth. "To use" is a human action, the action of using wealth. In the *Nicomachean Ethics* (I, 1, 1094a 9) he affirms that the end of *oikonomiké* is wealth. However, the object of use of *oikonomiké* does not suggest unlimited wealth, but the wealth necessary to live at all (*zên*) and to live well (*eû zên*) (*Politics* I, 4, 1253b 24-5).

Furthermore, Aristotle also considers chrematistics as human action: a technique that ought to be subordinated to *oikonomiké*, dealing, as said, with the acquisition of things

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<sup>5</sup> I decided to use the expression "homonymy *pròs hén*" (that is, "*homonimia ad unum*" or "homonymous in relation with one thing"), to clearly distinguish this concrete use of the term homonymy by Aristotle from other ways in which he himself uses it. It would lead us too far from the objective of this paper to describe those different uses and to completely justify this decision. I am following Joseph Moreau's suggestion (1962, p. 83). The expression "focal meaning" was felicitously coined by G. E. L. Owen (1960).

used by *oikonomiké*. However, he distinguishes between two kinds of chrematistics: one actually subordinated to *oikonomiké*, limited and natural, and another unnatural that it is actually not subordinated to *oikonomiké* and looks unlimitedly for money. Concerning the latter he affirms: “this second form [leads] to the opinion that there is no limit to wealth and property” (*Politics* I, 9, 1257a 1). He calls it “justly censured” (*Politics* I, 10, 1258b 1), because it is, according to him, unnatural; it looks unlimitedly for money, which ought to be looked for within limits.

Thus, completing the definition, for Aristotle, *oikonomiké* is the action of using the things that are necessary for life (*live at all*) and for the *Good Life* (*live well*). When Aristotle speaks about “life at all” he is referring to what is achieved at home (*oikos*). When he talks about the *Good Life* he is referring to what is attainable in the *polis*, and it is the end of the civil community. According to him, the last concept of life has a precise moral meaning; it is a life of virtues by which humans achieve happiness.

What kind of action is ‘the economic’? In the *Metaphysics*, Aristotle distinguishes between two kinds of human actions. Firstly, *immanent* actions, that is, actions whose end is the action itself such as seeing, thinking or living. The results of immanent actions remain in the agent. Secondly, *transitive* actions where the “result is something apart from the exercise, (and thus) the actuality is in the thing that is being made” (*Metaphysics* IX, 8, 1050a 30-1). Transitive actions are actions the results of which transcend the agent and are something different from the agent as, for example, a product. Aristotle calls immanent action *prâxis* and transitive action *poiesis* (*Nicomachean Ethics* VI, 4, 1140a 1). All actions are both immanent and transitive except in the case of a fully immanent action (to think, to love). For example, when somebody works there are two results, i.e, an ‘objective’ result, such as the product or service (transitive), and a ‘subjective’ result such as the increase in ability or the self-fulfilment of the agent as well as the morality of the act (immanent). For Aristotle, this latter – the immanent aspect – is the most relevant one. It is the one sought for its own sake, not for any further reason. Aristotle says, “we call that which is in itself worthy of pursuit more complete than that which is worthy of pursuit for the sake of something else” (*Nicomachean Ethics* I, 7, 1097a 30-1). That is, Aristotle attributes more relevance to the intrinsic or immanent aspect of action – that which is in itself worthy of pursuit – because it is the aspect whose end is the very fulfilment or perfection of the agent. For him the external aspect of action is simply instrumental.

*Oikonomiké* is an action of using, in Greek, *chresasthai*. What kind of action, immanent or transitive, is *chresasthai*? “To use” is a transitive action insofar as the thing used is consumed or wasted when used. However, the complete action of *oikonomiké* is to use what is necessary to satisfy the agent’s requirements to live well: this is the immanent consideration of use, for it is using for the sake of the proper perfection, while the action of *chrematistiké* is clearly transitive. This concrete characterization of economic action was not developed by Aristotle; however, I consider that constitutes a genuine Aristotelian analysis of the kind of human action ‘the economic’ is.

### 1.2. A capacity

Aristotle says: “(...) and we see even the most highly esteemed of capacities to fall under this [Politics], for example, strategy, economics (*oikonomikén*), rhetoric” (*Nicomachean Ethics*, I, 2, 1094b 1-2). That is, he also considers *oikonomiké* as a capacity, that is, an ability, or power; in this case, a power to perform economic actions. *Oikonomiké* as capacity is a derived sense of *oikonomiké*, because the capacity of using exists for the sake of the action of using. Given that capacities are defined by their ends or functions (*De Anima* II, 4, 415a 16-21), these ends are ontologically prior to the very capacities and correspond to the focal meaning in a case of an analogical term such as *oikonomiké*. “The excellence of a thing is relative to its proper function,” says Aristotle (*Nicomachean Ethics* VI, 2, 1139a 17).

### 1.3. A habit

It seems reasonable that if *oikonomiké* is both an action and the capacity to perform it, it also engenders a habit that facilitates the action. For Aristotle, habits rely on natural dispositions and are propelled and reinforced by education and law. The very repetition of the action also consolidates the habit thus constituting a kind of virtuous circle -actions-habit-actions. It also makes sense to find that *oikonomiké* is a habit that facilitates the immanent aspect of action – not a *téchne* – i.e. a habit of production. In effect, Aristotle speaks about household management as a kind of prudence, which in the Aristotelian conception mainly reinforces the immanent proficiency of the human being (*Nicomachean Ethics* VI, 8; cf. also *Eudemian Ethics* I, 8, 1218b 13). *Oikonomiké* as a kind of habit is another derived sense of *oikonomiké*. The same argument as set out above, namely of *oikonomiké* as capacity being a derived meaning, applies in this case: the focal meaning, to which this

derived meaning is oriented, is the proper object of the habit, that is, the corresponding action. *Oikonomiké* as a kind of habit helps the performance of *oikonomiké* as the action of using necessary things for living well. It is also clear that *chrematistiké* is a technique which is a habit of production for Aristotle (cf. *Politics* I, 9 and 10, *passim*; e.g., 1257b 7). This last conclusion is also an application of Aristotelian concepts to the topic I am tackling with.

#### 1.4. A science

A last sense of *oikonomiké* gets closer to today's meaning of the term economics: *oikonomiké* as science (*Nicomachean Ethics* I, 1 and 2). For Aristotle, *oikonomiké* is a practical science.<sup>6</sup> What is the meaning of this kind of science? Aristotle distinguishes among theoretical, practical and *poietical* (or technical) sciences. The distinction corresponds to their different subjects (*Metaphysics* VI, 1, 1025b 20-1 and XI, 7, 1063b 36 – 1064a):

1. Theoretical science deals with those things that are not feasible or modifiable, which can only be contemplated. Theoretical sciences according to Aristotle are *Metaphysics*, *Physics* and *Mathematics*. This is the strictest notion of science for Aristotle.

2. Practical science deals with those subjects that originated in human decision or choice. They have a practical aim (*Metaphysics* II, 1, 993b 21-2; cf. also *Nicomachean Ethics* I, 2, 1095a 6 and II, 2, 1103b 27-8).

3. Technical science deals with artefacts and the rules for their production.

*Politics* is the “most architectural” Aristotelian practical science. Ethics and *oikonomiké* are also practical sciences for Aristotle.

Practical science, is, as the other sciences, a “state of capacity to demonstrate (*héxis apodeiktiké*),” (*Nicomachean Ethics* VI, 3, 1139b 32). However, it suffers the limitations inherent to its subject-matter, human choice and human action (contingent, variable, free, singular).

Aristotle recognizes this ‘weaker’ character. He asserts in the *Nicomachean Ethics* that

Our discussion will be adequate if it has as much clearness as the subject-matter admits of; for precision is not to be sought for alike in all discussions, any more than in all the products of the crafts. Now fine and just actions, which political science investigates,

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<sup>6</sup> For *oikonomiké* as practical science, see Newman (1951, I, p. 133), Miller (1995, p. 6-11), Natali (1980, p. 115 ff.) and Berti (1992, p. 80). Instead, *chrematistiké* is a *poietical* science or technique.

exhibit much *variety and fluctuation* (...). We must be content, then, in speaking of such subjects and with such premises to indicate the truth *roughly and in outline* (*Nicomachean Ethics* I, 3, 1094b 11-27, emphasis added).

Aristotle identifies two reasons for this 'inexactness' of practical sciences: "variety and fluctuation" of actions. That is, there are lots of possible different situations and the human being may change his decisions. This is why for Aristotle human action is always singular. He says:

We must, however, not only make this *general statement*, but also apply it to the individual facts. For among statements about conduct those which are general apply more widely, but those *which are particular are more true*, since conduct has to do with *individual cases*, and our statements must harmonize with the facts in these cases (*Nicomachean Ethics*, II, 7, 1107a 31-3, emphasis added).

And also,

(...) actions are in the class of *particulars*, and the particular acts here are voluntary. What sort of things are to be chosen, and in return for what, it is not easy to state; for there are many differences in the *particular cases* (*Nicomachean Ethics*, III, 1, 1110b 6-8, emphasis added).

This particular condition of human action, the subject of practical science, brings along with it some characteristics. Firstly, as quoted above, its conclusions lack precision. Second and consequently, practical science must be closely connected to the concrete case. An adaptation to the particular case, considering its cultural and historical environment, is necessary.

While inexactness and closeness to reality are features which derive from freedom and from the complexity of human affairs, the ethical engagement of practical science arises as a consequence of the other aspect of rationality, namely, normativeness. These ethical aspects are essential to human action. In human actions, a triple rationality may be distinguished: practical or moral, technical, and logical. Practical rationality permeates the whole action to the extent that the existence of a purely technical action cannot be sustained. Whatever may be the action, it is always essentially moral. Since human action is moral, practical science has a moral commitment.

A fourth trait of practical science is its pragmatic aim. An abusive theoretical aim has invaded the realm of social sciences. Social science may have a theoretical aim, but it is always virtually oriented to action due to the essentially practical character of its subject, which defines its epistemological status.

Last, it would be worth mentioning the methodological devices of practical sciences. The bibliography on this topic is rich and could be summarized in an interesting proposal of methodological pluralism. In his *Nicomachean Ethics* and in *Politics*, Aristotle admirably combines axiomatic deduction, inductive inference, dialectic arguments, rhetoric suggestions, imagination, examples, and topics. In a prudential science, all these methodological instruments add up.

Practical science, as Aristotle conceived it, ends in action. However, the more “practical” practical science is, the less general it becomes. By leaving generality behind to move towards concrete reality, science limits its scope. This must be kept in mind; we should look for a balanced position: if we try to include all relevant factors in a concrete situation we lose generality and, thus, explanatory power for different situations in the conclusions we reach. But as we try to gain generality, we lose contact with reality as it actually is, and thus explanatory, predictive and normative ‘efficiency’. Moreover, could we speak about prediction in the conditions described above? What is the solution to this choice between accuracy and generality? Generalisations in practical science are actual dispositions or habits. The more stable the habits and tendencies the more predictable the outcome. Aristotle develops a theory about the stability of habits (*Nicomachean Ethics*, VII, 9, 1151b 25-7 and VII, 10, 1152 a, 26-7). When habits are sufficiently stable as to constitute social institutions, practical science is firmly based. Therefore, institutions are very important for they consolidate tendencies and habits and facilitate accurate science. Thus, according to this meaning of the economic we can predict better when social institutions are solidly consolidated; and, even so, nothing is definite: general tendencies may change; they are not firmly established universals. This trade-off between accuracy and generality may be particularly relevant to contemporary economic theory which is prone to be excessively theoretical and to claim the universality of its conclusions.

This last meaning of *oikonomiké* as practical science is also analogical in respect to ‘economic’ human action. Although being a practical science, science for Aristotle is quite



different from action and from practical wisdom (prudence): “practical wisdom (*phrónesis*) cannot be science (*epistéme*)” (*Nicomachean Ethics* VI, 5, 1140b 2).

All the entities which I have proposed here ‘the economic’ is according to an Aristotelically minded analysis – action, capacity, habit and science – are accidents. They inhere or ‘happen’ to human beings. Thus, they do not happen in isolation. That is why the economic aspect of an action is merged with other aspects – cultural, historical, geographical, singular – pertaining to the acting substance (i.e. the person, and the environment). Within the human realm all these aspects mutually influence each other following a dynamic process: one aspect cannot be completely isolated from others.

Arduous as it may seem, this explanation of *oikonomiké* will be more than useful if we intend to extract the most profit possible from Aristotle’s conception.

## 2. Ethical lessons

When ‘the economic’ is analysed as habit, it remains clear that given that ‘the economic’ entails a moral action, it needs virtues to facilitate its performing. This is why *oikonomiké* has also to be a virtue, economic prudence. Actually, however, there is a constellation of virtues that helps to perform suitable economic actions. I will analyse some of them. Although Aristotle does not explicitly establish all the relations listed in this article, this analysis can be regarded as Aristotelian.

First, *oikonomiké* needs temperance. “How can the ruler rule properly, or the subject be properly ruled, unless they are both temperate and just (*sóphron kai díkaios*)?” Aristotle asks (*Politics* I, 13, 1259b 39-40). I have stated that Aristotle distinguished between two kinds of chrematistics: the one subordinated to *oikonomiké*, limited and natural, and the unnatural other, not subordinated to *oikonomiké*. Both forms of chrematistics use money as an instrument. What happens is that the instrument and the means are often confused, due to their unlimited (*ápeiron*) desire (*epithumías*), and thus they look unlimitedly for money (cf. *Politics* I, 8, 1258a 1). This mistaken kind of chrematistics infects other behaviours, leading to the use of

each and every capacity in a way non consonant with its nature. The proper function of courage, for example, is not to produce money but to give confidence. The same is true of military and medical ability: neither has the function of producing money: the one has the

function of producing victory, and the other that of producing health. But those of whom we are speaking turn all such capacities into forms of the art of acquisition, as though to make money were the one aim and everything else must contribute to that aim (*Politics* I, 9, 1258a 6-14).

This sounds really up to date.<sup>7</sup> The medicine to cure the unlimited appetite is precisely virtue, more concretely, temperance. This interpretation of Aristotle is more coincident to Kern's (1983 and 1985) than to Pack's (1985). While Kern considers that unnatural chrematistics stems from unlimited desires, Pack thinks the other way round: money and unnatural chrematistics causes unlimited desires. My argument for supporting Kern's interpretation is that it is literally borne by Aristotle: "as their desires are unlimited, they also desire the means of gratifying them should be without limit" (*Politics* I, 9, 1258a 1-2).

Second, *oikonomiké* also needs prudence and justice. Let us put an example provided by Aristotle. He analysed the functioning of the market in the *Nicomachean Ethics* (V, 5). He concluded that the tenet ruling demand, and therefore prices and wages, is *chreia*, which means economic need. *Chreia* is subjective and intrinsically moral. It is subjective, because each person judges what is necessary for him. There is another Greek term for necessity, *anagke*, also used by Aristotle in other contexts. *Anagke* is strict necessity (as, for example, it is necessary that an effect has one or more causes). But *chreia* is relative necessity: in order to survive, it is necessary to eat, but one may eat one thing or another, according to any timetable, and so on. Referring to *oikonomiké*, *chreia* means that the way of using the things required is not determined *a priori*, but it is up to each one's will, with an eye on the end to be achieved. These developments on economic exchange belong to Aristotle's writing about Justice (*Nicomachean Ethics* V) and are a typical example of practical reasoning. What virtues are needed in this process? First, prudence or practical wisdom – an intellectual and ethical virtue – in order to accurately assess the real situation and the real necessity of the things demanded: the suitable *chreia*. Second, Justice which

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<sup>7</sup> A current version of how an unlimited desired for money "infects" all the activities is the crowding out effect. This is the decrease of intrinsic motivation (and the ensuing effects on productivity) produced by the introduction of extrinsic motivations designed for the performance of the same actions. It is widely conveyed that the provision of blood decreases when payment for blood donation is introduced. There is a broad literature on this topic. See for example Frey (1997) and Frey and Oberholzer-Gee (1997).

helps to act in the way prudence indicates. If market relations are regulated by justice there are no commercial vices. People who are strongly committed to justice do not free-ride.

Third, *oikonomiké* needs continence, a virtue related to fortitude. According to Aristotle, the reason we need *oikonomiké* is that “it is impossible to live well, or indeed to live at all, unless the necessary conditions are present” (*Politics* I, 4, 1253b 25), and “it is therefore the greatest of blessings for a state that its members should possess a moderate and adequate fortune” (*Politics* IV, 11, 1296a 1). Happiness is an activity conforming to virtue, and “still, happiness, [...] needs external goods as well. For it is impossible or at least not easy to perform noble actions if one lacks the wherewithal” (*Nicomachean Ethics* I, 8, 1099a 31-3). This implies that for Aristotle, although he did not expressly state it, chrematistics and economic action should assure that everybody succeeds in possessing what they need to achieve the *Good Life*. This goal has various aspects in which the virtues previously mentioned collaborate in easing coordination. This is another aspect of the economic life that calls for continence. One of the problems of economics is to face uncertainty. In this sense, continence contributes in making future affairs more predictable. There are higher chances of habits begetting stable behaviour when they are morally good (virtues). According to Aristotle, the incontinent person is unpredictable, while the continent one is more predictable because he/she perseveres:

A morally weak person does not abide by the dictates of reason (*Nicomachean Ethics* VII, 9, 1151b 25-7). A morally strong person remains more steadfast and a morally weak person less steadfast than the capacity of most men permits (*Nicomachean Ethics* VII, 10, 1152a 26-7).

Thus, the probability of economic coordination is greater among virtuous people for their stable character and conduct can be foreseen. Coordination is easier within a group of people who possess an ethical commitment and a common *ethos*. Although I am drawing this conclusion, it is grounded on the Aristotelian arguments above exposed.

Virtues foster the economic process in other ways. Aristotle devoted the largest part of his *Nicomachean Ethics* (Books VIII and IX) to friendship. This virtue, site of social cohesion, supplements justice. In fact, justice is not necessary among friends. Liberality or generosity (Book IV, 1) also help to overcome the problems of disequilibrium, through

individual or collective action. In sum, in an imperfect world, virtues help reduce error and act as a balm. They foster coordination and reduce problems during coordination adjustments.

In sum, I propose that an Aristotelian conception teaches that we must take more care in promoting the development of personal virtues than in building perfect systems. As an accident, the best we can do to perform the economic action is to consolidate it by virtues. This lesson calls for a greater stress on education in virtues and on observance of law, which are the two Aristotelian means to foster virtue. This should be an important aspect of economic policy in an Aristotelian spirit. As suggested in some parts of this Section, the Aristotelian proposal bears a strong resemblance to main features of Economic Institutionalism.

### **3. Political and economic policy lessons**

Aristotle was neither a political economist nor he developed concrete policy proposals at length.<sup>8</sup> However, in this Section general lessons and meaningful criteria relevant to this field are going to be presented by means of a combination of his more general teachings.

Virtues, for Aristotle, are always political: they can only be developed and consolidated within the interaction of community. Thus *oikonomiké* as virtue is embedded in a political environment. Coordination would be guaranteed if, first, there is a set of socially recognized values and second, provided that the individual actions are aimed to these ends. Prudence helps to perform these ends-aimed actions. The knowledge of these shared social values is a matter of the most architectonical of Aristotle's practical sciences, *Politics*.

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<sup>8</sup> However, in some passages he deals with concrete tasks of economic policy. For example, in *Rhetoric* I, 4 he considers within the duties of politicians to know about fiscal revenues and exports and imports, food supply, and commercial treatments. In *Politics* VI, 5 he speaks about taxes, revenues and ways of distribution in order to ensure a permanent level of prosperity and that the masses are not excessively poor. However, he prefers an indirect way: "It is more necessary to equalize men's desires than their properties; and that is a result which cannot be achieved unless men are adequately trained by the influence of laws" (*Politics* II, 7, 1266b 28-30).

Let me explore further this issue beginning with the Aristotelian concept of civil society. “The polis, he says, is an association (*koinonía*) of freemen” (*Politics* III, 6, 1279a 16).<sup>9</sup> In effect, *polis* is a unity of families – better than of individuals as the next quotation will show. What kind of being is a unity of families? Ontologically the Aristotelian *polis* is an order – a quality – of relationships composed by actions of people, an ordered relation (a *prós ti*). The order is given by the fact that these actions aim at a common goal that is a shared thought and intention of those people. The foundation of this order of relations between families that constitutes a polis is the orientation of their actions towards an end:

It is clear, therefore, that a polis is not an association for residence on a common site, or for the sake of preventing mutual injustice and easing exchange. These are indeed conditions which must be present before a polis can exist; but the existence of all these conditions is not enough, in itself, to constitute a polis. What constitutes a polis is an association of households and clans in a good life (*eû zên*), for the sake of attaining a perfect and self-sufficing existence (*autárkous*) (...). The end (*télos*) and purpose of a polis is the good life, and the institutions of social life are means to that end. A polis is constituted by the association of families and villages in a perfect and self-sufficing existence; and such an existence, on our definition, consists in a life of true felicity and goodness. It is therefore for the sake of good actions (*kalôn práxeon*), and not for the sake of social life, that political associations must be considered to exist (*Politics* III, IX, 1280b 29-35 and 1280b 39- 1281a 4).

That is, exchange and the consequent possibility of possessing the goods that are necessary when looking for a Good Life, is a condition of a polis. In this way, the end of the *polis* subsumes the end of *oikonomiké* as action. For Aristotle, Politics as the practice and science of good life is itself morality, and *oikonomiké* is an action and science subordinated to it. It receives its ends from Politics and Politics needs it. At the same time, however, *oikonomiké* is a condition of society’s unity. Aristotle’s autarky is not an economic concept: it does not essentially mean economic independence, but the possibility of self-sufficiently achieve a Good or fulfilled Life: autarky is happiness.<sup>10</sup> However, personal and political autarky

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<sup>9</sup> As John Finnis poses it, “The reality of a community is the reality of an order of human, truly personal acts, an order brought into being and maintained by the choices (and dispositions to choose, and responses to choices) of persons” (1989, p. 271).

<sup>10</sup> On this, see Barker’s commentary (in Aristotle 1958, p. 8) and *Nicomachean Ethics* I, 7, 1097b 15-7. See also C. C. W. Taylor (1995, p. 237). Consequently, Aristotle’s concept of self-sufficiency or autarky does not necessarily rule out international trade.

has also a material component only possible through interaction. As a consequence – that is not explicitly formulated by Aristotle –, the exchange interaction cannot work well outside political society without falling into “censured chrematistics”. The good functioning of exchange does not develop in a vacuum but in political society.<sup>11</sup> This position resembles current positions about the necessity of moral ties to ensure a correct performance of market.<sup>12</sup> It also assumes that economy is a social reality.<sup>13</sup>

Ontologically, the market is also an accidental reality, a net or order of relations – of buyers and sellers, people who exchange: the order or unity comes from the coincidence of wills willing to buy or sell in order to satisfy their needs, and this coincidence is achieved thanks to prices. This last net of relations belongs to the broader net of society.

For Aristotle, both society and exchange are natural in the sense that they are institutions demanded by human nature to achieve its natural fulfilment. Men are both *zoôn politikòn* (e.g. *Politics* I, 2, 1253a 3-4) and *zoôn oikonomikòn* (*Eudemian Ethics* VII, 10, 1242a 22-3). However, for Aristotle natural in the realm of humans does not mean ‘spontaneous’ or ‘automatic’. *Polis* and exchange are tasks that are to be performed with

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<sup>11</sup> As Gudeman poses, “Markets never exist ‘outside’ a cultural and social context” (2001, p. 94).

<sup>12</sup> Israel Kirzner said in a personal letter on this topic: “You suggest that ‘*moral coordination* is an implicit condition for economic coordination.’ Now I have, in other papers, expressed my agreement with the central idea with which you conclude your letter: ‘Economy does not run without a common *ethos*.’ Like you, I do not believe that a market economy (and the economic coordination it is able to achieve) is feasible, as a practical matter, without a shared moral framework. So that I agree that a condition for the *practical achievement* of economic coordination is (what you call, if I understand correctly) *moral coordination*.” (Letter of July 23, 1998, on file with the author; emphasis in the original). In the same sense, Bruce Caldwell affirms: “It seems clear that the existence of a ‘certain moral climate’ is indeed a necessary condition for an economy to be able to function adequately” (1993); and Irene van Staveren says: “Smith, Mill and Taylor, Marx, Reid and Perkins Gilman knew very well that free exchange does not function without justice, nor without care” (1999, p. 73). Cf. also Luigino Bruni and Robert Sugden (2000).

<sup>13</sup> Finnis says: “Things will be better for everyone if there is a division of labour between families, specialization, technology, joint of co-operative enterprises in production and marketing, a market and a medium of exchange, in short, an economy that is more than domestic” (1980: 145). Gudeman sees the relationship between people as mediated by things as the stuff of economy (cf. 2001: 147).

effort, not facts. This does not mean that there cannot arise some institutions that facilitate this performance and work quite automatically.<sup>14</sup> Precisely, the task of Politics and Economics is to find out and to shape these institutions which foster the suitable habits dealing with economic coordination. In any case, as stated before, provided that one goal of these institutions is to shape habits, the very institutions alone are like empty structures to be filled. This goal highlights the relevance of paying special attention to their efficacy in promoting good habits (virtues). This is one important political lesson from the Aristotelian conception of *oikonomiké* and *politiké*.

Another lesson, more specific for economic policy, has to do with the involvement with ends. In the Aristotelian conception of *oikonomiké* ends are not given (as it appears in standard economics), but really matter: they are the goal of *oikonomiké* and cannot be left out. The problem which arises in dealing with ends is incommensurability. Often, in the realm of ends there is no a common measure that allows a precise calculation of the optimal selection of them. Aristotle argues against Plato's monistic conception of the good: "of honour, wisdom, and pleasure, just in respect of their goodness, the accounts are distinct and diverse. The good, therefore, is not some common element answering to one Idea" (*Nicomachean Ethics* I, 6, 1096b 22-5, cf. also *Politics* III, 12, 1283a 1ff.).<sup>15</sup> This may be solved by practical wisdom and practical science but not in a technical way. There is a kind of "practical comparability" that enables decisions in fields where calculation does not apply. In this area economists, although enlightened by calculations, should make the final decision on prudential grounds. The benefits of some decisions of political economy cannot be calculated since they are intangible and incommensurable. For example, the so-called "second generation reforms" are highly relevant, independently of their low or uncertain return rate.<sup>16</sup>

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<sup>14</sup> As also Finnis asserts "now such relationships in part are, and in part are not, the outcome of human intelligence, practical reasonableness, and effort" (1980, p. 136).

<sup>15</sup> Authors following Aristotle on this are, for example, Kolnai 2001, Nussbaum 2001, Finnis 1980, V.6, Raz 1986, Chapter 13, Richardson 1997, Taylor 1982 and 1987.

<sup>16</sup> The expression was introduced by Moisés Naím as "Second Stage of Reform" (see 1993 and 1994). While first generation reforms intend to make markets work more efficiently, second generation reforms comprise issues such as transparency, good governance, education, health, or justice. The impact of the latter reforms is less immediate and visible and more difficult (if not impossible) to

This problem does not arise in the technical field. This domain can be subjected to a cost-benefit analysis. Even though some ends are priceless –goodness, beauty, friendship–, while some others may be priced and made commensurate through prices. Aristotle himself did it: “things that are exchanged must be somehow comparable. It is for this end that money has been introduced, and it becomes in a sense an intermediate; for it measures all things, and therefore the excess and the defect –how many shoes are equal to a house” (*Nicomachean Ethics*, V, 5, 1133a 20ff.). Aristotle then highlights that money is the representative of demand (*chreia*) through price.<sup>17</sup> A tension however remains: “Now in truth it is impossible that things differing so much should become commensurate, but with reference to demand they may become so sufficiently,”<sup>18</sup> in order to exchange them,

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measure than the former, while they are complex and costly. However, they are a necessary condition for development. See, for example, the proceedings of the Second IMF Conference on Second Generation Reforms on line in

<http://www.imf.org/External/Pubs/FT/seminar/1999/reforms/index.htm>

<sup>17</sup> In Neoclassical microeconomics money is not strictly necessary: it may be substituted by any good that serve as a unit of measure. Aristotle would agree with this proceeding (see *Politics* I, 9, 1257a 5-15).

<sup>18</sup> *Nicomachean Ethics* V, 5, 1133b 1-3. By these statements Aristotle seems to be the first author to simultaneously propose the revealed preference theory and to be suspicious about it. I do not agree with S. Meikle’s interpretation (1995, p. 39) which follows the Marxian. Marx quotes Aristotle’s *Nicomachean Ethics* in this passage: “Exchange cannot take place without equality, and equality not without commensurability” (*out isotes mé ouses symmetrias*). Here, however, he [Aristotle] comes to a stop, and gives up the further analysis of the form of value. “It is, however, in reality, impossible (*te men oun aletheia adynaton*), that such unlike things can be commensurable” – *i.e.*, qualitatively equal. Such an equalisation can only be something foreign to their real nature, consequently only “a makeshift for practical purposes.” (*The Capital* I, I, 3, 3). That is, Marx considers that Aristotle would have weakly conceded what he ought not to concede. The mistake arises from an imperfect translation. Marx put into brackets the Greek version of the part of the passage well translated. But he does not do it with the last part, which is incorrectly translated. Aristotle did not say “a makeshift for practical purposes”, rather “but with reference to demand they may become so sufficiently” (*pros de ten chreian endéchetai ikanôs*: V, 5, 1133b 31). In this way, both Marx and Meikle rely on Aristotle to maintain an intrinsic problem of the exchange system that necessarily leads to a practice of the censured chrematistics. According to Aristotle, the reason why this chrematistics



we may add. This may be done certainly, but when there are different priceless goods in play this commensuration becomes impossible. In these cases strict formal schemes ought to be broken and decisions taken with a higher risk or inexactness.

#### **4. Epistemological lessons and some consequences for the teaching of Economics**

From an Aristotelian point of view the economic science is a practical science that may give origin to generalisations relying on tendencies. These generalisations cannot be exact because tendencies may fail due to the contingency and singularity of the human realm. We may face unforeseeable reactions of the free human being to known facts, unforeseeable facts that cause foreseeable or not human reactions. The essentials are only a few and thus we are at the realm of the accidental which is often unpredictable. As already explained, the way of providing security is by strengthening habits. Trustworthy institutions, social and political stability, and personal virtues (which are at the root of the former elements) are highly relevant for a thorough economic analysis. Consequently, ethics and politics matter. Economic analysis cannot be developed in a social or personal vacuum.

Coming back to epistemology, all the characteristics of practical science should be taken into account: inexactness, closeness to reality, normativeness, practical aim and the mentioned plural methodology. These characteristics suppose a quite different economic science; such new science is submerged in ethics and politics. This does not mean that

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arises is not the exchange value but the unlimited desire. If things exchanged are qualitatively different and incommensurable, what is, according to Aristotle, the unit of analysis or commonality that enables things to be compared? It is the necessity (*chreia*) of the goods exchanged for the demander. Although in many passages of the *Metaphysics* and *Physics* Aristotle claims that measurement requires homogeneity, in the *Categories* he considers the possibility of measure and commensurate qualities by degrees (see, e.g., VIII, 10b 26). The resulting commensuration between the things so measured, he warns, has limits and it is conventional (see, e.g., VI, 5b 11 and 8, 10b 13). Thus, it can be applied – with limits – to things exchanged through necessity. Instead, it cannot be applied to different ends because ends differ in more than degrees of quality. The difference between ends is analogical, of “priority and posteriority” (*próteron kai hýsteron*), and cannot be measured for there is not a common measure (see, e.g., *Nicomachean Ethics* I, 6, 1096b 18-25).

rigorousness is left out when the nature of the decision enables a cost-benefit analysis. This technical analysis will however remain under the umbrella of practical science.

This also has consequences for the teaching of economics. Briefly, I would suggest a more reality oriented teaching of economics than the current one. As Mark Blaug (1998) has asserted, "Economics as taught in graduate schools has become increasingly preoccupied with formal technique to the exclusion of studying real-world problems and issues." He reasoned: "That may be why students are increasingly choosing business management over economics."

On the one hand, I favour a broader curriculum with an emphasis in humanities (for example, philosophical and cultural anthropology, sociology, psychology, history, ethics and political philosophy). On the other hand, I propose the use of some cases or other pedagogical devices simulating real situations. These are adequate ways of teaching practical sciences. We should aim at developing practical wisdom and synthesis skills.

Peter Boettke (1996, p. 34) emphasizes the relevance of history: "What economics needs today is an anchor in the world. The educational proposal that I would suggest would be a re-evaluation of the history of economic thought (as theory) and economic history (as empirical touchstone) in our curriculum." I fully agree.

It may be interesting also to listen to Lionel Robbins, who established the essentials of economics in his *Essay on the Nature and Significance of Economic Science*. He devoted a lot of time to these pedagogical affairs. Once he stated:

We must be prepared to study not merely economic principles and applied Economics... We must study political philosophy. We must study public administration. We must study law. We must study history which, if it gives rules for action, so much enlarges our conception of possibilities. I would say, too, that we must also study the masterpieces of imaginative literature (1956, p. 17).

Ethics should also be included. As J. Tiemstra (1988) expressed, "students would understand economics better if we connected it with social ethics, at least by acknowledging commonly accepted moral standards at the appropriate points in the discussion." Understanding that personal morality synergistically leads to coordination will also drive to the consideration of 'economic' virtues, such as generosity,

industriousness, competence, order, initiative, spirit of service, keeping one's word, and frugality. Case studies would contribute to the consideration of moral aspects.

## 5. Conclusion

From the apparently outdated passages of Aristotle on *oikonomiké* I have selected and separated what is old-fashioned from what is valid for today. From these last elements – which may be abridged in the intrinsic ethical and political character of economics – we can extract useful lessons. These lessons refer to the impact of Ethics and Politics on Economics. They stress the relevance of personal virtues and institutions for a suitable functioning of the economy. In epistemological grounds, these lessons highlights the inexact character of Economics and its necessity of its firm reliance on data. The concern with ends may lead to prudential, not technical analysis and decisions. This calls for broadening the scope of interest of Economics and consequently should provoke changes in the teaching of it. Summing up, a closer attention to Aristotle would cause high impact on the these days economy and Economics.

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## Vitae

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