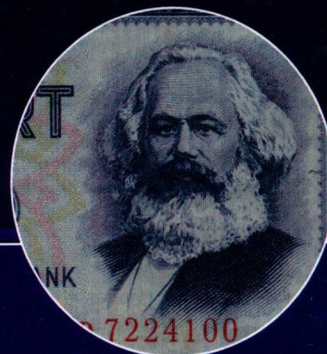
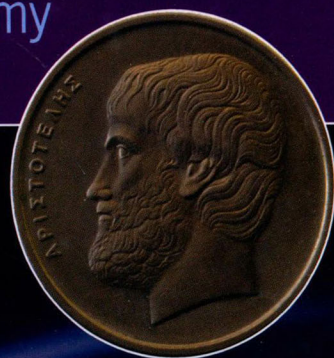




# Aristotle, Adam Smith and Karl Marx

On Some Fundamental Issues in  
21st Century Political Economy



**Spencer J. Pack**

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On Some Fundamental Issues in 21st Century  
Political Economy

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Spencer J. Pack

*Professor of Economics, Connecticut College, USA*



**Edward Elgar**

Cheltenham, UK • Northampton, MA, USA

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Published by  
Edward Elgar Publishing Limited  
The Lypiatts  
15 Lansdown Road  
Cheltenham  
Glos GL50 2JA  
UK

Edward Elgar Publishing, Inc.  
William Pratt House  
9 Dewey Court  
Northampton  
Massachusetts 01060  
USA

A catalogue record for this book  
is available from the British Library

Library of Congress Control Number: 2009940656



ISBN 978 1 84844 763 9

Printed and bound by MPG Books Group, UK

**Aristotle, Adam Smith and Karl Marx**

For Sophia and Alexander

# Acknowledgements

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Earlier versions of Chapters 1 and 4 were presented to the Eastern Economic Association Conference, New York, 2005; sections of Chapters 2 and 5 to the History of Economics Society Conference, Grinnell, Iowa, 2006; Chapter 2, Section 2.3 to the Capabilities and Happiness Conference, Milan, 2005; Chapter 10 to the History of Economics Society Conference, Denver, 2009; and an overview of Part I to the World Congress of Social Economics, Albertville, France, 2004. An outline of the entire project was presented to the Amsterdam Research Group in the History and Methodology of Economics, January 2007.

Special thanks go to Mark Blaug who read and commented upon an earlier version of the entire manuscript; Warren Samuels who read and commented upon an earlier version of Parts I, II and III; and John Henry who read and commented upon Parts I, III and IV. My colleagues Ed McKenna and Maria Cruz-Saco, and Jack Bishop of Kingsbury International commented on Chapters 11 and 12; and Jane Clary gave me general support and commented on Part II on Smith.

The Economics Department at Connecticut College has been interested in and strongly supportive of my work for almost three decades now. I thank my colleagues Gerald Visgilio, Don Peppard, Rolf Jensen, Ed McKenna, Maria Cruz-Saco, Candace Howes, Yong-Jin Park and Monika Lopez-Anuarbe. They have always taken a broad view of what is economics, and have let me teach such unconventional economics courses as 'Capitalism as a Moral System', 'Ancient Greek and Jewish Economic Thought' (co-taught with Roger Brooks who extensively and lovingly tutored me in Talmudic economics) and 'International Financial Management'. Special thanks also to all my hard-working, intelligent students who grappled with difficult controversial issues; and the librarians (now information service facilitators) at Connecticut College, particularly Ashley Hanson, James MacDonald and Marian Shilstone.

Connecticut College has been supportive of my work with generous sabbatical leaves throughout the years, as well as travel and research funds. The college is an excellent place to do interdisciplinary teaching and research. I particularly want to thank, for the extensive help I have received over the years, Dirk Held in the Classics Department; Larry Vogel and the late Lester Reiss in the Philosophy Department; and of course the

late Jerry Winter in the Sociology Department. Thanks also to other colleagues at the school who have helped me over the years: Kenneth Bleeth, John Coats, Mark Forster, Robert Gay, David Patton, Fred Paxton and Robert Proctor. Also of enormous help to me at critical times throughout my career were the now departed Robert F. Barlow, John Kenneth Galbraith, David Hawkins and Jolane Solomon. I thank Eric Schliesser for his support and insight concerning Smith and philosophical issues; S. Todd Lowry for first encouraging me to study ancient Greek economic thought and for his insight, wisdom and help throughout the years; former teachers Robert Albritton and Pradeep Bandyopadhyay for their extensive help and guidance in studying Marxist economics; and former teachers Stephen Berger and David Osher for first emphasizing the importance of taking a historical approach to the study of social theory. Finally I would like to thank my secretary Nancy Lewandowski; the remarkable Reverend Eddie Kjelshus for his help, support and encouragement throughout the decades; as well as, of course, my wife, Susan Solomon.

# Introduction

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According to Kenneth Boulding, there are different aspects to economics. For Boulding (1970), economics is simultaneously a social, ecological, behavioral, political, mathematical and moral science. This suggests that there are different ways to do, to study, economics. For me, economics is largely a branch of social theory. Hence, it is necessarily historical. Social theorists today study theorists of the past to help come to grips with and understand present issues and concerns; for similar reasons many contemporary economists study past economic theorists. For Mark Blaug, the ‘knock-down’ argument for studying the history of economic thought is that no ‘idea or theory in economics . . . is ever thoroughly understood except as the end-product of a slice of history, the result of some previous intellectual development’ (2001: 156).<sup>1</sup> I agree. Indeed, I consider this present study on a few fundamental, common issues in the work of Aristotle, Adam Smith and Karl Marx to be a study both in the history of economic thought and in contemporary theory. Schumpeter once said, apparently borrowing the phrase from Joan Robinson, that economic theory may be considered to be ‘a box of tools’ (1954: 15). The history of economic thought itself may be considered a tool in that box. When coming upon a problem or issue, it may (indeed most likely will) be helpful to ask: what would Adam Smith (probably) say? What would Aristotle (probably) say? What would Karl Marx (probably) say?<sup>2</sup>

I realize there is a trend among some in the history of economic thought to argue that the history of economic thought is much too complex, indeed

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<sup>1</sup> Hence, for Blaug, ‘History of economic thought is not a specialization within economics. It is economics – sliced vertically against the horizontal axis of time’ (ibid.: 157, emphasis in original).

<sup>2</sup> Moreover, I think the history of economic thought itself will only overcome its Eurocentric and modernistic bias when it views itself as in part a part of the history of law (see for example Pack, 2001a: 178–80). As Warren Samuels has argued, it is probably severely misleading to even think of government (or polity) and markets (or economy) as separate and self-subsistent. Instead they are jointly produced and are part of a legal–economic nexus (1992, Chapter 4, ‘Some Fundamentals of the Economic Role of Government’ and Chapter 5, ‘The Legal–Economic Nexus’: 156–86; 1989). Smith’s *Wealth of Nations* itself came out of his course at Glasgow University on Jurisprudence; and that course itself was largely historical (for more detail see below Chapter 7; also Pack, 1991, Chapter 7, ‘Lessons from the *Lectures on Jurisprudence*’: 119–37).



fantastically complicated, and the work of the past economic theorists too historically and contextually specific, to be able to offer much (if anything) to contemporary theorists or to understanding contemporary issues and concerns.<sup>3</sup> Instead, past theorists will be sorely misread and misunderstood by all but the most well-trained professionals, deeply grounded in the pertinent historical and rhetorical specificities of their subject's particular milieu. I think this approach tends to be excessively cautious, timid, fearful; ineffectual.<sup>4</sup> This approach could help further the apparent professionalism of the sub-discipline history of economic thought; but I think it will also lead to professional irrelevance. Instead, aspiring economists should be encouraged to read people such as Adam Smith, Karl Marx and Aristotle, for largely the same reasons as, for example, aspiring Christians should read the Bible: to see what these works can teach us today, for today's societies, for today's peoples.

Moreover, there is a long, broad and deep tradition; an economics tradition. For example, as will be demonstrated, Smith read and knew his Aristotle, and was in part responding to him. Marx read and knew both Aristotle and Smith and was in part responding to both of them. Thus, there was in a sense a dialogue, or a dialectic in the original sense of the term, between Aristotle, Smith and Marx. Aristotle was the great systematizer of the ancient world. Smith and Marx were two of the great systematizers of the modern world.<sup>5</sup> Although Aristotle, Smith and Marx may all be viewed as great system-builders, this is not a case of paradigms in collision, where they completely miss each other (and 21st century readers) because of their incommensurate differences. Rather, as will be demonstrated, the three systems are intimately related to each other, and to us.

This study concentrates on just six key concepts: exchange value, money, capital; character, government and change.<sup>6</sup> I will discuss other pertinent concepts, for example credit, only insofar as they are directly related to these primary concepts.<sup>7</sup> Aristotle's contributions to these concepts are

<sup>3</sup> This, I believe, is in line with the general *geist* of post-modern thought, which tends to stress the utter complexity of phenomena, and the limits of human reason to really understand what is going on – a problem which I will discuss below in Chapter 13.

<sup>4</sup> See Pack (2001b). This excessive timidity opens the explanatory door too wide to charlatans and various secular and religious quacks eager to supply the demand for soothing explanations of the world.

<sup>5</sup> Although Smith, I believe, perhaps purposely left his system incomplete; see Pack (1997). The other major systematizer of the modern world was, of course, Hegel. I will refer to him as necessary, throughout this work, largely in the footnotes.

<sup>6</sup> I have been personally pondering these concepts for decades, alas!

<sup>7</sup> I realize some readers may be disappointed in this approach, given the current world economic difficulties, which appear to have largely originated in the credit markets for subprime mortgage backed securities. I do comment on the current difficulties in various footnotes throughout the text. Although I do not explicitly deal with or go into depth on

primarily in his *Politics* and *Ethics* (both *Nicomachean* and *Eudemian*). I draw on these texts, as well as various parts from the rest of his corpus as needed. To make this study manageable, for Smith and Marx I concentrate only on their mature economic writings published under their auspices. This means, for Smith I concentrate on his *Wealth of Nations*. For Marx, I concentrate on *Capital, Volume I* and, to a lesser extent, his 1859 *A Contribution to the Critique of Political Economy*.<sup>8</sup> However, I will occasionally also draw on the rest of Smith's *Collected Works* and other of Marx's writings as needed.<sup>9</sup>

Part I deals with Aristotle's seminal position concerning exchange value, money, capital; character, government and change. Chapter 1 discusses Aristotle's analysis of exchange value and the development of money in *The Politics* and his discussion of justice, exchange value, money and commensurability in *The Nicomachean Ethics*. It also discusses what is meant by commensurability in general for Aristotle, and the perceived need for commensurability or a common unit for goods to be exchanged in definite proportions.

Chapter 2 argues that according to Aristotle money can be used to acquire more money. This is money used as capital or, as Aristotle calls it, *chrematistics*. *Chrematistics* for Aristotle is unnatural. It wrecks people's character, making them overly greedy and desirous to accumulate more money. It causes people's passions to dominate their reason. I explain what Aristotle means by the natural and the unnatural, and discuss the formation of character in general in Aristotle for humans and other living things.

Chapter 3 argues that change for Aristotle is basically circular. The world is permanent, and there is no concept of unidirectional natural and/

the concept credit, it will be seen that issues surrounding character development related to capital, as well as the role of government, are extremely pertinent to the current economic difficulties; and these issues will indeed be explored in detail below.

<sup>8</sup> Actually, strictly speaking, even the first volume of *Capital* was given final shape by Engels after Marx's death. See Heinrich (2009: 88–9); however, Engels' editorial input in this volume was rather minimal, particularly compared to the other volumes of *Capital*.

<sup>9</sup> For Aristotle, I used the two volume *Complete Works of Aristotle*, revised Oxford Translation edited by Jonathan Barnes. References are to the numerals printed in the outer margins of that text which are keyed to the translation of Bekker's standard edition of the Greek text of Aristotle of 1831. I give the title of Aristotle's work and refer to the page number and the column letter only of the Bekker edition. For Smith, I used the six volume *Glasgow Edition of the Works and Correspondence of Adam Smith*. For *The Wealth of Nations* I generally followed the now standard citation practice of giving the book, chapter, section, and so on, and paragraph number added in the margin of the Glasgow edition. For the rest of Smith's works I generally just give the title and the page number in the Glasgow edition. For Marx, I used various editions of his writings, including the 1976 translation of Volume I of *Capital* by Ben Fowkes. Unless otherwise specified, all references to *Capital* are to the first volume.

or social historical evolution as with the moderns. The government for Aristotle should promote the potentialities and capacities of its citizens. Aristotle's theory is literally a theory of the welfare state. Also, the state will be best and most stable when it has a strong middle class and promotes that class. The state will have a natural tendency to become corrupt (or unnatural) and rule in the interests of the governing rather than the governed.

Part II presents Smith's debate with Aristotle over various chrematistic/economic issues. Chapter 4 argues that Smith knew his Aristotle intimately well. Smith basically begins *The Wealth of Nations* with Aristotle, and the Aristotelian difference between exchange and use value. I argue that although Smith is ambiguous as to what causes value,<sup>10</sup> he is adamant that human labor is the real, ultimate, accurate measure of value. From an Aristotelian perspective, if labor is the real measurer of value, then in some sense value must be labor itself.

Chapter 5 argues that, for Smith, the use of money (or value) to produce (or acquire) more money, which Smith calls capital, is quite natural. Here Smith argues against Aristotle. In so doing, Smith changes the meaning of natural from the best, to the normal or ordinary. Smith may be viewed as in an argument with Aristotle, insisting that capitalism or commercial society is natural and good.

Chapter 6 shows that Smith in some ways follows Aristotle on the importance of a person's character, and how character is formed in society through education, habit, experiences, and so on. However, Smith decisively departs from Aristotle in not thinking that a person's character will be corrupted in a chrematistic or commercial society which largely depends upon the use of money used to acquire more money. Indeed, Smith generally likes and admires the characters formed in commercial society. Nonetheless, there are also major flaws in the character types produced in commercial society, including the capitalists, their managers, the landlords, and the workers. Moreover, workers will have a tendency to be attracted to disagreeable and potentially dangerous, enthusiastic religious sects – a problem in Smith's day and again in ours.

Chapter 7 argues that Smith was not a dogmatic proponent of laissez-faire, nor a libertarian; yet, neither was he a full-fledged theorist of the social welfare state as was Aristotle. For Smith, government arose at a definite time in history, largely to defend the interests of the propertied rich against the poor. To some extent, Smith distrusted government since it tended to be ruled by and for the rich and powerful. Also, for Smith,

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<sup>10</sup> Or what value is; or, in explicitly Aristotelian terms, what is the material cause of value.

history was not circular as with Aristotle and the ancients. Rather, as with most secular moderns, history was one of evolution, and human history was largely the result of the unintended results of human actions. This change in the conception of history may have resulted in part from the realization that animal species are not eternal. Species may die out and become extinct; this also suggests that new ones may arise.

Part III argues that Marx's critique of modern, classical political economy was to some extent also a new modern return to Aristotle. Chapter 8 argues that Marx in a sense combines Aristotle and Smith on what is value, what enables commodities to be exchanged in determinant proportions, and what makes them commensurable. Following Smith, labor time is the real, true, accurate measure of value. Following Aristotle, this means that labor time is therefore also the substance of value. This substance of value, or value itself, can only manifest itself in exchange value, in the actual exchange of commodities for each other.

In analyzing commodities, Marx also stresses Aristotle's formal cause. Following Aristotle (and Smith), for Marx the commodity form of value will necessarily in time generate money, or what Marx calls the money form of value. Since exchanges of commodities are not necessarily spot exchanges, credit itself will arise out of the mere exchange of commodities, where the buyer of a commodity becomes a borrower, the seller a lender. Thus, the mere circulation of commodities may potentially generate credit crises.<sup>11</sup>

Chapter 9 argues that for Marx, capital is the use of both money and commodities to acquire more money. Since money and commodities are value, or embodied labor, then capital is self-expanding value: the use of labor power to create more value or surplus value. Since for Marx only the commodity labor power can create surplus value, then capital is the creation of surplus value through the exploitation of labor power, of living workers. It is the appropriation of labor, or surplus labor, from these workers.

Returning to themes introduced by Aristotle, this use of money to acquire more money wrecks the character of the capitalists. It makes them want to passionately acquire and accumulate more and more wealth or surplus value. Moreover, capitalists are also forced to do so by competition. The competitive, capitalist system also degrades the moral character of the workers through low pay, overwork and tyrannical working conditions subject to the dictates of capital.

Chapter 10 argues that as with Smith, Marx has what may be termed

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<sup>11</sup> Credit itself is not extensively developed by Marx until the posthumously published Volume III of *Capital*.

functional as well as instrumental theories of the state. Marx also has a theory of the state as alienated power; however, as with Smith, Marx has no fully developed mature work on the state. Also, as with Smith, Marx is in the modern world, with an evolutionary view of history (and the state). However, Marx also gives a largely Aristotelian interpretation of the rise and fall of the capitalist mode of production, stressing all four of Aristotle's causes: the material, formal, final and efficient causes. This is what makes Marx's *Capital* so complex. Also, Marx views his work as in some sense scientific. He is waging battles on two distinct fronts: against what he considers bourgeois political economy (which he is explicitly critiquing); but also against religion, particularly the religions of the poor and the working class.

Part IV sums up the previous three parts, comparing and contrasting Aristotle, Smith and Marx on the crucial concepts of exchange value, money, capital; character, government and change. It also carries forth the analysis of these concepts into the 21st century. It shows how these concepts are still, of course, of crucial importance and concern. Also, it demonstrates that their theories are currently extremely topical, and they shed crucial light on such contemporary issues as, for example, the continuing development of world money; saving; managerial capitalism; corrupt governments; and various movements for social change.

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## PART I

### Aristotle's seminal position