Aristotle on Money

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Joseph Schumpeter considered Aristotle’s treatment of money in *Politics* I, 8-10 to be ‘the basis of the bulk of all analytical work in the field of money’.

Schumpeter was among Aristotle’s shrewdest economic commentators and in some ways the most critically hostile, yet he regarded the analysis as penetrating and precocious. But it is perhaps more penetrating than he thought and more deeply and interestingly flawed. The analysis is ethical as well as economic, and these two aspects are in a tension which leads Aristotle to attribute two natures to money, that of a means and that of an end. His official position is that it has only one of these natures, that of a means of exchange, and he ignores the other without giving a reason. Modern condescension should not be precipitate, however, because the tension is not one that can be avoided easily from what might be thought of as the high vantage point of modern economic thinking about money, which is just as deeply divided and in just the same way.

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Aristotle introduces money as a development of exchange, and he sees this as evolving through four forms. The first (i) is barter or the exchange of commodities without money (1257a15-30), which we can represent as C-C. Barter is inconvenient because the acts of sale and purchase are fused into a single act. Money came into existence in the first place, he says, in order to

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1 Schumpeter says that Aristotle’s theory of money ‘prevailed substantially until the end of the nineteenth century and even beyond’, adding that three of the four functions of money traditionally listed in nineteenth century textbooks of economics can be traced back to Aristotle, namely, money as medium of exchange, as measure of value and as store of value. The absence of the fourth, money as standard of deferred payments, can hardly be held against Aristotle, since there were no deferred payments in the ancient world, though Schumpeter does not offer this excuse; J. Schumpeter, *History of Economic Analysis*, (Oxford, 1952), p. 62.

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make this sort of exchange easier (1258b4-5), by allowing the sale (C-M) and the purchase (M-C) to be separated in time and place (EN., V, 1133b10f). This gives (ii) the second form of exchange, natural chrēmatistikē (1257a30-41), which may be represented as C-M/M-C, or for short C-M-C. Once people have become accustomed to this, Aristotle says, another form of exchange arises, (iii) unnatural chrēmatistikē, in which people can come to market, not with surplus goods they have made or grown which they want to exchange for things they need, but with money. Their aim is to get money by buying goods and selling them for a greater sum (1257b1-40); it can be represented as M-C/C-M, or M-C-M for short. This is justly discredited, he says, because it involves ‘people taking things from one another’ (1258b1f). (iv) The fourth form is usury (obolostatikē), the lending of money at interest, M-M, or ‘the breeding of money from money’, which he says is the most hated sort and with reason (1258b1-8). Aristotle presents the emergence of these forms of exchange as a single process of development, and so they might appear to be accidentally different ways of doing essentially the same thing.

But interwoven with this is an analysis, which today might be called ‘ethical’ rather than ‘economic’, in which he examines the end of each form. He finds that there is no single end which all forms of exchange alike serve, but two quite different ends such that some serve one and some the other. They are, therefore, accidentally similar ways of doing things that are essentially different.

Aristotle defines actions by their ends (EN., III, 1115b22; Met., Θ, 1050a22-4). If two activities aim at different ends they are different however similar they may appear. C-C is acceptable because its end is the bringing together of needs with the use values that will satisfy them (consumption), and he judges this to be natural and necessary by his usual criterion of having ‘enough’ (1256a1-b26). C-M-C, or natural chrēmatistikē, is acceptable too because it shares the same end (it ‘is needed for the satisfaction of men’s natural wants’, 1257a30), and exchange reaches a natural terminus once a need has been met, and so its end ‘has a limit’ (1257b31). This use of money is ‘necessary and laudable’ because it is a means subordinate to a natural end, and it is part of oikonomikē (1256b27f). It is to be contrasted

2 The point of oikonomikē Aristotle says is to autarkēs einai (1256b4), and what he means is best rendered as ‘having enough’ rather than ‘being self-sufficient’, because the context is a discussion of avoiding deficiency not avoiding dependence on others. Apart from considerations of context, Aristotle’s definition of autarkēs in the Ethics is ‘that which on its own makes life worthy of choice and lacking in nothing’, (EN., I, 1097b14-15).