

Chapter 1: Aristotle on Ethics and Markets

I. Introduction: Ethical Dispositions and Economic Behavior

To the extent that economists normally think about ethics, ethics would be considered an aspects of tastes. Ethics would, for example, help identify the ends to be advanced through economic means. Given this, a deeper understanding of the ethical theories used by individuals would deepen our understanding of a broad range of economic behavior and economic consequences.

Nonetheless, economists normally take “tastes” for granted and so largely ignore the extent to which the ethical theories of a given community affect the network of exchange and productions that characterize a community’s economy. In defense of that neglect, it can be argued that economics implies that competitive markets perform well whatever tastes are, as long as gains from trade can be easily realized by persons living in the market systems of interest. Economic theory is sufficiently general that it has predictions for a very broad range of tastes. As long as exchange is possible, gains from trade will be realized, and the results will make everyone better off, relative to some hypothetical starting point without trade or specialization. The final results depend on tastes and technology, but similar results follow for a very broad range of tastes and technologies. It is such universal conclusions that attract the interests of most economist research, rather than the manner in which cultural variations among communities affect the size and scope of their markets.

Paradoxically, it is also commonplace for economists and others to argue that the extent of trade is itself an index of the quality of life. Average real income and gross domestic product are both indices of the extent of market activities and both are routinely used as indices of the quality of life at a given time and place. Such indices imply that the extent of exchange and production is of interest in addition to the fact that it takes place. If economies are said to “work well” only when a good deal of exchange and production take place, which is to say when average income or per capita GNP is high, it may be the case that some “tastes” or “ethical dispositions” are “better” than others from this economic perspective, because they generate higher average incomes than others.

Exploring how ethical dispositions affect the size and scope of market activity is the main purpose of this book. To engage in this project does not require equating average income with the quality of life. It only requires accepting the possibility that some types of behavior tend to increase the size and scope of economic activity more than others, and that ethical theories and dispositions partially determine that behavior. If so, then a subset of ethical dispositions will be associated with higher average income than others, and changes in such ethical dispositions will tend to change the size and scope of market activity.

To under take this project, it is useful to understand is meant by ethical dispositions. For this it is useful to understand what means to be ethical, which in turn requires some general knowledge of ethical theory. Part I of this book undertakes a short overview of ethical theories in Western philosophy that are likely to affect economically relevant behavior. The theories of most interest are those that tend to extend markets, although some attention is focused on ethical theories and conclusions that tend to constrain them as well.

The scientific strand of ethical theory is much like economics in that it attempts to understand general principles. Ethical theories

attempt to identify general principles about good and bad, right or wrong, the good life, and the good society. They do so through a combination of observation, deduction, and generalization.

Of course it is behavior rather than theory that affects the size and scope of markets. The descriptive aspects of ethical theory summarize ideas about ethics among moral persons in their communities. Ethical theory attempts to make ethical behavior understandable in much the same manner that economics attempts to make market outcomes understandable, by identifying principles that characterize ethical behavior and exploring what those principles imply about appropriate behavior. It also tends to make the ethically relevant factors in a choice setting clearer and so often makes moral analysis easier and more logically consistent. This empirical basis for ethical principles provides insight into the moral maxims and ideas already present in the community of interest to a given philosopher.

The theories developed, in turn, will affect subsequent ethical beliefs insofar as they directly or indirectly become broadly known and thought to shed useful light on moral dilemmas. Reasoning from ethical principles allows ethical choices to be characterized for a broad range of situations, much as economic reasoning allows consumer and firm behavior to be characterized for particular market settings. As ethical principles are applied, habits of mind emerge that take account of ethical aspects of choice settings when choosing among particular courses of action. This is not to say that ethical considerations determine the choices made, only that they affect the tradeoffs taken into account and thereby the choices made and actions taken. The changes induced will in some cases affect the size and scope of markets.

Of course, most individuals acquire most of their ethical and ethical intuitions from experience rather than from the writings of scholars and theologians. Yet to the extent that useful principles exist, ideas about them tend to penetrate society and indirectly influence the dispositions that individuals develop. To the extent that

commonplace conclusions about the merits of economically relevant choices change through time, markets will also change through time.

II. Aristotle as the Founder of Scientific Ethics

The scientific approach to ethics emerged slowly, but can be said to be invented by a Greek philosopher named Aristotle, much as modern economics can be said to have been invented by Adam Smith. Neither person was the first to discuss economic or ethical principles, but their work provided the first broad, well-integrated, expositions of such theories. Their classic works subsequently influenced much that was written by successive generations of scholars in those fields.

An entire chapter is devoted to Aristotle for this and several other reasons. As part of his scientific approach, Aristotle develops precise meanings for commonplace words and ideas in Greece at the time that he wrote. Translators subsequently attempted to do the same with their target language, as they attempted to bring his ideas to various parts of the literate world that did not read Greek. Both Aristotle's reasoning and his deepening of ideas had profound effects on the work of future philosophers and social scientists in the West. Aristotle's arguments were often used as a point of departure for their own work, whether their work was supportive or critical of his overall analysis.

Aristotle's influence on ethical theory throughout the Western and Islamic worlds is both broad and subtle. *Wikipedia*, for example, notes that: "In metaphysics, Aristotelians profoundly influenced Judeo-Islamic philosophical and theological thought during the Middle Ages and continues to influence Christian theology, especially the scholastic tradition of the Catholic Church. Aristotle was also well known among medieval Muslim intellectuals and revered as 'the First Teacher.'" Several hundred years later, his

theories on ethics, economics, and politics were still well known to Adam Smith and Charles Montesquieu, the founders of contemporary economics and political science. His work is only one of several influential Western scholars covered in part I of the book, but his work clearly affected all of the others.

Aristotle wrote during the peak of the golden age of Athens in about 340 BCE. Athens in that period was one of the most prosperous commercial centers along the Mediterranean coast. He was a student of Plato, another profound thinker. Aristotle is arguably the founder of several fields of philosophy, science, and social science. Aristotle's genius includes his quickness, creativity, and depth. He wrote on an amazingly broad range of subjects during his lifetime and provided both new insights and general theories in each. His aim was not simply a better "synthesis" of other person's ideas, but a deeper, more general, and more coherent understanding of the world and life on it.

He did all this amazingly well, which is why his work is still of interest nearly 2500 years after it was first written. His work is not perfect. Many of his theories are no longer taught, but even among critics he is admired for his breadth and depth, and for his many original insights. That so many of his conclusions about ethics and politics remain relevant today shows that our knowledge and intuitions about the good life and virtuous behavior have not changed very much in the past 2500 years.¹

For much of the past five hundred years, educated persons in the West were familiar with Aristotle's approach to ethics, logic,

physics, and politics because his work was required reading in the core curricula of high schools and colleges. This continued to be the case into the twentieth century. However, as specialization increased and the teaching of classical languages declined, knowledge of his work became less widespread, and hence the need for a review before launching into our analysis of economically relevant developments in ethics from the enlightenment forward.

For the purposes of this book, insights from his two "practical" books are most relevant: *Nicomachean Ethics* and the *Politics*. We begin with a review of some of the main arguments developed in *Nicomachean Ethics*. This review serves as an introduction to core issues in ethics and some of the relationships between ethics and economics.²

III. Happiness (*Eudaimonia*) as the Ultimate End

Aristotle approach to a knowledge begins with what others have argued and his own observations about the world. He takes both seriously, and attempts to discover general categories and relationships from that information. To do so, he looks for general and logically consistent patterns in the "data" available to him. His work on Logic, Physics, Biology, Ethics, Politics, and Economics all apply that very rational, empirical, approach to knowledge.³

In *Nicomachean Ethics*, Aristotle attempts to determine whether there is anything general that can be said about a good or praiseworthy human life. Is there an ultimate aim for human action?

¹ It bears noting that many of his other conclusions with respect to logic, causality, and in science also held up quite well for nearly two thousand years, although a many of his scientific claims were revised or disproved in the nineteenth century.

² Among his many insights and arguments, Aristotle suggests that a young person, such as most students, "**is not a fit student of Moral Philosophy, for he has no experience in the actions of life**" (*Nicomachean Ethics* (p. 26). Kindle Edition.). There is some truth in this as in the rest of his arguments and conclusions, but we'll ignore his wisdom on this point for the purposes of this book which is aimed at both young and old readers..

³ Aristotle's methodology differs from that of the modern physical sciences in that he rarely, if ever, conducts experiments or statistical tests of his theories. (Statistics was developed nearly two thousand years much later.) Nonetheless, his deductive and synthetic approach continues to be the main one used by theorists in the social sciences, in history, and philosophy.

If there is an ultimate end, are there common means that advance that purpose effectively? He answers yes to both questions. In the *Politics*, he attempts to determine whether there is anything general that can be said about good and robust political institutions.

Nicomachean Ethics begins by observing that most goals are simply means to other ends. In contrast, happiness (eudaimonia) appears to be a final end rather than a means to an end.⁴ Given that ultimate end, he argues that humans tend to be happiest in the long run when they perfect their intellectual and moral selves (souls or character). The process of perfecting one's character is not automatic or instantaneous, but emerges through time as one makes deliberate choices.

Note that Aristotle's conception of happiness differs from that assumed in the rational choice models of human action used in economics and game theory. Economists generally assume that everyone already knows how to best increase their own happiness, whether it is called "utility," "net benefits," or "welfare." Aristotle assumes that the best way of achieving happiness is not obvious and needs to be taught. Without training, practice, and experience most people make systematic mistakes and so achieve less complete and satisfying lives than they could have.

People are "static" in the usual economic conception of man. In Aristotle's concept of the good life, people change as they make moral decisions and their character emerges. Aristotle argues that a person's character or soul is not permanent, not entirely a matter of high or low birth (or genetics). In either case, it is largely determined by one's choices. An individual's nature is a consequence of choice, rather than permanent or predetermined. Restated in contemporary economic terms, Aristotle argues that happiness requires investments in particular types of human capital, what might be called moral and intellectual capital.⁵ People should invest in moral and intellectual excellence because it will make them happier in the long run.

With this brief overview in mind, we now review Aristotle's analysis. Quotes from the 1847 D. P. Chase translation the *Nicomachean Ethics* are used in this chapter to indicate both Aristotle's reasoning and main conclusions. The Chase translation is used rather than a more recent translation partly because it was developed in the period before Darwin's work on evolution and industrialization transformed ideas about the nature of man and the good life among educated persons in the West. It is used rather than an earlier translations because it used relatively modern English and is among the earliest based on the Bekker compilation of Aristotle's works.⁶

⁴ Aristotle does not mention women in his analysis in large part because women were usually not very important in Greek society. However, there were Greek goddesses and the famous Oracles of Delphi were women. The status of women did not really improve much until the eighteenth and nineteenth centuries.

⁵ Stated in this way, Aristotle's view of ethics is analogous to Stigler and Becker's (1977) discussion of the effects of human capital on the enjoyment of music.

⁶ The selection of a particular translation was not an easy choice. There are dozens of English translations of the *Nicomachean Ethics*. Their abundance demonstrates that disagreements among translators abound. These are partly a matter of differences in interpretations of the original Greek, partly in their manner of writing it down in English, and partly subtle disagreements about what Aristotle meant in the original. The original has the form of somewhat cryptic class notes that Aristotle would presumably have elaborated further in lectures and discussion with his students. The D. P. Chase (1947) translation was ultimately settled on because it is likely to provide a better indication of how Aristotle was read before Darwin's profound impact on beliefs about the nature of man and the industrial revolution's impact on the nature of a good life. The Chase translation is freely available in the original at Google Books and in a slightly edited form in the Kindle format and hard copy from Public Domain Books (without translation notes,

Aristotle begins by noting that there is general agreement that a good life is a happy life, although he also notes that there is much disagreement about what happiness (eudaimonia) means. Happiness unlike other goods is desired for its own sake, rather than a means to something other end.

So far as name goes, **there is a pretty general agreement, for happiness both the multitude and the refined few call it, and “living well” and “doing well” they conceive to be the same with “being happy;”** but about the nature of this Happiness, men dispute, and the multitude do not in their account of it agree with the wise. (*Nicomachean Ethics*, p. 26)

Happiness is manifestly something final and self-sufficient, being the end of all things which are and may be done. (*Nicomachean Ethics*, p. 34)

As for the life of money-making, it is one of constraint, and **wealth manifestly is not the good we are seeking, because it is for use, that is, for the sake of something further.** (*Nicomachean Ethics*, p. 29)

Happiness is ... choose[n] always for its own sake, and never with a view to anything further. Honor, pleasure, intellect, in fact every excellence we choose

for their own sakes, it is true, because we would choose each of these even if no result were to follow, but we choose them also with a view to happiness. (*Nicomachean Ethics*, p. 33-4).

IV. The Pursuit of Happiness

Given that happiness is the chief good and ultimate end, is there anything general that can be said about the most effective means of achieving it? Aristotle argues that some purposeful activities reliably increase one's happiness, and that the common feature of activities that do so is that they contribute to our moral or intellectual excellence.⁷

This object [happiness] may be easily attained, when we have discovered **what is the work of man;** for as in the case of flute-player, statuary, or artisan of any kind, or, more generally, all who have any work or course of action, **their chief good and excellence is thought to reside in their work.**

So it would seem to be with man, if there is any work belonging to him.

What then can this be? not mere life, because that plainly is shared with him even by vegetables, and

but with an introduction written much later by J. A. Smith). Among my second choices were the highly regarded W. D. Ross translation (1912), the recent Irwin translation (1999) with its copious translation notes, and the well-written, recently revised, Crisp translation (2014).

The quotes taken from the Chase translation were lightly edited. For example, contemporary rules for capitalization and punctuation have been applied and some sentences slightly shortened without altering his meaning. Words and letters that were added in this process are framed in brackets. The aim here is not to engage in debates over the “best” translation, but to use a well-regarded translation of *Nicomachean Ethics* that predates the emergence of the commercial society and associated ideas about evolution, specialization, and industrialization. Alternative translations of a couple of key passages from the *Nicomachean ethics* appear in Appendix 2B.

⁷ Later translations often use the word “function” instead of “work.” The term “work” captures the idea of deliberate purposeful activity, whereas function captures the idea of a specific task or purpose that can done more or less effectively. Evidently the Greek term includes elements of each. See the Appendix 2B of this chapter for variations in the translations of two key passages from book I of the *Nicomachean Ethics*.

we want what is peculiar to him. We must separate off then the life of mere nourishment and growth. Next will come the life of sensation, but this again manifestly is common to horses, oxen, and every animal.

There remains then a kind of **life of the rational nature apt to act**, and of this nature there are two parts denominated rational, the one as being obedient to reason, the other as having and exerting it. (*Nicomachean Ethics*, p. 34).

The **good of man** comes to be “a **working of the soul in the way of excellence**,” or, if excellence admits of degrees, in the way of the best and most perfect excellence. And we must add, **in a complete life; for as it is not one swallow or one fine day that makes a spring**, so it is not one day or a short time that makes a man blessed and happy. (*Nicomachean Ethics*, p. 35).

There are two general areas in which deliberate activities can improve one’s soul, the intellectual and moral. The latter can be further subdivided into various virtues.

Human excellence is of two kinds, intellectual and moral. The Intellectual springs originally, and is increased subsequently, from teaching (for the most part that is), and needs therefore experience and time; whereas the moral comes from custom [routines, habits, or dispositions]. (*Nicomachean Ethics*, p. 49).

In speaking of a man's moral character, we do not say he is a scientific or intelligent but **a meek**

man or one of perfected self-mastery; and we praise the man of science in right of his mental state; and of these **such as are praiseworthy** we call **excellences**. (*Nicomachean Ethics*, p. 48).

Moral character is “meek,” but in a different sense than in contemporary English. (Indeed later translators often use the word temperate rather than meek, although neither seems to fully capture what Aristotle is interested in, self mastery.)

[T]he notion represented by the term meek man is the being imperturbable, and not being led away by passion, but being angry in that manner, and at those things, and for that length of time, which reason may direct. (*Nicomachean Ethics*, p. 114).⁸

V. Moral choice Requires Reason and Freedom of Action.

How does one “work the soul” to develop excellence in moral character? One develops virtuous dispositions. One does so through a long series of deliberate actions that are undertaken at least in part to develop those dispositions. Virtuous dispositions are not natural according to Aristotle because nature is unchanging and permanent, whereas one’s dispositions can be and are altered through deliberate choice and action.

From this fact, it is plain that **not one of the moral virtues comes to be in us merely by nature**, because of such things as exist by nature, none can be changed by custom. (*Nicomachean Ethics*, p. 49).

⁸ The above was written more than two centuries before the new testament’s “Blessed are the meek, for they shall inherit the earth” (Matthew 5.5). It is quite possible that the same meaning of the word “meek” was intended when the new testament was translated into English, rather than the contemporary one, which implies being a timid person, rather than one that has achieved self mastery.

Both virtue and vice are produced by a person's past decisions and experience.

So too then is it with the virtues, for **by acting in the various relations in which we are thrown with our fellow men, we come to be, some just, some unjust, and by acting in dangerous positions and being habituated to feel fear or confidence, we come to be, some brave, others cowards. Similarly is it also with respect to the occasions of lust and anger: for some men come to be perfected in self-mastery and mild, others destitute of all self-control and passionate.**

(Nicomachean Ethics, p. 50).

To be a moral choice, one must be free to choose, and the object of one's choice must be feasible and the consequences those intended.

Involuntary actions then are thought to be of **two kinds**, being done either on **compulsion**, or by reason of **ignorance**. An action is compulsory when the origination is external to the agent, being such that in it the agent contributes nothing; as if a wind were to convey you anywhere, or men having power over your person. *(Nicomachean Ethics, p. 67).*

If this be so **no other animal but man, and not even children, can be said to act voluntarily.**
(Nicomachean Ethics, p. 71)

Not all choices are moral choices. Moral choices are deliberate ones that affect one's moral excellence. Those that increase one's moral excellence do so through virtuous acts.

Having thus drawn out the **distinction between voluntary and involuntary** action our next step is to examine into the **nature of moral choice**,

because **this seems most intimately connected with virtue** and to be a more decisive test of moral character than a man's acts are. *(Nicomachean Ethics, p. 72)*

But **not all voluntary action is an object of moral choice.** *(Nicomachean Ethics, p. 74)*

Now since that which is the object of **moral choice is something in our own power**, which is the object of deliberation and the grasping of the will. **Moral choice must be a grasping after something in our own power consequent upon deliberation**, because after having deliberated we decide, and then grasp by our will in accordance with the result of our deliberation. *(Nicomachean Ethics, p. 77).*

Now since **the end is the object of wish, and the means to the end of deliberation and moral choice**, the actions regarding these matters must be in the way of **moral choice**, i.e. Voluntary. The acts of working out the virtues are such actions, **and therefore virtue is in our power. And so too is vice:** *(Nicomachean Ethics, pp. 78-9).*

Furthermore, it is wholly irrelevant to say that the man who acts unjustly or dissolutely does not wish to attain the habits of these vices: for **if a man wittingly does those things whereby he must become unjust he is to all intents and purposes unjust voluntarily;** *(Nicomachean Ethics, p. 80).*

Both virtue and vice are thus acquired dispositions, reflecting our past choices.

Whether then we suppose that **the end impresses each man's mind with certain notions not**

merely by nature, but is somewhat also dependent on himself; or that the end is given by nature; virtue is voluntary because the good man does all the rest voluntarily. (*Nicomachean Ethics*, p. 82).

In economic terms, our preexisting accumulation of moral capital affects the thoughts, choices, and actions that we undertake. Virtue and moral excellence tends to increase or diminish through time according to the decisions made and actions taken. Both moral and immoral dispositions are produced by morally relevant choices and are among the intended consequences of those choices.

Moral excellence is thus a virtuous habit of the mind, that accumulates from reasoned choices made in various circumstances that one is thrown into during the course of life.

VI. On the Nature of Virtue: the “Golden Mean”

If happiness requires moral excellence and moral excellence requires virtuous actions and habits of thought, the next question is whether anything general can be said about the nature of virtue.

Aristotle's argues that virtues have common properties although they describe different kinds of dispositions and are relevant for different choice settings. They are all praiseworthy means between extremes that are widely regarded to be vices. His argument is grounded in the opinions of the wise, which are taken to be the data that he is attempting to make sense of. The virtues are all highly regarded, praiseworthy aspects of human character.⁹ The vices are not.¹⁰

He examines several widely acknowledged virtues and attempts to demonstrate that all virtues lie between two widely acknowledged vices. Courage, for example, lies between cowardness and excessive boldness.

First, then, of **courage. Now that it is a mean state, in respect of fear and boldness.** The objects of our fears are obviously things fearful or evil; which accounts for the common definition of fear, viz. “expectation of evil.” **Of course we fear evils of all kinds: disgrace, for instance, poverty, disease, desolateness, death;** but not all these seem to be the object-matter of the brave man, **because there are things which to fear is right and noble, and not to fear is base.** (*Nicomachean Ethics*, p. 83).

Aristotle then goes on to describe in much detail the settings in which bravery requires specific kinds of actions. One can improperly ignore risks (be too bold) as well as over react to them (to be cowardly).

He next analyzes the virtue of self-mastery or self control.

Next let us speak of perfected **self-mastery**, which seems to claim the next place to courage, since these **two are the excellences of the irrational part of the soul.** That it is **a mean state**, having for its object-matter pleasures ... **the man destitute of self-control is such, because he is pained more than he ought to be at not obtaining things which are pleasant** (and thus his pleasure produces pain to him), and **the man of perfected self-mastery is such in virtue of not being**

⁹ This idea will move to center stage in Adam Smith's theory of moral sentiments written about two thousand years later.

¹⁰ It is interesting to note that his arguments do not conflict with current assessments, suggesting that opinions about praiseworthy behavior have not changed very much over the centuries.

pained by their absence, that is, by having to abstain from what is pleasant. (*Nicomachean Ethics*, pp. 90-4).

Aristotle goes on to analyze several other virtues, among which liberality and meekness are most relevant for the purposes of this book.

We will next speak of **liberality**. Now this is thought to **be the mean state, having for its object-matter wealth**. The liberal man is praised not in the circumstances of war, nor in those which constitute the character of perfected self-mastery, nor again in judicial decisions, but in respect of giving and receiving wealth, chiefly the former.

By the term wealth I mean all those things whose worth is measured by money. .. **the liberal man will give from a motive of honor, and will give rightly**. [By this] I mean, **to proper persons, in right proportion, at right times**, and whatever is included in the term “right giving.” [It is done] with positive pleasure, or at least **without pain**. ... The man who gives to improper people, or not from a motive of honor but from some other cause, [is] **not liberal** but something else. (*Nicomachean Ethics*, pp. 97-9).

[H]ere **each of the extremes involves really an excess and defect** contrary to each other: I mean, the prodigal gives out too much and takes in too little, while the stingy man takes in too much and gives out too little. (*Nicomachean Ethics*, pp. 60-61).

With respect to meekness, Aristotle uses it as a virtue with respect to anger and other passions, and also as a virtue toward which reason might direct one’s irrational character.¹¹

We call the virtuous character meek, we will call the mean state meekness, and of the extremes, let the man who is excessive be denominated passionate, and the faulty state passionateness, and him who is deficient angerless, and the defect angerlessness. (*Nicomachean Ethics*, p. 62).

In respect of **pleasures and pains** (but not all, and perhaps fewer pains than pleasures): The **mean state here is perfected self-mastery**. The defect [is the] total absence of self-control.

Moreover as there is a character who **takes less pleasure than he ought in bodily enjoyments**, and he also **fails to abide by the conclusion of his reason**, the man of **self-control is the mean** between him and the man of imperfect self-control--that is to say, the latter fails to abide by them because of somewhat too much, the former because of somewhat too little.

The man of self-control and the man of perfected self-mastery have this in common, that **they do nothing against right reason** on the impulse of bodily pleasures, but then **the former has bad desires, the latter not**. **The latter is so constituted as not even to feel pleasure contrary to his reason**, the former feels but does not yield to it. (*Nicomachean Ethics*, p. 193).

Aristotle discusses a longer list of virtues than are necessary to reveal Aristotle’s general approach. In general, he argues that a very

¹¹ Irwin (1999) translates the relevant Greek word as “mildness” and Crisp (2014) as “even tempered,” rather than meek..

broad range of virtues are means between extremes that are widely regarded to be vices. Nonetheless, he acknowledges that some virtues may not be means in this sense. Two virtues that seem to lack this property are truthfulness and justice.

Now **since falsehood is in itself low and blamable, while truth is noble and praiseworthy,**

It follows that the **truthful man** (who is also in the mean) is **praiseworthy,**

I call him truthful, because we are **not** now meaning the man who is true in his agreements **nor** in such matters as amount to justice or injustice (this would come within the province of a different virtue) ...

The man we are describing is true in life and word simply because he is in a certain moral state. And he that is such must be judged to be a **good man, for he that has a love for truth as such.** ... [H]e will have a dread of falsehood as base, since he shunned it even in itself, and **he that is of such a character is praiseworthy.** (*Nicomachean Ethics*, p. 119).

Aristotle argues that justice has several meanings, some of which are consistent with his theory of virtue.

We see then that all men mean by the term justice a moral state such that in consequence of it men have the capacity of doing what is just, and actually do it, and wish it. (*Nicomachean Ethics*, p. 124).

Justice, it must be observed, is a mean state not after the same manner as the forementioned virtues, but because it **aims at producing the mean**, while Injustice occupies both the extremes. (*Nicomachean Ethics*, p. 137).

The notion of justice that attracts most of Aristotle's attention is with respect to that which might be called fairness or just deserts. Just relations between men and women are those that are fair in the sense that rewards are proportionate, which is not usually the same thing as equal.

The just, then, is a certain proportionable thing. For proportion does not apply merely to number in the abstract, but to number generally, since it is **equality of ratios.** (*Nicomachean Ethics*, p. 131).

He goes on to use economic relationships to illustrate what he means by proportionate justice.

VII. Market Exchange as an Instance of Just Relations between Men

Justice requires a "balance" in the relationships among persons that is proportionately equal. Aristotle suggests that proportionate justice is the basis of both economic exchange and community life.

In dealings of exchange such a principle of justice as this **reciprocation forms the bond of union**, but then **it must be reciprocation according to proportion and not exact equality**, because **by proportionate reciprocity of action the social community is held together.** (*Nicomachean Ethics*, p. 134).

Market exchange is used to illustrate the principle of proportionate justice. In markets, the appropriate proportionate reciprocity is determined by market prices rather than equality in weight or numbers. Justice in exchange involves equality in value.

The builder is to receive from the shoemaker of his ware, and to give him of his own. **If there is proportionate equality, the reciprocation**

[exchange] takes place, [and] there will be the just result of which we are speaking. If not, there is not the equal, nor will the connection stand. ...

And this is so also in the other arts, for they would have been destroyed entirely if there were not a correspondence in point of quantity and quality between the producer and the consumer.
(*Nicomachean Ethics*, p. 135).

Relative prices imply exchange can be objectively “equal” in that the money and value of goods exchanged are equal, and thus just according to Aristotle’s theory of proportionate justice. Note, however, that this equality of market values rules out speculative profits, as is also the case in neoclassical models of competitive equilibrium.

Aristotle also notes that money and money prices allow goods and services to be compared to one another. This facilitate exchange. Without money, only barter would be possible, but without money prices, proportionate justice would be far more difficult to achieve.¹²

All things **which can be exchanged should be capable of comparison. For this purpose money has come in, and comes to be a kind of medium. It measures all things** and so likewise the excess and defect. [It determines] for instance, **how many shoes are equal to a house or a given quantity of food.**

As then the builder to the shoemaker, so many shoes must be to the house (or food if instead of

a builder an agriculturist is the exchanging party); for unless there is this proportion there cannot be exchange or dealing, and this proportion cannot be [acceptable] unless the terms are *in some way* equal. (*Nicomachean Ethics*, pp. 135-6).

Let A represent an agriculturist, C food, B a shoemaker, D his wares equalized with A's. Then **the proportion will be correct, A:B::C:D; now reciprocation will be practicable**, if it were not, there would have been no dealing. (*Nicomachean Ethics*, p. 136).

In the space of a couple of pages, Aristotle sketches out a theory of equilibrium money prices and uses it to illustrate his principle of proportionate justice. Contemporary economics would interpret Aristotle’s characterization of price ratios to be the ones associated with competitive long-run equilibrium, an idea not fully worked out for more than two thousand years.

He goes on to sketch out a theory of money’s role as a medium of exchange and store of value.

Now that what connects men in such transactions is demand. [This] is shown by the fact that, **when either one does not want the other or neither want one another, they do not exchange** at all, whereas **they do when one wants what the other man has, wine for instance, giving in return corn for exportation.**

¹² In the 1920-1950 period, there was a centralization debate among economists regarding the feasibility and merits of centralized command and control economies like that aspired to by the Soviet Union. Those defending markets argued that without money prices, rational investment decisions are impossible because one can not compare alternatives. See Pareto (1927), Mises (1927) and Hayek (1940) for key contributions, or Murrell (1983), Lavoie (1985), and Boettke (2000) for summaries and overviews. It is clear that this property of money prices was recognized by Aristotle, whose analysis arguably forms the foundation of the much later one.

And further, **money is a kind of security to us in respect of exchange at some future time** (supposing that one wants nothing now that we shall have it when we do). The theory of money being that whenever one brings it one can receive commodities in exchange.

Of course this too is liable to depreciation, for **its purchasing power is not always the same, but still it is of a more permanent nature than the commodities it represents.** (*Nicomachean Ethics*, p. 137).

Aristotle notes that holding money is not without risk, because of possible changes in the value of money (what present day economists would call the risk of inflation, a decline in the value of money relative to goods and services). Nonetheless, holding money for this purpose is less risky than holding other assets.

He also notes that the same trades and trading ratios could have been achieved without money.

Let B represent ten minæ, A a house worth five minæ, or in other words half B, C a bed worth 1/10th of B: it is clear then how many beds are equal to one house, namely, five. **It is obvious also that exchange was thus conducted before the existence of money: for it makes no difference whether you give for a house five beds or the price of five beds.** (*Nicomachean Ethics*, p. 137).

In a few pages, Aristotle invents several important ideas in economics and indirectly suggests that exchange and equilibrium prices play a role in moral development by promoting reciprocity and justice.

As a theoretical exercise, Aristotle is among the first to argue that money allows comparisons among disparate goods. Such

comparisons are necessary for his theory of proportionate justice and trade thus serves as a useful illustration of that principle.

Aristotle recognized that a property of equilibrium prices is that the money value of the quantities of the goods traded are always proportionate to their market value. In contemporary economic theory, we often call this the no speculation condition of competitive equilibrium. In equilibrium, there are gains to trade but no speculative gains and therefore all prices satisfy Aristotle's transitivity of value. This idea thus still plays an important role in contemporary normative assessments of markets, although for somewhat different reasons that are taken up in part III of the book.

Aristotle's economic theory is developed in order to illustrate the relevance of his theories of moral choice, justice, and reciprocity. Nonetheless, Aristotle has reservations about the kind of behavior that markets tend to induce.

VIII. Justice, Virtue, and the Rule of Law

At various points in *Nicomachean Ethics*, Aristotle takes up the extent to which virtue can be promoted through good institutions. That is to say, to what extent can public policies promote the moral development of all persons living in the polity of interest. Virtuous dispositions are ultimately the product of personal choices, but Aristotle suggests that the cost of becoming virtuous can be reduced through political institutions, laws and support for public education.

In discussing justice in its legal sense, he argues that a community's laws are just when they have been adopted through legitimate procedures.

All Lawful things are in a manner just, because by lawful we understand what have been

defined by the legislative power and each of these we say is just.

The laws too give directions on all points, **aiming either at the common good of all, or that of the best, or that of those in power** (taking for the standard real goodness or adopting some other estimate). **In one way we mean by just, those things which are apt to produce and preserve happiness** and its ingredients for the social community. (*Nicomachean Ethics*, p. 126).

Laws that are just in the legal sense are also just in its ethical sense when laws advance the common good and tend to increase happiness. An ethically just legal system promotes virtue by encouraging moral choices. He suggests that in Athens this is the case and should be the case.

Further, **the law commands the doing the deeds not only of the brave man** (as not leaving the ranks, nor flying, nor throwing away one's arms), **but those also of the perfectly self-mastering man, as abstinence from adultery and wantonness; and those of the meek man, as refraining from striking others or using abusive language;** and in like manner with respect to the other virtues and vices: **commanding some things and forbidding others, rightly if it is a good law,**

in a way somewhat inferior if it is one extemporized. (*Nicomachean Ethics*, p. 126).

The idea that virtue should be compelled by law conflicts with his earlier analysis, which argues that freedom of choice is necessary for virtuous dispositions to be developed. This inconsistency may be reconciled insofar as penalties for violating laws may be said to encourage rather than compel virtuous choices.

In his discussion of justice and the law, Aristotle considers both universal laws--laws that apply everywhere--and local variations in the law that may also be regarded as just insofar as they have been adopted by legitimate governments. The latter will differ among polities.¹³

A parallel may be drawn between **the just which depend upon convention and expedience** and measures. [Measures] for wine and corn are not equal in all places. Where men buy they are large, and where these same [men] sell again they are smaller. **In like manner the justs which are not natural, but of human invention, are not everywhere the same,** for not even the forms of government are, **and yet there is one only which by nature would be best in all places.** (*Nicomachean Ethics*, p. 141).

Aristotle had previously noted the difficulty in creating more than an outline for ethical behavior. The same logic implies that developing a perfect, universal, set of laws is also be impossible.¹⁴

¹³ In his analysis of justice and the law, Aristotle begins to shift his focus from private ethics--how one may perfect oneself and become a happier more complete person--to an examination of institutions. His next book, *the Politics*, is entirely focused on institutions. He suggests that the meaning of just and justice in the legal sense varies among polities because the conventions and laws adopted for convenience and expediency also vary. Universal or natural law, in contrast, does not. (or should not) vary among communities.

¹⁴ Early in Book I, Aristotle warns the reader about the limited precision that is possible in ethical and constitutional analysis: "We must be content then, in speaking of such things and from such data, to set forth the truth roughly and in outline; in other words, since we are speaking of general matter and from general data, to draw also conclusions merely general. And in the same spirit should each person receive what we say: for the man of education will seek exactness [only] so far in each subject as the nature of the thing admits." (*Nicomachean Ethics*, p. 26).

There is a necessity for general statement [of laws, but] **a general statement cannot apply rightly to all cases.**

The law takes the generality of cases, **being fully aware of the error thus involved**, and rightly too notwithstanding, because **the fault is not in the law**, or in the framer of the law, but is **inherent in the nature of the thing**, because the matter of all action is necessarily such.

When then the law has spoken in general terms, and there arises a **case of exception** to the general rule, **it is proper--insofar as the lawgiver omits the case and by reason of his universality of statement is wrong--to set right the omission by ruling it as the lawgiver himself would rule were he there present**, (*Nicomachean Ethics*, p. 149).

IX. Virtuous choices require practical wisdom.

After characterizing virtuous behavior, and briefly discussing how institutions can promote justice and virtue, he returns to exploring the links between moral and intellectual excellence. He argues that moral and intellectual excellence are not entirely separate aspects of a person's character, because moral choices require an understanding of the circumstances of choice. The better is one's understanding of circumstances and consequences, the more virtuous choices and actions tend to be.

Moral virtue is a state apt to exercise moral choice. Moral choice is will consequent on deliberation. The reason must be true and the

will right to constitute good moral choice, and what the reason affirms the will must pursue.

Intellectual operation and this truth [thus] bears upon moral action. (*Nicomachean Ethics*, p. 154).

Unfortunately, the most virtuous course of action is not always clear. Persons with practical wisdom can go beyond maxims and moral rules of thumb to make good choices in settings in which the maxims are difficult to apply or would be wrong to apply.

We call men **wise** in this or that, when **they calculate well with a view to some good end in a case where there is no definite rule.** (*Nicomachean Ethics*, p. 156).

Unfortunately, universal precise principles are not always possible. Thus, science is not always universal. In these areas where universal principles do not exist, such as human affairs, practical wisdom (common sense) is necessary to make wise decisions.¹⁵

Practical wisdom is employed upon human matters. ... No man deliberates about things which cannot be otherwise than they are, nor about any save those that have some definite end and this end good resulting from moral action.

The man to whom we should give the name of good in counsel is he who in the way of calculation has a capacity for attaining that of practical goods which are the best for man. **Nor again does practical wisdom consist in a knowledge of general principles only, but it is necessary that one should know also the particular details, because**

¹⁵ The necessity of practical wisdom in human affairs is predicated on limits to knowledge that are similar to ones used by Knight (1917) and Shackle (1961) in their discussions of uncertainty and surprise. Such limits also plays a role in Hayek's (1945) famous analysis of the knowledge problems solved by markets.

it is apt to act, and action is concerned with details. (*Nicomachean Ethics*, pp. 159-60).

Intellectual excellence in human affairs takes the form of practical wisdom, because no general principles can be applied universally. Practical wisdom and virtue are thus both required to live a complete and happy life.

If it be urged that **knowing what is good does not by itself make a practically-wise man. ... Man's work as man is accomplished by virtue of practical wisdom and moral virtue.** The latter giving the right aim and direction, the former the right means to its attainment. (*Nicomachean Ethics*, p. 166).

Aristotle goes on to discuss the extent to which factors in addition to moral and intellectual excellence contribute to a good life. Among these he includes material things, as necessary for health and the possibility of engaging in many types of virtuous activity. He also includes friendship and love, in which virtue also plays a role.

X. Aristotle on the Importance of Private Property

Aristotle's next book, the *Politics*, addresses how one can best create robust constitutional systems that can help its citizens live a

good life. There is much of interest in the *Politics*, but for the purposes of this one, it is his arguments concerning private property and the merits of alternative occupations, and interest that are most relevant for part I of this book. Appendix 2A provides an overview of his constitutional analysis which has some relevance for part III.¹⁶

During Aristotle's lifetime, there was a Greek language and culture, but there was no country called Greece. Instead, there were a large number of city-states, mostly along the coasts of present day Greece and Western Turkey. The diversity of city-state governments allowed Aristotle and his colleagues to study the effects of alternative constitutional designs and property laws. Although the data set collected no longer exists, the *Politics* provides an overview and analysis of their study of Greek constitutions. Of particular relevance for the purposes of this volume are his analysis of alternative property laws and his assessment of the types of economic activity most likely to produce a good life.

Aristotle notes that among the first problems a city-state confronts is how property should be held. Two of Aristotle's predecessors Socrates and Plato had advocated broader common ownership than most Greek city states. Aristotle disagrees with their analysis and noted both practical problems associated with communal property and advantages of private property.¹⁷

¹⁶ The *Politics* also address policy issues of his time, such as slavery, and a variety of intellectual controversies including the proper ownership laws for property. Aristotle and his fellow scholars at his school collected and analyzed a large number of constitutions from the many city states in the region that we now call Greece. The results of that project are summarized in the *Politics*, which is arguably launched the field of political science, as distinct from political theory.

¹⁷ As is the case of *Nicomachean Ethics*, there are numerous translations of the *Politics*. My first preference was for a translation of about the same vintage as used for the *Nicomachean Ethics*, but I was unable to find one that was sufficiently readable for the purposes of this chapter. In the end, I decided to use the 1885 Jowett translation, which is widely available on various classic websites, from Google books (in the original, with the very long introduction) and in Kindle form from Penguin Classics (without the introduction or translator notes). The Penguin Classic version used here. The Kindle version of Jowett's translation unfortunately includes only kindle locations, rather than page numbers, which are listed as KL: followed by the

The members of a state must either have (1) all things or (2) nothing in common, or (3) some things in common and some not.

That they should have **nothing in common is clearly impossible**, for the constitution is a community, and must at any rate have a common place--one city will be in one place, and **the citizens are those who share in that one city**. (*Politics*, KL: 371-373).

Aristotle goes on to argue that as a rule property should be private because there will be fewer disputes and that property will be used more effectively when it is private.

Next let us consider what should be our arrangements about property: should the citizens of the perfect state have their possessions in common or not? (*Politics*, KL: 446-447).

Property should be in a certain sense common, but, as a general rule, private; for, when everyone has a distinct interest, men will not complain of one another, and they will make more progress, because every one will be attending to his own business. (*Politics*, KL: 458-460).

Besides the practical advantages of private ownership, Aristotle also notes that ownership itself can be a source of pleasure and, moreover, is necessary to pursue some of the virtues.

How immeasurably greater is the pleasure, when a man feels a thing to be his own; for surely the love of self is a feeling implanted by nature and not given

in vain. Although selfishness is rightly censured; this is not the mere love of self, but the love of self in excess, like the miser's love of money; for all, or almost all, men love money and other such objects in a measure.

And further, there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. These advantages are lost by excessive unification of the state.

The exhibition of two virtues, besides, is visibly annihilated in such a state: first, temperance towards women (for it is an honorable action to abstain from another's wife for temperance' sake); secondly, liberality in the matter of property. No one, when men have all things in common, will any longer set an example of liberality or do any liberal action; for liberality consists in the use which is made of property. (*Politics*, KL: 465-473).

Aristotle also suggest that many of the problems that opponents of private property imagine to be caused by that institutions are not so caused, but rather aspects of human nature.

Such legislation [placing everything in common] may have a specious appearance of benevolence; men readily listen to it, and are easily induced to believe that in some wonderful manner everybody will become everybody's friend, especially when some one is heard denouncing **the evils now existing in states, suits about contracts, convictions for**

location number(s) in the text.

Second choices included the very readable Tayler translation (1811), a contemporary translations by Carnes Lord (2013), and the revised Ernest Barket translation (1995). I was especially tempted to use the Tayler translation because it antedated the Bekker (1837) compilation of Aristotle's writings in Greek and the other major political, economic, and philosophical developments of the nineteenth century.

perjury, flatteries of rich men and the like, which are said to arise out of the possession of private property.

These evils, however, are due to a very different cause- the wickedness of human nature.

Indeed, we see that there **is much more quarreling among those who have all things in common**, though there are not many of them when compared with the vast numbers who have private property. Again, we ought to reckon, not only the evils from which the citizens will be saved, but also the advantages which they will lose. (*Politics*, KL: 470-478).

Aristotle also discusses an idea from Socrates and Plato that families and women should all be in common.¹⁸

Again, if Socrates makes the women common, and retains private property, **the men will see to the fields, but who will see to the house?** And who will do so if the agricultural class have both their property and their wives in common? (*Politics*, KL: 504-505).

In framing an ideal we may assume what we wish, but should avoid impossibilities. (*Politics*, KL: 528).

Overall, Aristotle's support for private property rests on a variety practical advantages associated with it. There are benefits and costs, but the benefits are far greater than the costs.

The life which they are to lead [in Plato's ideal community] **appears to be quite impracticable.** (*Politics*, KL: 479).

Communal ownership is impractical, because of what economists would later refer to as the free rider problem and also because it undermines at least two important virtues and is itself a significant source of pleasure.

XI. Aristotle on Profits and Interest

The *Politics* also includes an analysis of the merits of alternative economic activities that is grounded in his theory of virtue. Aristotle's analysis of virtue implies that good behavior is always moderate, the mean between two extremes. For this reason, he regards a lust for money as opposed to a moderate regard for it to be a vice rather than a virtue.

Aristotle makes an ethical case in support of what might be called production and exchange (household management, what we would call farming) and against commerce (what Kirzner [1973] would much later call entrepreneurship). Productive activities are both necessary and admirable. The trading of already produced items for profits is less so. And the exchange of money for interest (usury) even less so.

Aristotle is not opposed to maximizing profit, per se. For example he suggests that farmers (and implicitly other producers) should know the rate of return from alternative investments.

The useful parts of wealth-getting [for farmers] **are, first, the knowledge of livestock- which are most profitable, and where, and how-** as, for example, what sort of horses or sheep or oxen or any other animals are most likely to give a return. **A man ought to know which of these pay better than others, and which pay best in particular places**, for some do better in one place and some in another. Secondly, husbandry, which may be either

¹⁸

In fairness to Plato, he makes this argument about the guardian class, rather than all of society.

tillage or planting, and the keeping of bees and of fish, or fowl, or of any animals which may be useful to man. **These are the true or proper art of wealth-getting** and come first. (*Politics*, KL: 282).

Rather he seems to be concerned that the profits that accrue from finance tends to be unbounded and therefore tends to induce an excessive concern for money and money profits. Aristotle ranks several categories of occupations by their likely effects on virtue.

There are **two sorts of wealth-getting: one is a part of household management, the other is retail trade. The former is necessary and honorable**, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another.

The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it [happiness]. For money was intended to be used in exchange, but not to increase at interest.

And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. **Of all the modes of getting wealth this is the most unnatural.** (*Politics*, KL: 275).

[A] third sort of wealth getting ... is also concerned with exchange, viz., the industries that make their profit from the earth, and from things growing from the earth which, although they bear no fruit, are nevertheless profitable; for example, the cutting of timber and all mining. (*Politics*, KL: 285).

Those occupations are most truly arts in which there is the least element of chance; they are the

meanest in which the body is most deteriorated, the most servile in which there is the greatest use of the body, and the most illiberal in which there is the least need of excellence. (*Politics*, KL: 295-296).

That mining and timber were intermediate forms of work, is of interest, because it suggests that innovations in practical devices as with metallurgy were considered of less importance than the production of food and wine by educated Greeks at that time--and by many others until the modern period. It is not clear where his own occupation fits into this hierarchy: teaching and running a college, where knowledge is traded for money. He most likely regarded it to be a form of production (household management) in which skill was important.

It is doubtful that this rough ranking of honorable economic professions was original with Aristotle, but that his work was read for many centuries afterwards makes his remarks on this subject important. Opposition to interest rates (usury) and support of farming over commerce remain central beliefs of many persons and often embodied in public policies for the next two thousand years.

XII. Lessons from Aristotle regarding Ethics and Commerce

Perhaps the most important lesson from Aristotle is his methodology, his approach to learning, ethics, and economics. He listens and observes widely and then attempts to distill general, logically consistent, principles from that body of knowledge.

Aristotle is alert for similarities and connections, but also to contradictions and limitations of his own and other person's theories. He works until he is satisfied with the essential principles and relationships that he believes to exist. These are partly empirical in that they have to be consistent with observations from life and nature. Other methodologies, statistical and experimental ones, have

been added in the past few centuries, but his remains an important foundation for reason-based theories of living and nature. Indeed, it is arguably the main method that economic theorists use today.

With respect to human life and ethics, he argues that the happiness (contentment) is an ultimate end, and that this is best achieved by working to perfect the soul, one's own character or nature. He was not able to determine precise principles for achieving virtue or happiness, but argues perfecting one's intellect and ability to make moral choices are necessary for achieving it. Moral excellence is achieved by mastering various virtues, which are consequences of deliberate choices. Intellectual development comes from past teaching, experience, and reflection.

The virtues, he suggests, are not extreme forms of behavior but tend to be moderate ones between two extremes. They are not hopeless ideas, but possible for most humans. Vice occurs at the extremes. He suggests that some kinds of work contribute to the development of virtues, and that "fun is allowed." The good life is not that of a monk, but that of an active person who strives to perfect himself, which is, in a sense, self-centered.

With respect to economics, there are several points of interest. The first is the reminder that economics and philosophy were not separate subjects at the time that Aristotle wrote, nor would they be until the late 19th century. The two books include numerous contributions to economic theory, and several ethical conclusions about the merits of economic activities.

Although seeking wealth is a necessity rather than a free choice, many of the activities that one can undertake for that purpose can contribute to excellence and virtue. Trade itself rests on proportionate reciprocity and is consistent with proportionate justice. Money facilitates exchange and helps assure that trade is properly reciprocal.

With respect to property systems, he argues that those that are largely private tend to produce better results than ones based on

common ownership. Private property reduces conflict, free riding, encourages good management, and facilitates the development of some virtues, especially liberality (appropriate levels of generosity) and temperance (resisting temptations, as with theft or trespass). Ownership can also be a direct source of pleasure for those who own something.

With respect to economic activities themselves, he regards directly production ones (as with farming) to be the most honorable professions, followed ones that harvest the fruits of nature (as with mining and timbering), followed by traders of merchandise (merchants and speculators) and lastly those who deal in money (banking and finance). This rank order is implicitly a rank order of the tendencies toward virtue that he associates with them. The most virtuous occupations promote moderation and excellence, the least promotes excessive concern with money and unjust behavior.

This order is a bit surprising, since Athens at this time was a great center of commerce and commerce accounted for much of the wealth and prestige of the city. Nonetheless, this perspective was commonplace for the next two thousand years, and remains somewhat common still. Indeed, usury is still illegal and many Islamic countries. This may be partly a consequence of Aristotle's arguments, since so many have read or were influenced by them. We'll see in later chapters that shifts in the status attributed to commerce and work in markets changed between the sixteenth and nineteenth centuries in a manner that helped support the emergence of the commercial society.

Nonetheless, many of Aristotle's virtues are market supporting rules of conduct. His defense of private property is based on its efficiency and incentive effects. Truthfulness and living up to one's promises were praiseworthy character traits.

Workings in accordance with [excellence] are proper to man. I mean, we do actions of justice, courage, and the other virtues, towards one another,

in contracts, services of different kinds, and in all kinds of actions and feelings too, by observing what is befitting for each: and **all these plainly are proper to man.** (*Nicomachean Ethics* (p. 274).

Both his rational approach and many of his conclusions accord well with contemporary ideas about the good life, good society, and good government--although his ideas and analysis came thousands of years before contemporary society and liberal democracies existed. That this is so, shows that his conclusions are robust. They have been found to be useful in a wide variety of societies through time.

It bears noting that there is also a good deal of material in Aristotle's work that is less relevant and less appealing to modern sensibilities. Many of these also stood the test of time quite well. His ideas about physics remained relevant into the 17th century and Newton's revolution. His ideas concerning biology remained relevant into the 19th century until Darwin's paradigm shift. His positions on woman's rights and slavery would have been regarded as moderate ones in Western society until the early nineteenth century. Some of his ideas about education, property, and common meals also seem strange, but it should be kept in mind that Greece was a pre-industrial society, based on trade and agriculture, and cities were much smaller then--often towns with fewer than 5000 full citizens. His support for public education would have seemed relatively extreme in most of Europe until the late nineteenth century, although today it is obvious and uncontroversial. Many of the shifts away from Aristotle's theories arguably played roles in the emergence of both liberal democracy and the commercial society, although generally indirect ones.

With respect to political systems, a topic taken up in Part III of this book, Aristotle argues that the aim of a good government is to promote the happiness of its people, which naturally includes encouraging their moral and intellectual development. He argues that democracies based on a middle class are the best and most robust forms of government. This is partly because one has to be free to develop one's soul, but also because the choices made tend to be moderate ones (and so likely to be virtuous ones). In a society that does not have a large middle class, he suggests that other forms of governments, including mixed ones tend to work better than democracy.

XIII. Appendix 2A: Aristotle on Political Institutions

Aristotle's book "the Politics" explores a variety of issues associated with the state, why we have them, and what form is most likely to produce a good society. The *Politics* through its joining of ethics, economics, and political science is relevant for part III of this book where we examine the implications of ethical dispositions for public policy, political institutions, and markets. His analysis includes many short descriptions of city state governments during his time and also assessments of the relative merits of different constitutional structures. As in the *Ethics*, an amazing number of issues are dealt with (usually briefly), many of which disappeared from serious intellectual and public debates in the period after the collapse of the Roman Republic (around 60 BC) until around the year 1576, when the Dutch republic was founded.¹⁹

This appendix provides a short overview of his analysis of constitutional government. His analysis of constitutional designs was known to many of the proponents of more representative

¹⁹ The first English translation of the *Politics* was published in 1598 from an earlier French translation (Taylor, 1811:vii). However, most educated persons studied both Greek and Latin. Those mastering Greek could read Aristotle, Plato, Socrates etc. in the original Greek. Latin was the universal language of educated persons in Europe as late as the eighteenth century and there were many Latin translations of Aristotle's work. Indeed, grace in Latin is still recited at Oxford University before formal suppers (at "high table").

institutions in the period in which democratic institutions emerged in the West (from roughly 1600-1900). As in the Nicomachean Ethics, his work was often point of departure for later political theorists and scientists.

EVERY STATE is a community of some kind, and every community is established with a view to some good; for mankind always act in order to obtain that which they think good. ...

The state or political community which is the highest of all, and which embraces all the rest, aims at good to a greater degree than any other, and at the highest good. (*Politics*, KL: 26-35).

.When several villages are united in a single complete community, large enough to be nearly or quite self-sufficing, the state comes into existence, **originating in the bare needs of life, and continuing in existence for the sake of a good life.** (*Politics*, KL: 63).

The state or polity -- by which Aristotle means a political community -- is natural feature of human society. Individuals acting alone are not self sufficient, whereas (some) communities are. A group of communities with a government (state) is more likely to be self-sufficing than ones without a government. A well governed state can increase the survival prospects of its residents and also increase their virtue and happiness. Constitutional government is thus a major social innovation.²⁰

The proof that the state is a creation of nature and prior to the individual is that the individual, when isolated, is not self-sufficing; **and therefore he is like a part in relation to the whole.** But he who is unable to live in society, or who has no need because

he is sufficient for himself, must be either a beast or a god: he is no part of a state.

A social instinct is implanted in all men by nature, and yet he who first founded the state was the greatest of benefactors. (*Politics*, KL: 77-80).

All communities confront certain problems that need to be solved for it to be viable. Aristotle's list includes: (1) food, (2) arts, (3) arms (held by the citizens), (4) revenues, (5) religion, (6) a method of choosing policies and resolving disputes.

Let us then enumerate the functions of a state, and we shall easily elicit what we want:

First, there must be food;

secondly, arts, for life requires many instruments;

thirdly, there must be arms, for the members of a community have need of them, and in their own hands, too, in order to maintain authority both against disobedient subjects and against external assailants;

fourthly, there must be a certain amount of revenue, both for internal needs, and for the purposes of war;

fifthly, or rather first, there must be a care of religion which is commonly called worship;

sixthly, and most necessary of all there must be a power of deciding what is for the public interest, and what is just in men's dealings with one another.

These are the services which every state may be said to need. For a state is not a mere aggregate of persons, but a union of them sufficing for the

²⁰ Such mutual benefits from governments would much later be used to provide the foundation for a contractarian theory of the state, Hobbes (1651).

purposes of life; and if any of these things be wanting, it is as we maintain impossible that the community can be absolutely self-sufficing. (*Politics*, KL: 2866).

Although governments are necessary, some forms of government are better than others. Aristotle demonstrates that the institutions for good government can be analyzed in much the same manner as ethics. He begins by looking at existing governments and attempts to discern general principles from those examples.

In the end, he supports democratic or mixed forms of government depending on the income distribution in the communities to be governed.

Those who care for **good government take into consideration virtue and vice in states**. Whence it may be **further inferred** that **virtue must be the care of a state** which is truly so called, and not merely enjoys the name. **Without this end the community becomes a mere alliance** which differs only in place from alliances of which the members live apart; and law is only a convention, 'a surety to one another of justice,' (Aristotle (2009-07-02). (*Politics*, KL: 1098).

There is also a doubt as **to what is to be the supreme power in the state**: Is it the multitude? Or the wealthy? Or the good? Or the one best man? Or a tyrant? Any of these alternatives seems to involve disagreeable consequences. (*Politics*, KL: 1119).

If government officers (magistrates) are to be elected, who should be the voters?

Does not the same principle apply to elections? For **a right election can only be made by those who**

have knowledge; those who know geometry, for example, will choose a geometrician rightly, and those who know how to steer, a pilot; and, even if there be some occupations and arts in which private persons share in the ability to choose, they certainly cannot choose better than those who know.

So that, **according to this argument, neither the election of magistrates, nor the calling of them to account, should be entrusted to the many**. Yet possibly these objections are to a great extent met by our old answer, that **if the people are not utterly degraded, although individually they may be worse judges than those who have special knowledge- as a body they are as good or better**. (*Politics*, KL: 1156).

This is Aristotle's statement of what will much later be called the Condorcet jury theorem.

Next he argues that, as in many areas of human life, there is no single principle that clearly implies who should govern. This, in turn, implies that there is no unique pure or mixed form of government that can be regarded to be the best.

All these considerations appear to show that **none of the principles on which men claim to rule and to hold all other men in subjection to them are strictly right**. To those who claim to be masters of the government on the ground of their virtue or their wealth, the many might fairly answer that they themselves are often better and richer than the few- I do not say individually, but collectively. (*Politics*, KL: 1220).

Towards the end of the *Politics*, after reviewing the advantages and disadvantages of various types of governments and states.

Consistent with his approach to *Ethics*, he suggests that the best constitution creates the greatest opportunity for happiness. His vision of happiness is not a utilitarian concept, although it is consistent with that perspective (which emerged around 1800 and is discussed in Part III of this book). Happiness requires the development of particular virtues at the level of individuals.

Returning to the constitution itself, **let us seek to determine out of what and what sort of elements the state which is to be happy and well-governed should be composed.** There are two things in which all which all well-being consists: one of them is the **choice of a right end and aim of action, and the other the discovery of the actions** which are means towards it. (*Politics*, KL: 2984-86)..

Our object is to discover **the best form of government**, that, namely, under which a city will be best governed, and since **the city is best governed which has the greatest opportunity of obtaining happiness**, it is evident that we must clearly ascertain the nature of happiness. (*Politics*, KL: 2993-94).

We maintain, and have said in the *Ethics*, if the arguments there adduced are of any value, **that happiness is the realization and perfect exercise of virtue**, and this not conditional, but absolute. (*Politics*, KL: 2995-96).

The government of freemen is nobler and implies more virtue than despotic government. (*Politics*, KL: 3058-59).

Aristotle's analysis of the state also includes a discussion of the **role of the state in education**. Aristotle favors public education, but the best type of education depends in part on the kind of government in place. In this his argument differs from many future "doctrinaire" liberals such as Adam Smith and Herbert Spencer, who argued that government support for education is unnecessary, although it is consistent with Montesquieu's ideas.²¹

The legislator should direct his attention above all to the education of youth; for the neglect of education does harm to the constitution The citizen should be molded to suit the form of government under which he lives. (*Politics*, KL: 3172-74).

Good governments make/have good laws that are followed by the citizenry. A good citizen should be able to both lead and obey.

The good citizen ought to be capable of both; he **should know how to govern like a freeman, and how to obey like a freeman.** These are the virtues of a citizen. And, although the **temperance and justice** of a ruler are distinct from those of a subject, the virtue of a good man will include both; for the virtue of the good man who is free and also a subject, e.g., **his justice, will not be one but will comprise distinct kinds, the one qualifying him to rule, the other to obey.** (*Politics*, KL:990-93).

We must remember that good laws, if they are not obeyed, do not constitute good government. Hence, there are **two parts of good government**; one is the actual **obedience of citizens to the laws, the other part is the goodness of the laws which they obey.** (*Politics*, KL: 1607-8).

²¹ Adam Smith's ethics are discussed in chapter 4 and Herbert Spencer's in chapter 5.

Regarding democracy, much of Aristotle's analysis seems very modern.

The **basis of a democratic state is liberty**; which, according to the common opinion of men, can only be enjoyed in such a state; this they affirm to be the great end of every democracy. One principle of liberty is for all to rule and be ruled in turn, and indeed **democratic justice is the application of numerical not proportionate equality; whence it follows that the majority must be supreme, and that whatever the majority approve must be the end** and the just. KL:2473-76).

Thus it is manifest that **the best political community is formed by citizens of the middle class, and that those states are likely to be well-administered** in which the middle class is large, and stronger if possible than both the other classes, or at any rate than either singly; for **the addition of the middle class turns the scale, and prevents either of the extremes from being dominant.** (*Politics*, KL:1679-82).

The **mean condition of states is clearly best**, for no other is free from faction; and **where the middle class is large, there are least likely to be factions** and dissensions. For a similar reason **large states are less liable to faction than small ones, because in them the middle class is large.** (*Politics*, KL:1685-87).

[D]emocracies are safer and more permanent than oligarchies, [when] they have a middle class which is more numerous and has a greater share in the government. **When there is no middle class, and the poor greatly exceed in number, troubles**

arise, and the state soon comes to an end. A proof of the superiority of the middle class is that the best legislators have been of a middle condition; for example, Solon [the author of the Athenian constitution]. (*Politics*, KL:1688-91).

However, partly because middle class dominance is not always the case, the ideal state is not likely to be a pure state. For example, policy making authority may be divided among voters and elected representatives. The more authority is held by elected representatives, the more aristocratic Aristotle considers the government be.

A government which is composed of the middle class more nearly approximates to democracy than to oligarchy, and is the safest of the imperfect forms of government. (*Politics*, KL:1919-20).

Where particular persons have authority in particular matters- **for example, when the whole people decide about peace and war and hold scrutinies, but the magistrates regulate everything else, and they are elected by vote- there the government is an aristocracy.** And if some questions are decided by magistrates elected by vote, and others by magistrates elected by lottery, either absolutely or out of select candidates, or elected partly by vote, partly by lottery- these practices are partly characteristic of an aristocratical government, and partly of a pure [democratic] government. (*Politics*, KL:1776-80).

The more perfect the admixture of the political elements, the more lasting will be the constitution. (*Politics*, KL:1719-20).

What is most relevant for this book of this short overview of Aristotle's discussion of ideal forms of government is his continued emphasis on virtue, both of the citizens and persons in government. His analysis of political institutions is grounded in his theory of virtue and happiness. The best state is one in which citizens are able to live virtuous, happy, lives. Its laws advance common interests and promote personal and civic virtues.

Subsets of his political theory continue to ground contemporary contractarian and utilitarian theories of governance and public policy. The implications of those ethical theories for governance, public policy, and commerce are taken up in part III of the book.

XIV. Appendix 2B: Some Illustrative Variations among the Translations of Aristotle’s Nicomachean Ethics

Translation	First Sentence	On Man’s Work/Function
<p>Gillies, J. (1797) <i>Aristotle’s Ethics and Politics</i>. London: Cadell and Davies. [1813 edition].</p>	<p>Since every art and every kind of knowledge, as well as all the actions and the deliberations of men constantly aim at something which they call good; good, in general may be justly defined, “that which all desire.” (p. 240).</p>	<p>The proper good of man consists then in virtuous energies, that is, in the exercise of virtue continued through life; for one swallow makes not a summer; neither does one day, or a short time, constitute happiness. (p. 253).</p>

Chase, D. P. (1847)
Aristotle, A New Translation Mainly from the Text of Bekker. London: Whittaker and Co.

<p>Every art, and every science reduced to a teachable form, and in like manner every action and moral choice, aims, it is thought, at some good: for which reason a common and by no means a bad description of the Chief Good is, “that which all things aim at.” (p. 1).</p>	<p>If all this is so, the Good of Man comes to be a working of the Soul in the way of Excellence, or, if Excellence admits of degrees, in the way of the best and most perfect Excellence. And we must add; for as it is not one swallow or fine day that makes spring, so it is not one day or a short time that makes a man blessed and happy. (p. 20).</p>
---	---

William, R. (1876)
Nicomachean Ethics of Aristotle, Newly Translated into English.
 (Second Edition)
 London: Green and Co.

<p>All Moral Action, that is to say all purpose, no less than all art and all science, would seem to aim at some good result. Hence has come a not inapt definition of the chief good as that one end at which all human actions aim. (p. 1).</p>	<p>If all this be so, we shall find that the chief good of man consists in an activity of the soul in accordance with its own excellence (or, in other words, such that the essential conditions of excellence are fulfilled), and, if there be many such excellencies or virtues, then in accordance with the best among them. And we must further add the condition of a complete life; for a single day or even a short period of happiness, no more makes a blessed and happy man than one sunny day or one swallow makes a spring. (p. 14)</p>
---	---

Welldon, J. E. C.
 (1892) *The Nicomachean Ethics of Aristotle.*
 London: Macmillan and Co.

<p>Every art and every scientific inquiry, and similarly every action and purpose, may be said to aim at some good. Hence the good has been well defined as that at which all things aim. (p. 1).</p>	<p>It follows that the good of Man is an activity of soul in accordance with virtue or, if there are more virtues than one, in accordance with the best and most complete virtue. But it is necessary to add the words “in a complete life.” For as one swallow or one day does not make a spring, so one day or a short time does not make a fortunate or happy man. (p. 16).</p>
---	--

Ross, W. D. (1925)
Ethica Nicomachea.
 Oxford: Clarendon
 Press.

(Quotations taken
 from the MIT
 classics website.)

Every art and every inquiry, and similarly every action and pursuit, is thought to aim at some good; and for this reason the good has rightly been declared to be that at which all things aim.	If this is the case, human good turns out to be activity of soul in accordance with virtue, and if there are more than one virtue, in accordance with the best and most complete. But we must add “in a complete life.” For one swallow does not make a summer, nor does one day; and so too one day, or a short time, does not make a man blessed and happy.
---	---

Irwin, T. (1999)
Aristotle, Nicomachean Ethics. (Second Edition)
 Indianapolis:
 Hackett Publishing
 Company.

Every craft and every line of inquiry, and likewise every action and decision, seems to seek some good; that is why some people were right to describe the good as what everything seeks. (p. 1).	And so the human good proves to be activity of the soul in accord with virtue, and indeed with the best and most complete virtue, if there are more virtues than one. Moreover, in a complete life. For one swallow does not make a spring, nor does one day; nor, similarly, does one day or a short time make us blessed and happy. (p. 9).
---	---

Crisp, R. (2014)
*Aristotle,
Nicomachean
Ethics*. Cambridge:
Cambridge
University Press.

Every skill and every inquiry, and similarly every action and rational choice, is thought to aim at some good; and so the good has been aptly described as that at which everything aims. (p. 3).	If this is so, the human good turns out to be activity of the soul in accordance with virtue, and if there are several virtues, in accordance with the best and most complete. Again, this must be over a complete life. For one swallow does not make a summer, nor one day. Neither does one day or a short time make someone blessed and happy. (p.12)

References

- Becker, G. and Stigler, G. (1977) "De Gustibus Non Est Disputandum," *American Economic Review* 67: 76-90.
- Boettke, P. J. (Ed.). (2000). *Socialism and the Market: The Socialist Calculation Debate Revisited*. Psychology Press.
- Carnes Lord (2013) *Aristotle's Politics*. (Second Edition) Chicago: University of Chicago Press.
- Chase, D. P. (1847) *Aristotle, A New Translation Mainly from the Text of Bekker*. London: Whittaker and Co.
- Crisp, R. (2014) *Aristotle, Nicomachean Ethics*. Cambridge: Cambridge University Press.
- Ernest Barker (1995) *Aristotle: Politics*. Oxford: Oxford University Press.
- Gillies, J. (1797) *Aristotle's Ethics and Politics*. London: Cadell and Davies. [1813 edition].
- Hayek, F. A. (1945) "The Use of Knowledge in Society," *American Economic Review* 35: 519-30.
- Hayek, F. A. (1940) "Socialist Calculation: the Competitive Solution," *Economica*, 7: 125-149.
- Knight, F. H. (1917) *Risk, Uncertainty and Profit*. New York: Houghton Mifflin Co.
- Irwin, T. (1999) *Aristotle, Nicomachean Ethics*. (Second Edition) Indianapolis: Hackett Publishing Company.
- Jowett, B. (1885) *The Politics of Aristotle*. Oxford: Clarendon Press. (Penguin Classics reprint used in text.)
- Kizner, I. (1973) *Competition and Entrepreneurship*. Chicago: University of Chicago Press.
- Lavoie, D. (1985) *Rivalry and Central Planning: the Socialist Calculation Debate Reconsidered*. Cambridge: Cambridge University Press.
- Murrell, P. (1983) "Did the Theory of Market Socialism Answer the Challenge of Ludwig von Mises? A Reinterpretation of the Socialist Controversy." *History of Political Economy* 15: 92-105.
- Pareto, V. (1927) *Manual of Political Economy*, edited by Ann S. Schwier and Alfred Page, New York: Augustus M. Kelley (translated by Ann S. Schwier).
- Ross, W. D. (1925) *Ethica Nicomachea*. Oxford: Clarendon Press.
- Shackle, G. L. S. (1961) *Decision, Order and Time in Human Affairs*. Cambridge: Cambridge University Press.
- Taylor, T. (1811) *The Politics and Ethics of Aristotle*. London: Wilks.

Mises, L. V. (1927). 1985. *Liberalism: In the Classical Tradition*.
Irvington-on-Hudson, New York: Foundation for
Economic Education.

Weldon, J. E. C. (1892) *The Nicomachean Ethics of Aristotle*.
London: Macmillan and Co.

William, R. (1876) *Nicomachean Ethics of Aristotle, Newly
Translated into English*. (Second Edition) London: Green
and Co.