Capitalism and Morality

ARISTOTLE AND CARL MENGER:
IMMANENT REALIST AND AUSTRIAN ARISTOTELIAN ON VALUE THEORY

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Over the course of human history, man has tried to decipher what determines the value of a particular good. In the economic realm, this is one of the most intrinsic dilemmas that has plagued economists and philosophers for centuries. It might seem as a “lackluster” point to people of the consumerism culture of today, for each sees many different things as “goods.” Why would they think this? People do not usually question, or are concerned, why they buy the latest trendy clothes when shopping at the local department store. This generation seems to advocate a sort of Epicureanism, in that whatever is pleasurable is therefore a “good.” However, many economists, especially of the Austrian school, have advocated a quite similar value theory. Even though people may make incorrect value judgments, as with the example of getting the latest fashions, value is determined by the valuer for some need to benefit his or her life. This theory of value was most aptly coined by the founder of the Austrian school of economics, Carl Menger (1840-1921). His theory was trying to counteract the so-called “objective” labor theory of value, with Karl Marx and Adam Smith as its figureheads. Even though Menger’s theory of value was unwisely titled “the subjective theory of value,” his did look at objective benefits needed by the valuer.

Even though Menger derived a completely opposing theory to that of Marx, his idea was not that revolutionary. About twenty-one hundred years prior to Menger’s birth, the ancient Greek philosopher Aristotle (384-322 B.C.) virtually wrote about the same topic as Menger. Aristotle would show some signs of holding an early version of the Law of Diminishing Marginal Utility, which would be attributed to the Austrians. In many other ways, Menger was a student of Aristotle, for he held many of the same metaphysical viewpoints on the existence of reality (Law of Identity) and on man’s relation to living in the world. Both being immanent realists, they looked around the world and saw that people had individual needs. In order to fulfill these needs, each valuer had to look around the world and see what “goods” were needed to help promote the valuer’s life. Through the formation of concepts, by taking in evidence empirically from one’s environment, a person was able to weigh and rate the relative values of differing goods. For the purposes of this analysis of Menger and Aristotle, it is best to begin with the master philosopher by outlining his individual views on matters like the following: use value, exchange value, marginal utility, reciprocal justice, money as a medium of exchange, etc. In Aristotle’s case, his Politics and his Nicomachean Ethics are the most relevant “economic” passages. Then it will be necessary to provide an explanation of Menger’s similar views, which come from his monumental book Principles of Economics (1873).

In Aristotle’s economic thought, he arrived at the first truly adequate understanding of “value.” Even though some, like Marx, have seen parts of Aristotle’s text advocating a labor theory of value, Aristotle himself saw that the skills and acts of labor itself were a part of the task of creating a good. However, a good would just sit idle, even if much labor was put into its construction and planning, unless the good
was valued as a “good” by an individual person. Value is determined by the amount of utility a good has to fulfilling a person’s needs.

Even though this sounds a bit “subjective” in nature, Aristotle saw, metaphysically, that each rational human being has a telos, or end, to their life, and he saw this as a search for eudaimonia (“human flourishing”). To flourish as a rational animal, one has to possess some desired end. Through reason and focused purpose, men are able to survive and grow as human beings. Without delving into Aristotle’s theological implications espoused by the St. Thomas Aquinas, Aristotle’s telos is immanently individualistic in nature. He quotes from the Politics that, “... for no man can live, or indeed live at all, unless he be provided with necessaries,” (Politics, 1253a 24-5). People have needs, goals, and desires, and they have to examine themselves and their world to find what best fulfills them. By evaluating produced economic goods, one chooses those that possess the highest utility for his or her individual happiness, and this ideal is espoused by Aristotle in his little known book the Topics, as he writes:

Thus (e.g.) the relation of the pleasant to pleasure is like that of the useful to the good: “for in each case the one produces the other. If therefore pleasure be a kind of ‘good,’ then also the pleasant will be a kind of ‘useful’: for clearly it may be taken to be productive of good, seeing that pleasure is good” (Topics, 124a, 16-20).

For Aristotle, all values, economically speaking, are derived by how pertinent they are to allowing individuals to achieve their needs in the best possible way.

After arriving at his notion of value, Aristotle discovers that goods have both a “use value” and an “exchange value.” Once again, eloquently surmised in the Politics, Aristotle provides a keen example of how a good has these “two natures.” Aristotle writes: “Of everything which we possess there are two uses: both belong to the thing as such, but not in the same manner, for one is the proper, and the other the improper or secondary use of it. For example, a shoe is used to wear, and is used for exchange; both are uses of the shoe” (Politics, 1257a 6-10).

By making this distinction, Aristotle is able to see that the “demand” for a certain product comes about as a function of the product’s “use” value to valuing individuals. The primary value a good possesses is totally based on it serving some particular “use” for the individual. Demand is thus a measure of the level of utility a good has for fulfilling a person’s desired goal.

The most intriguing inference that Aristotle derives from use value is that at some point, a particular good’s quantity will become so much that its level of desirability begins to decline. Many have viewed this as an early version of the Law of Diminishing Marginal Utility, but for Aristotle this seemed quite commonsensical. Aristotle observes that, “... external goods have a limit, like any other instrument, and


\[^3\]McKeon, 609.
all things useful are of such a nature that where there is too much of them, they must either do harm, or at any rate be of no use, to their possessors,” (Politics, 1323b, 7-10). Aristotle and many of the Greeks were aware of, taught, and even practiced moderation in their daily lives. It would seem quite ridiculous to horde up or try to consume so much food in a short period of time. This statement by Aristotle appears as a common fact, and it will not be until the Austrians that the idea incorporates more mathematical determinations of marginal utility. Aristotle shows that people cannot desire infinite amounts of goods to flourish.

The essence of “exchange” value will be examined later, but now it is best to briefly examine Aristotle’s views on the phenomenon of “scarcity.” Aristotle sees that the “demand” of a particular good changes greatly if the good is in small supply. For moderns this makes perfect sense, and one imagines graphs and charts outlining supply and demand schedules for particular goods. Such “rarity” factors could be influenced by natural disasters or other “disturbing” factors. In two instances, Aristotle writes: “Another rule is that the more conspicuous good is more desirable than the less conspicuous, and the more difficult than the easier: for we appreciate better the possession of things that cannot be easily acquired,” (Topics, 117b, 28-30). Aristotle provides a better example of the problem of scarcity in the Rhetoric, when he sees that, “Further, what is rare is a greater good than what is plentiful. Thus gold is a better thing than iron, though less useful: it is harder to get, and therefore better worth the getting,” (Rhetoric, 1364a, 24-6). In essence, Aristotle sees that as a part of human nature, people naturally attribute more value to a scarce good than to a common good. He sees that in dire situations, like being stuck in a desert, one would attribute more value to a pound of water, while a pound of gold would be utterly useless. As a pattern of consistency, Aristotle continues to promote a sort of utilitarianism with the individual at the core. Furthermore, he sees that the desirability of a means to an end depends upon the desirability of that particular end, by surmising that, “ ... whenever two things are very much like one another, and we cannot see any superiority in the one over the other of them, we should look at them from the standpoint of their consequences,” (Topics, 116b, 5-7).

The last point that needs to be considered from Aristotle’s economic thought is with exchange value, but more importantly with the issue of “commensurability.” Aristotle correctly saw that value is subjectively given by the individual, but the good fulfills an objective value for the person, namely in regard to personal flourishing. Consequently, Aristotle had a problem with how to make differing goods commensurable for exchange purposes. At the point of exchange, there are two people who are both desiring to be buyers and sellers. However, the problem occurs when the trade involves unequal goods, like potatoes and cattle. How does one determine how the exchange will take place? Although utility is vital to price determination, Aristotle sees that the trade has to be “equalized” in some fashion. He gives an example that says:

For it is not two doctors that associate for exchange, but a doctor and a farmer, or in general people who are different and unequal; but these must be equated ... It is for this end that money has been introduced, and it becomes in a sense an intermediate; for it measures all things (Ethics, 1133a, 16-20).
Because money was introduced, it acts as an equalizing unit to determine utility for both sides. Aristotle sees that, “Now this unit is in truth demand, which holds all things together... but money has become by convention a sort of representative of demand,” (*Ethics*, 1133a, 26-30). He did not see money itself as a “store of value,” as some critics have often coined, but rather money was the “medium” through which man’s values could be best articulated. Money should not be loved for itself, but rather for what it can help fulfill in a person’s life.

As a result of this, justice must be determined for the exchange to occur properly. Aristotle sees that particular justice applies, for it deals with quantitative relationships. Even more important is reciprocal justice, for, “... in associations for exchange this sort of justice does hold men together-reciprocity in accordance with a proportion and not on the basis of precisely equal return,” (*Ethics*, 1132b, 32-4). With reciprocal justice looking at particular mutual benefits for both sides, it would seem that Aristotle has also founded the early beginnings of the Law of Comparative Advantage. It is vital to understand that during any market exchange, both sides hope to benefit. If no benefit is derived, or either side feels that their expectations are not being fulfilled, then the exchange will unjustly take place, or even not at all. There must be a ratio of exchange values to be equalized for both sides to carry out the transaction. Some, including this writer, are quite confused as to why Aristotle tried to make sure that the goods in an exchange must always be equalized. This is quite hard to determine, and it would seem that one would have to able to derive intrinsic benefits from a good to make such calculations, although even this would not make the task any easier. Even though his idea of making sure that exchange levels must always be equalized for both parties seems quite absurd, he correctly understood that exchanges only take place because each side looks to gain a good to better their objective ends.

With Aristotle’s views established, now it is advisable to look for comparisons and contrasts with Carl Menger’s theory of value. Menger’s most renowned fame came when he gave further substance to Aristotle’s early inklings on marginal utility. In conjunction with W. Stanley Jevons and Leon Walras, they established the Theory of Diminishing Marginal Utility as a set economic theorem for analysis. While his colleagues used the theory in a more “numerical” and “mathematical” manner by trying to find derivatives of an overarching Marginal Utility “Equation,” Menger saw it as a philosophical principle that could be applied in everyday language and to everyday life. He adamantly opposed the “objective” theory of value espoused by Adam Smith and Karl Marx, for he thought that value was not integrally determined by the labor factors necessary to produce a “good.” He summarized his view in his great treatise when he says “value is... nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgment economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being”(*Principles of Economics* [1994], 120).

For Menger, value can only be given “to things” by rational human beings. Like Aristotle, this might appear, on the surface, as a subjective theory of value, but Menger pushes for an “objective” stance, in that value is given to a good if the good helps to further or fulfill a need of an economizing individual.

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9McKeon, 447.

10McKeon, 446.

This starting point is virtually synonymous with Aristotle. Menger, like Aristotle, saw the importance of scarcity in the equation, when he said

“For the inhabitants of an oasis ... a certain quantity of water at the spring itself will have no value. But if the spring, as the result of an earthquake, should suddenly decrease its yield of water to such an extent that the satisfaction of the needs of the inhabitants of the oasis would no longer be fully provided for ... such a quantity would immediately attain value ... (Principles of Economics” [1994], 74-5).12

With these similarities to Aristotle, Menger will continue to build upon the ancient philosopher’s “objective” theory of value.

Menger does see a problem with differences in value over time, and he explains this by using a very Aristotelian perspective. For him, casual connections are very vital to understanding how values change with time. By tracing these connections and finding the “causes,” an economizing individual is better able to make proper value judgements. This process is a twofold endeavor, for: “We must investigate: (1) to what extent different satisfactions have different degrees of importance to us (subjective factor), and (2) which satisfactions of concrete needs depend ... on our command of a particular good (objective factor) (Principles of Economics [1994], 3.ii.2).13 Menger did seem to espouse a “contextually-relational objectivism,” where value depends on the subject, the object, and the situation itself.14 Value has to have all three to even attempt to make proper judgements. By only focusing on one of the three aspects, it is no wonder that many had derived quite ludicrous theories of value in the time since Aristotle’s death. Menger was keenly aware that people look about the world, develop concepts, and then they personally rank certain “valuable” goods. For the most part, people, “... will usually prefer satisfactions on which a higher degree of their well-being depends,” (Principles of Economics [1994], 3.ii.a.1).15 This point emphasizes Menger’s interest in a bio-centric theory of value, where people assign values to those things that will most benefit their survival. Unlike instinct among animals, humans possess reason that helps them “rank order” the values of potential goods.

In addition to the bio-centric point, Menger at this juncture gives his best summary of what would become the Law of Diminishing Marginal Utility. In order to explain this aspect of the value theory, Menger will illustrate that:

Consumption extending beyond even this point has merely the importance of a progressively weaker pleasure, until it finally reaches a certain limit at which satisfaction of the need for food is so complete that

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12Infantino, 102-3.


15Lidderdale, 3.
every further intake of food contributes neither to the maintenance of life nor to the preservation of health—nor does it even give pleasure to the consumer, (Principles of Economics, [1994], 3.ii.a.5).16

By giving this example, Menger provides a more precise account of marginal utility, and he even gives it a numerical content by including a graphic chart of diminishing marginal utility in his book. Menger saw that one had to use his or her subjective consciousness to weigh the different relative values of each good, but the economizing individual would then use his or her considerations to make a decision as to what goods to pursue to help satisfy their needs to the fullest possible extent. This may appear a bit too utilitarian (just like Aristotle’s early musings on marginal utility), but unlike John Stuart Mill’s ideas, Menger’s notion of utility is primarily an individualistic perspective held by each person.

Now that the subjective factors and the context of the situation have been addressed, Menger then delves into the objective factors. Although determining value seems quite easy if the situation involves just one good, Menger saw that, “... in ordinary life the relationship between available goods and our needs is generally much more complicated. Usually not a single good but a quantity of goods stands opposite not a single concrete need but a complex of such needs,” (Principles of Economics, [1994], 3.ii.b.2).17 Even though things may become quite complex, goods still need to be employed to fulfill the highest needs that an individual possesses. Aristotle also was aware of this problem, but he confused the situation with his unusual handling of “exchange values,” in regard to making goods commensurable. Even though goods for exchange may be “unequal,” for Menger their measure is determined by the degree of importance that they have to the welfare of the participants. As a further clarification of Aristotle’s confusion, Menger sees that questions of equality in exchange are solved by “differences of quality.” For the economizing individual, “Human needs may be satisfied either in a quantitatively or in a qualitatively different manner by means of equal quantities of qualitatively different goods,” (Principles of Economics, [1994], 3.ii.c.6).18 Menger attempted to solve the disparities and troubles of Aristotle’s exchange theory by emphasizing that certain goods for exchange can be weighed differently by the level of “quality” present at the time of exchange. For example, quantitatively, for exchange purposes, a ton of coal is worth about three tons of timber, while, qualitatively, clothes from a “trendy” store are worth more than those from a discount store. In essence, this was the dilemma that plagued Aristotle, but Menger was able to show that over time things don’t become equal exactly, but in a proportional manner.

As part of his attempt of improving Aristotle’s view on exchange, Menger’s theory of price is one of “price formation.” In a search for the causal connections in the exchange market, Menger saw that prices were formed by the market participants, not intrinsically in the goods themselves. The price of goods are a part of the process of individual want satisfaction. During the process of determining the price, each participant will state the price that he or she is willing to pay, and then through a “bargaining process” the individuals agree on a price of exchange that corresponds to each person’s necessary want satisfactions. Menger was quite aware that, “... it is easy to commit the error of regarding the magnitude of price as the essential feature of an exchange,” (Principles of Economics, [1994], 192)19, for this would lead to thinking that the goods exchanged must be “equal” (Aristotle’s problem) or that the prices in an exchange are determined by the labor costs in producing the goods (Marx’s problem).

16Lidderdale, 4.
17Lidderdale, 6.
18Lidderdale, 9.
19Infantino, 103.
The last part of Menger’s value theory that will be examined is in regard to the value of goods of “higher order.” He held that, “... the value of goods of higher order is dependent upon the expected value of the goods of lower order they serve to produce,” (Principles of Economics, [1994], 3.iii.a.3).\(^{20}\) Goods of higher order, capital goods, only have value, if, “... they serve to produce goods that we expect to have value for us,” (Principles of Economics, [1994], 3.iii.a.3).\(^{21}\) With this in hand, these higher order goods only attain value by the “prospective value” of the goods of lower order. All of these higher order goods help contribute to the production process that yields “consumer goods,” which are valued by individuals depending on their varying levels of want satisfaction. Finding the total present value of goods of higher order required for the production of a good of lower or first order is equivalent to the “prospective value” of the product to economizing individuals. Through the production process, goods of higher order are weighed by their perceived value to people when they are used to produce certain commercial goods, and this results in a better allocation of resources in the economy. In addition to this talk of goods of higher order, Menger hopes to disprove theories of value that only look at the labor, only the capital, or only the land involved in the production of consumer goods.

In conclusion, a comparison of the economic thoughts of both Aristotle and Carl Menger give keen insights into the perceived notions of value that many individuals hold today. Although many people may not consciously realize that they are following the views held by these men when they are in the supermarket trying to choose between the regular and low-fat yogurt, these theories of value are reflective of man’s nature and life in the world. By expressing how people can determine values based on what is needed for the betterment of their lives, without the coercion of an outside influence (i.e., the government), Aristotle and Menger both are influential personalities for the promotion of a free market form of capitalism. Menger does appear as an Aristotelian at heart, even though he corrected Aristotle’s confused understanding of commensurability. For the most part, the two are virtually synonymous except for Menger’s more modernistic interpretations and ideas on “higher order goods.” If a person ever wonders why they like one product over another, he or she only has to examine the works of an ancient Greek philosopher and a 19th Century economist.

Notes

3. McKeon, 609.
5. Gordon, 118.
6. Ibid.
7. Gordon, 120.
10. McKeon, 446.

\(^{20}\)Lidderdale, 11.

\(^{21}\)Ibid.

15. Lidderdale, 3.

16. Lidderdale, 4.

17. Lidderdale, 6.


19. Infantino, 103.

20. Lidderdale, 11.

21. Ibid.

**Works Cited**


