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## Political community and individual gain : Aristotle, Adam Smith and the problem of exchange.

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POLITICAL COMMUNITY AND INDIVIDUAL GAIN:  
ARISTOTLE, ADAM SMITH AND THE PROBLEM OF EXCHANGE

A Dissertation Presented

by

KIMBERLY K. SIMS

Submitted to the Graduate School of the  
University of Massachusetts Amherst in partial  
fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

September 2002

Department of Political Science



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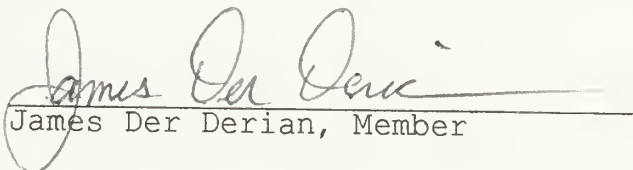
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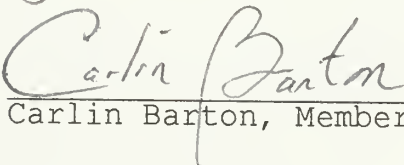
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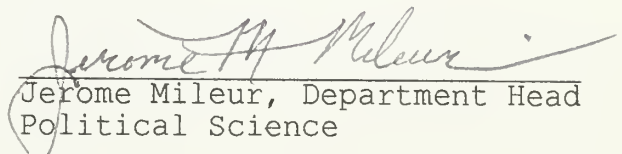
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ABSTRACT

POLITICAL COMMUNITY AND INDIVIDUAL GAIN:  
ARISTOTLE, ADAM SMITH AND THE PROBLEM OF EXCHANGE

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As the central expression of the principle of justice, the idea of exchange has deep roots in the classical Greek constitution of political community. In the writings of Aristotle, the just material transaction is crucial to the constitution of political community. Aristotle's analysis of exchange in the *Nichomachean Ethics* and the *Politics* attempts to investigate the ways in which exchange can be rendered in accordance with the principle of justice as an equalizing reciprocity. However, as I show in the first chapter of this work, Aristotle's treatment of exchange in the *Ethics* does not succeed in creating a formula for equivalency. Nor, in the subsequent attempt to approach the issue of exchange in the *Politics*, is Aristotle able to decisively separate transgressive and unequal modes of exchange from beneficial and fair ones. In the end, as I argue,

Aristotle has discovered an *aporia* pointing to the fundamental ambiguity of exchange -- one which points, moreover, to a troubling ambiguity with regard to the nature of the bonds maintaining the *polis*.

The second chapter explores Mercantilist and Physiocratic attempts to solve the problem of the excessive remainder of exchange. The resolution of Aristotle's *aporia*, as I argue in the third chapter, is found in Adam Smith's *Wealth of Nations*. Smith's epochal work endures less for its formal analytical contributions than for the ideological content it offers to market economics. My argument is, in essence, that the ideological portion of the *Wealth of Nations* is premised on a characterization of exchange as qualitative and distributive. This positing of exchange effects a turn on the Aristotelian treatment of beneficial and/or non-transgressive exchange forms in order to repress the quantitative issue of exchange-value and the attendant issue of individual profit. The suspension of quantitativity is not only necessary to the suppression of profit -- but serves to formulate a new characterization of exchange in which the exchange transaction is disassociated from the trappings of quantitativity now becomes a source for ideological or "meta-economic" appropriations.

## PREFACE

Material exchange presents a problem to theory. Because exchange does not and can not effect a precise substitution -- similitude of objects transacted would wholly negate the need for the activity -- an essential dissimilitude between exchangeable objects is requisite to any transaction. In the literature of the classical Greeks, two competing representations of material exchange evince this difficulty. In some instances, the concept of economic exchange is cast as necessary, natural and mutual, performing the reciprocal function of provisioning and distributing goods. In a second sense, exchange is presented as an adventitious phenomenon which produces unfair gain -- and as such, is a subversion of the bonds necessary to political community.

The goal of this inquiry is to trace the reverberations and implications of this classical problem in the modern epoch; an epoch marked by the transmogrification, both formally and ideologically, of the paradox of exchange.



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## INTRODUCTION

*To exchange gold for silver...so that no  
man...did take no profit from making  
such exchange.*

Chaucer

*There is nothing which requires more to  
be illustrated by philosophy than  
trade...*

Samuel Johnson

The concept of exchange has roots in the classical Greek idea of justice, *diké*, a harmonious association in which the law of measure is observed or enacted. As a law of measure, *diké* provides a corrective which counters disorder, a corrective enacted through reparation.<sup>1</sup> According to the cosmology of Anaximander, nature functions as a self-regulating equilibrium, and the settlement of justice entails compensation through which the naturally opposed elements (*stoicheia*) are required to make reparations (*diké*) to one another for their transgressions of the order of the *kosmos* as they engage the process of

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1 On early forms of Greek justice see Eric Havelock, *The Greek Concept of Justice: From Its Shadow in Homer To Its Substance in Plato* (Cambridge: Harvard University Press, 1978).

genesis-phthora.<sup>2</sup> To "get justice" is literally to "get the equal" (*isa essetai*) and to "give justice" (*dikén didonai*) is literally "to pay the equal."<sup>3</sup> As Gregory Vlastos notes, the words *ameibo*, *allasso*, *antapeibomai*, *antallasso*, *amoibé*, *apodosis*, *antapodosis* all apply to the "closure of a commercial transaction" as well as to "the satisfaction of justice."<sup>4</sup> As a pattern of thought applied to "physical sequences where one event was regularly followed by (and thus

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2 As Kimon Lycos writes, "It is important to realize here that *diké* operates in a context which suggests a cyclical process, a process of natural regeneration. 'Disturbances' of what is apportioned have the role of regenerating an order. Analogously, man, god, and everything else, have a place in the order of 'honour' (*timé*) established by *moira*. The essence of justice is to deal with others in accordance with that order, not to encroach upon it." (*Plato on Justice and Power*, [London: Macmillan Press, 1987], p. 178, nt. 42). Cf. Parmenides, Frag. 1. 13-4 and Frag. 8. 36-8; and Heraclitus, Frag. 94. For a useful sketch of Anaximander, see W.K.C. Guthrie, *A History of Greek Philosophy* (Cambridge: Cambridge University Press, 1962). Also see Leon Robin, *Greek Thought* (New York: Knopf, 1928) and especially C.H. Kahn, *Anaximander and the Origins of Greek Cosmology* (New York: Columbia University Press, 1960).

3 See for example, *Odyssey*, ii. 203.

4 Gregory Vlastos, "Equality and Justice in Early Greek Cosmologies," *Classical Philology* 41-6 (1947), pp. 173-174, nt. 158.

"exchanged for") its reciprocal," this reciprocity is enacted through *substitution* -- a standing-in of one element for another.<sup>5</sup>

However, as dispensed by the Gods, the early forms of *diké* were largely arbitrary actions, and as a consequence, justice was not fully intelligible to human understanding.<sup>6</sup> As Werner Jaeger has argued, it is the poet-statesman Solon who is responsible for reappropriating the idea of justice from its cosmological and theological sources and establishing it as a comprehensive and comprehensible political

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5 For example, "the cycle of birth and death (*Phaedo* 71e-72b); waking and sleeping (*Phaedo* 72b); the secession of day and night (e.g. Hesiod, *Theog.* 749); the cycle of the seasons (*Philo De incorr. mundi* 109); hoofs that strike the ground in turn (*Pindar, Pyth.* 4. 226)." As Vlastos notes, "scientific thought used this pattern to join events which had either been left unconnected (like evaporation and precipitation (*Aris. Meteor.* 355a28) or else had not been clearly grasped as strict equations by the popular mind (like breathing in and breathing out [*Plato Tim.* 79e7-8; or the stretching of a lyre string and the vibration when released [*Aris. Mech. prob.* 803a31]). But the uniformity of nature as a whole could also be construed as just such a reciprocity among its basic components." ("Equality and Justice in Early Greek Cosmologies," pp. 173-174, nt. 158).

6 The unintelligibility of the notion of *diké* is further explained by the fact that it was bound up with the belief in fate (*moira*) which is also linked to the reigning principles of rightful share or just proportion (*aisa*), thus operating, as Vlastos notes, "on the assumption that what is fated is to be 'approximate' or of the 'right order'." ("Equality and Justice in Early Greek Cosmologies," pp. 160-1). Cf. W.C. Greene, *Moira, Fate, Good and Evil in Greek Thought* (New York: Harper and Row Torchbooks, 1963).



order; that is, as an observable social consequence of human (trans)action.<sup>7</sup> This rationalization of *diké* is essential to Solon's *Eunomie* (literally, "right order") in response to the contemporary crisis of political and social disorder (*stasis*).<sup>8</sup>

The shift from a theological or cosmological *diké* to one conditioned solely by the affairs of humans is historically confluent with the emergence of coinage as a means to regulate material transactions in human communities now understood expressly as *political* associations.<sup>9</sup> The money form supports the new idea of

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7 See Jaeger's "Solon: Creator of Athenian Political Culture" in *Paideia: The Ideals of Greek Culture*, vol. I (New York: Oxford University Press, 1945). Also see A. French, "The Economic Background to Solon's Reforms," *The Classical Quarterly*, n.s. 6, nos. 1,2 (1956), pp. 69-85. Such a rationalizing impulse was also being carried out in cosmological theories. Vlastos notes that Empedocles "rationalizes *aisa* exactly as Parmenides ...rationalized *moira*, and Anaximander *chreon* (fateful necessity)." ("Equality and Justice in Early Greek Cosmologies," pp. 173-174, nt. 158).

8 In Hesiod's *Theogony*, *Eunomia* is the Sister of *Diké*. On *stasis*, see G.E.M. De Ste. Croix, *The Class Struggle in the Ancient World* (London: Duckworth, 1981) and M.I. Finley, "Athenian Demagogues" in *Studies in Ancient Society*, ed. M.I. Finley (London: Routledge, Kegan & Paul, 1971), pp. 5-6, and attendant references. See also M.M. Austin and P. Vidal-Naquet, *Economic and Social History of Ancient Greece* (Berkeley: University of California Press, 1977).

9 See Michael Rostovtzeff, *The Social and Economic History of the Hellenistic World* (Oxford: Clarendon Press, 1941) and Karl Polanyi, "The Semantics of Money-Uses," in *Primitive, Archaic and Modern Economies* (Garden City, N.Y.: Anchor Books, 1968).

the citizen, as based upon an understanding of a similarity among members; they are *homoimoi*, "men who are alike."<sup>10</sup> As Vernant writes, the issuing of money with the seal of the city served as a means for

...codifying, regulating and coordinating the exchange of goods and services among citizens according to an exact numerical valuation... On the intellectual level, for the old image of wealth as *hybris* -- so charged with affective force...legal tender substituted for the abstract idea of *nomisma*, a social standard of value, a rational contrivance that allowed for a common measure of diverse realities, and thus equalized exchange as a social relationship.<sup>11</sup>

The promise of equality and commonality marking the confluence between money and the ends of the *polis* was not, however, to be fully enacted in practice. I suggest that this imprecision forms one element of Gregory Vlastos' observation that although *political* justice was drawn by Solon as a self-regulating social process, distributive justice, the justice governing

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10 Vernant writes, "On the political level the citizens conceived of themselves as interchangeable units within a system whose law was the balance of power and whose norm was equality." (*The Origins of Greek Thought*, p. 61).

11 Vernant, *The Origins of Greek Thought*, p. 95. Vernant attributes this argument to E. Will, *Korinthiska: Recherches sur l'histoire et la civilisation de Corinthe des origens aux guerres médiques* (Paris, 1955), pp. 495-502. (See Vernant, *The Origins of Greek Thought*, p. 94, nt. 10 for other citations).

acquisition, "lagged behind" the justice of the *polis*; essentially, no "immediate reparation existed to regulate the acquisition and the process of wealth."<sup>12</sup>

In its most subtle form, this issue of distributive justice hinges on the paradoxical nature of the exchange relation: it is voluntary and transactive, yet, as such, it never performs a perfect "substitution." Well past the epochs of lawless usurpation of property which occupied earlier writers such as Hesiod, the pivotal material issue at stake for Aristotle's reflections on the *polis* is the relation between citizens as refracted through the fair exchange of goods and coinage -- the extension of the central principle of justice, *isonomia*, to quotidian material transactions.<sup>13</sup>

Although Aristotle's treatment of exchange is widely dispersed within a diverse secondary literature,

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12 Vlastos, "Solonian Justice," *Classical Philology*, XLV (April 1946), pp. 75-77. Vlastos also refers us to Maurice Croiset's discussion in "La Morale et la cité dans les poésies de Solon," *Compt. rend. Acad. Inscript. et Belles-Lettres*, (Paris: 1903).

13 The "wealth-getting" which concerns Aristotle is thus not that of the kind which exists between the propertied citizens who extract surplus through the use of slave labor or debt-bondage, but the sort which emphasizes the economic interaction between equals, that is, between citizens. On slavery in the classical Greek world, see M.I. Finley, *Slavery and Classical Antiquity* (Cambridge: Cambridge University Press, 1968).

the issue makes its most sustained appearance in a debate which contains significant claims regarding the relation between, and subsequently the respective characteristics of, classical Greek and modern economics. The ground of this controversy was laid in the 1860's in the work of Karl Rodbertus, who set out a theorem which was to be the grist of a debate engaged some thirty years later by Karl Büchner and Eduard Meyer over the degree of development in the ancient Greek economy.<sup>14</sup> Following Büchner, the substantivists or "primitivists" assert a radical disparity between the economies of antiquity and modernity, arguing that because for the ancients, economic behavior was embedded in non-economic aspects of life, it was therefore determined by cultural practices and not by maximizing decisions.<sup>15</sup> For

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14 For a good summary of the early forms of the debate see Harry W. Pearson, "The Secular Debate on Economic Primitivism" in *Trade and Market in Early Empires*, Karl Polanyi, Conrad M. Arensberg and Harry W. Pearson, eds. (Chicago: Henry Regnery, 1957). See also Percy S. Cohen, "Economic Analysis and Economic Man: Some Comments on a Controversy," in *Themes in Economic Anthropology*, ed. Raymond W. Firth (London: Tavistock, 1967), pp. 91-118; Scott Meikle, "The Ancient 'Economy' and its Literature," in *Aristotle's Economic Thought* (Oxford: Clarendon Press, 1995); and the bibliography in M.I. Rostovtzeff, *Social and Economic History of the Hellenistic World III* (Oxford: Oxford University Press, 1941), pp. 1327-28, nt. 25.

15 The separateness of the economy finds one of its earliest modern expressions expression in Hegel's *Philosophy of Right*. The distinction between embedded and disembedded economies may be likewise compared also



Büchner and his followers, this distinction marks both a critical divergence between ancient and modern economic modes as well as the inapplicability of modern analysis to ancient economic modes. The moderns, to the contrary, assert that no such radical divergence in terms of economic practice exists between the two epochs. As M. Rostovtzeff phrases it, "modern capitalistic development...differs from the ancient only in quantity and not in quality"; according to the moderns, modern economic theory is consequently applicable to the study of ancient economies.<sup>16</sup>

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to Ferdinand Toennies' *Gemeinschaft and Gesellschaft* (*Community and Association* [London: Routledge, Keegan & Paul, 1955]); Emile Durkheim's mechanical and organic solidarity (*The Division of Labor in Society* [New York: Free Press]) and Henry Sumner Maine's status and contract (*Ancient Law* [Boston: Beacon Press, 1963]). Most recently this notion is associated with Karl Polanyi. ("Aristotle Discovers the Economy," in Karl Polanyi, Conrad M. Arensberg and Harry W. Pearson, eds., *Trade and Market in Early Empires* [Chicago: Henry Regnery, 1957]).

16 M. Rostovtzeff cited in J.H. D'Arms, *Commerce and Social Standing in Ancient Rome* (Cambridge: Harvard University Press, 1981), p. 12. Also see Scott Cook, "The Obsolete 'Anti-Market' Mentality: A Critique of the Substantive Approach to Economic Anthropology," *American Anthropologist*, April 1966, pp. 323-45. Economic historians associated with this position have in some cases aligned Aristotle's work with central tenets of the nineteenth-century neo-classical revolution in economic thought which poses subjective preference as the hinge of economic analysis. See for example, Emil Kauder, ("Genesis of Marginal Utility Theory," *Economic Journal* 63 [1953], pp. 638-50); and Joseph Soudek ("Aristotle's Theory of Exchange: An Inquiry into the Origin of Economic Analysis," *Proceedings of the American Philosophy Society* 96 [1952], pp. 45-75).

The treatment of Aristotle by both the primitivists and the moderns is, in several key instances, problematic. The primitivists, for example, in posing Aristotle as an exemplary representative of the embedded economy, present a picture of exchange which is organized around needs, use-values and the household (*oikos*). However, to read Aristotle's approach to economic matters primarily through the principles of simple necessity and use-value serve to over-simplify the enigmatic relation of wealth to the *polis*, which as Aristotle recognized, is an entity which requires certain forms of material superfluity in order to free its members from the constraints associated with mere physical life (*zoé*).<sup>17</sup>

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17 Such a reading of Aristotle extends well beyond the primitive/modern debate. One of the more extensive versions is found in a work by Eric Havelock which claims to have uncovered a Greek "liberal" tradition which has been overwhelmed by the canonical emphasis on Plato and Aristotle: "For Plato, as for Aristotle, the developed commercial community, which is well enough organized to produce a surplus for at least part of its population to enjoy, represented a condition of social disaffection or abnormality." (*The Liberal Temper in Greek Politics* [London: Jonathan Cape, 1957], p. 384). According to Havelock, Democritus, Protagorus, Antiphon and their fourth-century successors represent a non-Platonic tradition of thought built on the "anthropologies of the pre-Socratic" (the vestiges of the latter found in Aeschylus, Sophocles and Euripides): "What is at least clear is that the liberals envisaged the production of material wealth as a proper goal of community, and that they could abstract goods and services as a significant factor in human life and that they traced a parallel between increasing integration in community and increasing production of wealth." (p. 386.) To assert the

Furthermore, as suggested above, in the *polis* money, the expression of exchange-value, performs a critical public function as a mediating standard -- a function which is widely neglected by analyses which focus on the *oikos*. As for the claims of the modernists, a more fundamental problem exists. The application of modern theories of investment, banking and economic policy to ancient society belies an acute insensitivity to historical evidence.<sup>18</sup> Despite the abundance of empirical and conceptual criticism, the most serious of which issuing from the work of Max Weber, Johannes Hasebroek and Moses I. Finley,<sup>19</sup> the modernist stance yet persists. That despite all, this controversy "refuses to lie down,"<sup>20</sup> is due to the sizable stakes

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argument as not concerning simply wealth but unlimited wealth would shift Havelock's position onto more productive and accurate territory. As it is, Barry Gordon agrees that Havelock's strictures concerning Aristotle are too severe. ("Aristotle and Hesiod: The Economic Problem in Greek Thought," *Review of Social Economy* 21 [1963], p. 152).

18 This insensitivity extends to the most fundamental usages of terms; for example, even the word "economy" must be regarded with great caution when used in the classical Greek context as there is no direct equivalent for the term in modern English usage -- *oikonomiké* was used principally in the sense of the art of household management or the management of a city. See especially Kurt Singer, "Oikonomia: The Origins of Economic Thought and Language," *Kyklos* 11 (1958).

19 See Finley, "Aristotle and Economic Analysis."

20 P. Millet, *Lending and Borrowing in Ancient Athens* (Cambridge: Oxford University Press, 1991), pp. 9 and 15.

which lie at the source of the contention. These stakes involve the struggle over the definitive representation of modern market economies: on the one hand, as a trajectory reflecting a "natural" or "organic" socio-historic process, or, on the other hand, understood as a politico-social phenomenon unprecedented in human history.<sup>21</sup>

As symptoms of a much larger ideological battle, the issues governing the primitivist/modern debate erupt in varying forms in the broader discourses of

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21 Scott Meikle suggests that "Markets existed in societies of many kinds for millennia without those societies being or becoming market economies. A society can become entirely regulated by exchange-value distinction between production and circulation of exchange values versus capital system only if there is a market in capital, and that in turn is possible only when there is a serious market in labor, that is, when labour is generally supplied in the form of an exchange-value (labour capacity or 'labour power') which capital can buy. These are the defining conditions of a market economy, and neither condition was obtained in the ancient world. Virtually all lending was *eranos* lending, and, as Millett notes, a survey of the known motives behind *eranos* or 'friendly' loans reveals no instance of a productive outcome." (*Aristotle's Economic Thought* [Oxford: Clarendon Press, 1995], pp. 162-3). The authors claiming an Aristotelian heritage for the market include: J. Soudek (*Aristotle's Theory of Exchange: an Enquiry into the Origin of Economic Analysis*, *Proceedings of the American Philosophical Society*, 96 [1952], pp. 45-75); W.F.R. Hardie (*Aristotle's Ethical Theory* [Oxford: Clarendon Press, 1968], pp. 191-201); Barry J. Gordon ("Aristotle and the Development of Value Theory," *Quarterly Journal of Economics* 78 [1964], pp. 115-28), ("Aristotle and Hesiod: The Economic Problem in Greek Thought," *Review of Social Economy* 21 [1963], pp. 147-56); and S. Todd Lowry (*The Archeology of Economic Ideas* [Durham: Duke University Press, 1987]).



market economics, particularly those espousing fundamentalist laissez-faire values. The authority most commonly invoked in such polemics is that if the author widely regarded as the architect of the modern free-market economic system, Adam Smith. Smith's *Wealth of Nations* remains a pivotal resource for ideological provisions which continue to robustly underpin the ethos of the ever-expanding scope of the late-modern market economy.<sup>22</sup> As Gregory Lukács has phrased it, Smith is responsible for some of the "great scientific pronouncements of the bourgeois class."<sup>23</sup>

My approach to Smith is organized around what appears to be a fundamental division in the *Wealth of Nations*, a division organized around the introduction of the price mechanism in the sixth chapter of Book I. The first portion of the *Wealth* carries the bulk of the aphoristic material, including assertions which have been characterized by some commentators as

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22 This expansion occurs in two forms: within established market economies in which the market ethos is extended into spheres previously outside the reach of market forces such as health care, education and the human services; and secondly, the geographical expansion of advanced market forms ("globalization"). With regard to the ideas broadly associated with neo-liberal attributes of market economies, I use the word "ideology" polemically.

23 Lukács, *History and Class Consciousness*, trans. R. Livingston (London: Merlin Press, 1971), p. 225.

"metaphysical,"<sup>24</sup> whereas the remainder of the work addresses the topic largely in terms of more empirical economic phenomena -- prices of wheat, trade treaties and taxes, although such topics as education and religious instruction are also included. Because the first portion of the work establishes, as it were, the ideological prologue for the more properly economic argument, the reader is presented with a highly freighted narrative.

The first portion of the work is commonly understood to be propelled by Smith's assertion of the division of labor as the sole source for a greater collective wealth, a "universal opulence." I will argue that the pervasive elements conditioning this chapter address the classical paradigm of economic gain as a zero-sum.

Propelled by the productive capacity of the division of labor, Smith's argument runs alongside a very selective representation of exchange. The object

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24 The term is Louis Dumont's, who makes the point with regard to Smith's assertion in chapter five that "value consists in labour and only labour can measure it." (*From Mandeville to Marx: The Genesis and Triumph of Economic Ideology* [Chicago: University of Chicago Press, 1977], pp. 88 and *passim*). Also see Dumont's comments on the relation between chapter five, six and seven of Book I of the *Wealth of Nations* as well as Gunnar Myrdal, *The Political Element in the Development of Economic Theory*, trans. Paul Streetan (Cambridge: Harvard University Press, 1955).

of exchange in this first section is uniformly cast as a provisioning function, which is altogether liberated from the accumulation of "wealth" -- now shifted to the division of labor -- permitting Smith to avoid all the tortured deliberations of his forebears on the subject of exchange-value. In the *Wealth of Nations*, under the aegis of the division of labor, the issue of unequal gain is suspended until Smith has recourse to a form of individual gain as enacted through his concept of the price mechanism, wherein profit becomes part of a process outside the immediacy of the single exchange transaction.

As framed by Aristotle's analysis of exchange, the first portion of the *Wealth of Nations* reveals an attempt to resolve the issue with which the classical tradition struggled -- namely, to reconcile individual pecuniary gain with "common benefit." Smith's presentation of the concept of exchange are especially compelling insofar as his language, in preparing the ground for a redeemed and legitimated conception of individual gain, relies upon a primitive account of exchange which often appears to be in conformity with the most simple demands of the *oikos*. Here, exchange

is portrayed as a distribution of goods, while "wealth" does not signify money, but a magnitude of useful material necessities.<sup>25</sup>

The conception of exchange which is contained in the first portion of the *Wealth of Nations*, by emphasizing mutuality to the exclusion of profit, provides the central ideological cornerstone of the work. The effort at hand attempts a textual archeology of this ideological pivot, pursuing the sources of what Marx has referred to as the "sphere of circulation" which mystically renders each transaction equal, while contributing to what has been referred to by Elie Halévy as the doctrine of the mutuality of interests.<sup>26</sup>

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25 Smith makes three direct references to Aristotle in the *Wealth of Nations*, none of which deal with the discussion of exchange in the *Politics* or the *Ethics*. Meikle speculates that the references, which deal with historical or political events, seem to have originated not from a direct study of Aristotle, but from Smith's familiarity with Pufendorf and Montesquieu. (*Aristotle's Economic Thought*, p. 110). For a reading of Smith which places him in the context of early Greek thought, see Vernard Foley, *The Social Physics of Adam Smith* (West Lafayette, Indiana: Purdue University Press, 1976).

26 Karl Marx, *Capital*, vol. I (New York: International Publishers, 1967); Elie Halévy, *The Growth of Philosophic Radicalism*, vol. III (London: Faber & Faber, 1928). As Marx writes, "This sphere (of circulation)... is in fact a very Eden of the innate rights of man. There alone rule Freedom, Equality, Property and Bentham. Freedom, because both buyer and seller of a commodity, say of labour-power, are constrained only by their own free will. They contract as free agents, and the agreement they come to, is but the form in which they give legal expression to their common will. Equality, because each enter into



Although the significance of the *Wealth of Nations* is widely argued to be the way in which Smith synthesizes a series of disparate economic principles into what was at the time the most comprehensive analytical representation of the nascent free market economy,<sup>27</sup> I will suggest that the most enduring contribution of Smith lies, rather, in the way in which he displaced the formerly intractable issue of individual monetary gain while "solving" -- if by a primitive slight of hand -- the problems associated with exchange and rendering it as an iconic linchpin of the modern market economy.

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relation with the other, as with a simple owner of commodities, and they exchange equivalent for equivalent. Property, because each only disposes of what is his own. And Bentham, because each only looks to himself." (*Capital*, vol. I, p. 176).

27 Jacob Viner, "Adam Smith," *International Encyclopedia of the Social Sciences* (1968). Reprinted in J.C. Wood, ed., *Adam Smith: Critical Assessments* (London: Croom Helm, 1984). For a more critical approach to the scope and magnitude of Smith's analytical contributions see Salim Rashid, *The Myth of Adam Smith* (Cheltenham: Edward Elgar, 1998).

## CHAPTER I

### THE PROBLEM OF EXCHANGE IN CLASSICAL GREEK THOUGHT

*It is by taking part in transactions  
with our fellow men that some of us  
become just and others unjust.*  
Aristotle<sup>28</sup>

#### A. Aristotle: The *Nichomachean Ethics*<sup>29</sup>

Aristotle's notion of "particular justice"<sup>30</sup> as conditioned by the imperative of "having one's own" (*ta auton*),<sup>31</sup> and defined as "the equal" (*to ison*)<sup>32</sup> signals

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28 *Nichomachean Ethics*, trans. H. Rackham (Cambridge: Harvard University Press, 1934), 1103b16. Hereafter referred to as the *Ethics*.

29 The *Nichomachean Ethics* and the *Eudemian Ethics* have three books in common, the book of our central concern in the *Nichomachean Ethics*, book five, being nearly identical to the fourth book of the *Eudemian Ethics*. For an account of the relationship between the two works, see A.J.P. Kenny, *The Aristotelian Ethics: A Study of the Relationship Between the Eudemian and Nichomachean Ethics of Aristotle* (Oxford: Clarendon Press, 1978).

30 Aristotle's division of justice into two categories, "universal" and "particular" marks a shift from the unified Platonic notion. As Ernest Barker notes, "while Plato's formula is that each individual should do his own, Aristotle's formula is that each individual should have his own." (*The Political Thought of Plato and Aristotle* [New York: Russell & Russell, 1959], p. 340, nt. 1).

31 Aristotle, *Ethics*, 1133b6-12, 1132a29-36, 1134a32-35.

the importance of the exchange relation. Particular justice is divided by Aristotle into three categories: corrective justice, or *diorthorikos*, literally meaning "straightening out," and entails the restoration of equality occurring in either voluntary or involuntary private transactions (*synallegmata*); transactions of the former kind include sales, loans, deposits, pledges and leases.<sup>33</sup> Early in his discussion of corrective

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32 Unless otherwise noted, the translation to be used is that of Martin Ostwald's *Nichomachean Ethics* (Indianapolis: Bobbs-Merrill, 1962). As Gregory Vlastos notes, "The linguistic bond of justice with equality was even closer for the Greeks than it is for us: *to ison*, *isotes*, would be the very words to which they would turn for a natural, unstrained, one-word variant, for *to dikaion*, *diaiosun*." ("Theory of Social Justice," in Helen North ed., *Interpretations of Plato* [Leiden, The Netherlands: E.J. Brill, 1977], pp. 18-19). As Michael De Goyer writes, "At its deepest level, the fundamental difficulty repeatedly posed in Aristotle's treatment of justice resides in the fact that the words justice and equality constituted direct synonyms." ("The Marxian Matrix," in *Marx and Aristotle: Nineteenth Century German Social Theory and Classical Antiquity* [Savage, Maryland: Roman & Littlefield, 1992], p. 130).

33 These are generally private transactions, but in some instances the injured party is a public official (*Ethics*, 1132b23-30) or the *polis* itself (*Ethics*, 1138a12-14). Involuntary transactions, on the other hand, are in some instances clandestine, as theft, adultery, poisoning or assassination. Others occur under constraint as assault, imprisonment, murder, violent robbery, maiming or defamation. (*Ethics*, 1131a3-9). It is well to note that the secondary literature is not unanimous on the usage of *synallegmata* as rendering transaction in the sense of contract or exchange. Ross and Barker are among the majority in the former instance, while J. Burnett and A. Grants adduce corrective justice to be governing rightful exchange transactions as well as giving redress for unjust ones. With regard to voluntary and

justice, Aristotle establishes the parameters of the problem in terms of an exchange transaction. As he writes,

the terms loss (*zepia*) and gain (*kerdos*) in these cases come from voluntary exchange. To possess more than what was one's own (previously) is called 'making a gain', and to have less than one started out with is called 'incurring a loss' in buying, selling, and all other transactions (*synallagmata*) sanctioned by law....<sup>34</sup>

He continues:

But when neither party has more or less but exactly what they contributed to the transaction, they say they 'have their own' (*ta auton*) without loss or without gain.<sup>35</sup>

Aristotle tells us that in order for "the mean between profit and loss" to be established,<sup>36</sup> the "loss" and "gain" incurred must be measurable.<sup>37</sup> Given that this condition is met, the symmetrical structure of exchange may enact an immanent means of measure: one simply measures the pre-transaction amount against that of the

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involuntary acts, see H.H. Joachim's commentary on the *Ethics* (Oxford: Oxford University Press, 1951), pp. 136-7.

34 Aristotle, *Ethics*, 1132b12-17.

35 Aristotle, *Ethics*, 1132b21-23.

36 Aristotle, *Ethics*, 1132a17-19.

37 Aristotle, *Ethics*, 1132a10-15.



post-transaction.<sup>38</sup> Summarily, imbalance is revealed by the symmetrical shape of the modality as itself an expression of *isonomia*.<sup>39</sup> Through transactive reflexivity the exchange modality thus establishes a matrix which expresses the criteria of the "just."

Despite his early acknowledgement of the inapplicability of such precise "arithmetical" restitution to all forms of corrective justice,<sup>40</sup> the lure of an exactitude of calculability, a precision which permits the judge to "subtract from the side of gain in the defendant's ledger," is a very Aristotelian temptation.<sup>41</sup>

This particular calculation of equality in transaction is inapplicable *en toto* to a second category of particular justice. "Distributive" justice

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38 In order to maintain this proportion, it is thus mandatory that the contravening parties are regarded as equal: "For it makes no difference whether a good man has defrauded a bad man or a bad one a good one...the law looks only at the nature of the damage, treating the parties as equal, and merely asking whether one has done and the other has suffered injustice, whether one inflicted and the other has sustained damage." (*Ethics*, 1132a2-7).

39 "When the whole has been divided into two halves, people then say that they 'have their own' (*ta auton*), having got what is equal." (*Ethics*, 1132a26-34).

40 Aristotle, *Ethics*, 1132a11-12. For example, in the "calculation" of compensatory damages in the case of assault, murder or maiming. (*Ethics*, 1131a3-9).

41 See also Aristotle, *Ethics*, 1131a10-12.

entails the allotment of honor, wealth, political position as well as payment (*misthos*) for attending the assembly and law courts, as based upon a proportionate "due" approximated by one's contribution to the community.<sup>42</sup> Aristotle begins his account of distributive justice by asserting that since the unjust man is one who is unfair (*anison*), and the unjust is unequal (*anisou*), "it is obvious that there exists a median term between the two extremes of inequality. This is the fair or equal."<sup>43</sup> As he continues,

In as much as it is a median, it must be median between some extremes i.e., between the more and the less; inasmuch as it is equal, it involves two shares that are equal; and inasmuch as it is just, it must be just for certain parties. Consequently the just involves at least four terms....<sup>44</sup>

The two quantitative terms (more and less) which informed the account of corrective justice are here cast by Aristotle as inadequate to the task of determining equality in distributive justice; an

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42 The adjective distributive, *dianemetikos*, is associated with the nouns *nome* and *dianome* and the verbs *nemein* and *deanemein*, "to distribute."

43 Aristotle, *Ethics*, 1131a10-13. Initially introduced in Book II of the *Ethics*, the mean (*meson*) is a synonym for "moderate" or "of the right amount." The conception of the mean, rooted in Greek mathematics, signifies the middle or middle space in general. The mean can also indicate a middle term in a continuous three stage progression, e.g. the mid-point between extremes.

44 Aristotle, *Ethics*, 1131a15-21.

inadequacy due to the qualitative differences in merit between parties which is to govern distributive restitution.

Equality in distributive justice can not therefore be arithmetically equal, but rather, it consists of the proper *analogia*, or "equality of ratios" necessary to confer offices and rewards according to the degree of contribution.<sup>45</sup> As opposed to the prior instance, the factors which determine justice are now expanded to "at least" four terms: the two shares involved, and the two people involved. The rupture from arithmetic calculation as imposed by the need for analogical proportion involves the difficulty of establishing a common valuation based on a *non-quantitative* valuation (*axia*). As Aristotle writes, although all are agreed that "the just share must be given on the basis of what one deserves,"<sup>46</sup> there is no clear agreement on the standard: "democrats say free birth, oligarchs that it is wealth or noble birth, and aristocrats that it is excellence."<sup>47</sup>

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45 Aristotle, *Ethics*, 131a29-31.

46 Aristotle, *Ethics*, 1131a24-25.

47 Aristotle, *Ethics*, 1131a25-29.

Aristotle's discussion of justice in "commercial" exchange, chapter five of Book V, begins the economic discussion of these issues.<sup>48</sup> Justice in commercial exchange, as Aristotle tells us, is concerned with "communities of exchange."<sup>49</sup> The stakes with regard to the political *koinonia* are immense: Aristotle tells us that without fair material exchange "there is no community."<sup>50</sup> Commercial exchange occupies a peculiar position in Aristotle's trajectory of justice. Unlike

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48 The construction of the argument has lead even appreciative readers such as James Bonar to refer to the chapter as "much tortured." (*Philosophy and Political Economy*, [New York: Augustus M. Kelley, 1966], p. 40). I will take this opportunity to acknowledge my debt to Scott Meikle's careful reading of Book Five which articulates the importance of Aristotle's metaphysics to his analysis of exchange.

49 Or "associations based on mutual exchange" (*to antipeponthos kat' analogian*). (*Ethics*, 1132b31-3). Finley's translation "*les relations d'échange qui ont pour cadre le communauté*" also usefully expands Rackham's "interchange of services." Nineteenth century commentators generally treated fair exchange as merely a division of particular justice. D.G. Ritchie argues, however, that to treat it is this way is to diminish its importance, for justice between exchangers -- "catallactic justice" -- lay at the foundation of the *polis* in a way that particular justices did not. ("Aristotle's Subdivisions of Particular Justice" *Classical Review*, 7 [1894]). As Meikle, following Ritchie, suggests, Aristotle holds fair exchange above other forms of particular justice as it contributes to the fundamental condition of *philia*. *Philia*, as Meikle reminds us, is inadequately translated as "friendship," rather, it is more accurately rendered as a form of mutuality related to *dikaion* or fairness.

50 Aristotle, *Ethics*, 1133b17-18.

the two prior forms of justice, the justice related to exchange lies outside of scope of private suit (*diké idia*). Commercial exchange occupies a space "where the law gives immunity," that is, it does not give recompense for inequality resulting from the "contract."

Aristotle begins the chapter with a discussion which has the air of a rumination: "Some people believe with the Pythagoreans that the just in the unqualified sense is reciprocity (*antipeponthos*)...suffering that which one has done to another."<sup>51</sup> To "get justice" is literally to "get the equal" (*isa essetai*) and to "give justice" (*dikén didonai*) is literally, "to pay the equal" -- a principle of transaction or exchange found likewise in the well-known Pythagorean *lex talionis*, the "eye for an eye." Aristotle oscillates between two positions in this initial section. As we are told, Pythagorean reciprocity is often at variance with corrective or distributive justice, "for there are many cases in which reciprocity and the just are not identical"; yet, as Aristotle writes, "people interpret even Rhamdamanthys' rule of the just in this sense: "If

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51 Aristotle, *Ethics*, 1132b21-24. Cf. *Magna Moralia*, 1194a29.



he suffers what he committed, then justice will be straight"<sup>52</sup> and "people seek either to requite evil with evil...or good with good, for otherwise there is no mutual contribution."<sup>53</sup> Aristotle concludes, however, that with regard to commercial exchange, the Pythagorean definition of justice is not applicable. As we are told,

the just constitutes the bond that holds the association together, that is, reciprocity in terms of proportion not in terms of exact equality in the return. For it is the reciprocal return of what is proportional (to what one has received) that holds the state together.<sup>54</sup>

The "exact return" to which Aristotle here refers is thus not a literal recompense -- an "eye for an eye."<sup>55</sup> The problem of equalization which faces

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52 Aristotle, *Ethics*, 1132b25-28.

53 Aristotle, *Ethics*, 1132b37-1133a2.

54 Aristotle, *Ethics*, 1132b32-37. Meikle translates as "fair exchange is the salvation of states," which follows his translation of *Politics*, 1261a30-31: "Wherefore the principle of reciprocity (*to ison to antipenponthos*) as I have already remarked in the *Ethics*, is the salvation of states." And here is Ostwald's version of this passage: "The very existence of the state depends on proportionate reciprocity." Finally, compare also to Rackham: "But in the interchange of services Justice in the form of Reciprocity is the bond that maintains the association." (Cf. *Magna Moralia* 1194a16f).

55 As Ostwald notes, "reciprocity (*antipeponthos*) means literally 'suffering in return for one's action' and comes close to the concepts of 'an eye for an eye' and 'let the punishment fit the crime.'" (*Ethics*, p. 123, nt. 30.)

Aristotle in this section is, rather, to analogically render a transitive symmetry from asymmetry. To render the unequal equal (*isasthenai*), Aristotle suggests the deployment of a diagonal combination of terms.<sup>56</sup> With this matrix, it may be possible to create a "reciprocity of proportion"<sup>57</sup> through an "equality of proportion":<sup>58</sup> "If (first) proportional reciprocity is established between goods, and (second) reciprocity effected, the fair exchange...will be realized."<sup>59</sup>

What is at stake in this attempt to establish a precise equalization is compactly phrased: "And when they exchange their products they must reduce them to a form of proportion, otherwise *one of the two extremes will have both the excesses*."<sup>60</sup>

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56 "Let A be a builder, B a shoemaker, C a house, and D a shoe." The "diagonal combination" as diagrammed by Ostwald is a figure in the form of an X on either side of which is grouped the alternate transactor and his good offered, for a total of four terms. (*Ethics*, p. 125, nt. 34).

57 Aristotle, *Ethics*, 1133a10-11.

58 Aristotle, *Ethics*, 1133a18, 1133b15-16.

59 Aristotle, *Ethics*, 1133a10-12.

60 Aristotle, *Ethics*, 1133b6-7 (*italics added*). Rackham clarifies this passage in the following footnote: "After any unfair exchange one party has too much by just the amount that by which the other has too little. I ought to give you ten shillings more or something worth that. Then I have ten shillings too much, and you have ten too little; these two tens are my two 'excesses'."

Before any of these equalizations can be effected, Aristotle tells us that the two objects which are to be exchanged must be rendered "comparable in a way" (*sumbleta pos*),<sup>61</sup> a phrase which he soon after clarifies as commensurability (*summetria*).<sup>62</sup> The overarching significance of this concept emerges in Aristotle's stipulation that not only is there "no community without exchange" but "there is no exchange without equality, and no equality without commensurability."<sup>63</sup> It is well to note that in the broadest sense, the notion of commensurability is related to the history of the Greek term *oikos* which involves "a preoccupation with the political aspects of human intercourse (justice)...and the impassioned searching for what is universal in things at first sight widely differing from each another."<sup>64</sup>

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61 Aristotle, *Ethics*, 1133a19.

62 Aristotle, *Ethics*, 1133b16, 18, 19, 22.

63 Aristotle, *Ethics*, 1133b17-18. As noted by Meikle, "This commensurability of things that are different by nature, which is logically presupposed by proportions of them being equated, is the core of the problem which exchange presents to economics, though it is one which economists have rarely confronted head-on." (*Aristotle's Economic Thought*, p. 13).

64 K. Singer, "Oikonomia: The Origins of Economic Thought and Language," p. 35.

To render two disparate objects which are to be brought together in a transaction "comparable in a way" is to identify a property shared by both objects. However, Aristotle's account does not address the problem of how objects are to be equalized. In fact, we are never told at any point in chapter five how this direct equalization is to be enacted.

As Meikle suggests, this problem must be understood in terms of Aristotle's metaphysics. Objects, as existing within the category of "substances" are qualitatively different things; thus, objects can be compared -- another indication of the need for the shift from the arithmetic to the analogical. The result of such comparison, however, can not be *quantitative*, as permitting the ability of measurement necessary to equalization.<sup>65</sup> Thus, commensurability must occur in the dimension where

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65 "Most distinctive of a quantity is its being called both equal and unequal... For example, a body is called both equal and unequal, and so is a time... But anything else -- whatever is not a quantity -- is certainly not, it would seem, called equal and unequal. For example, a condition is certainly not equal and unequal, but similar." (*Categories*, 6a26-36). And again: "the measure is always homogeneous with the thing measured; the measure of spatial magnitudes is a spatial magnitude, and in particular that of a length is a length, that of a breadth a breadth, that of an articulate sound an articulate sound, that of weight a weight, that of units a unit." (*Metaphysics* 1053a24 ff.)

measurement is to be made. As Meikle writes, "because the equalization of objects demands a quantification, and to make them commensurable -- in conformity with Aristotle's categories -- would entail the determination of what they are quantities of...this is what the problem of commensurability amounts to."<sup>66</sup>

The codetermination of equalization and quantitativity marks a significant point in Aristotle's analysis, as now drawn toward the precision of the money form. That such a quantitative valuation must be assigned to exchange is, as noted in the introduction, a function of instituting general valuation, or, to phrase it differently, a means for the *koinonia* to regulate the exchange transaction through an assertion of a common valuation. As we are told, because "everything that enters into an exchange must somehow be comparable," it is "for this purpose that money has been introduced."<sup>67</sup>

As a solution to the task of commensurability, money affords a means of creating a relation between objects by representing, in a measure common to both, the value of each object to be transacted. This third element does not appear to be directly related to the properties of the objects themselves; rather, it is

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66 Meikle, *Aristotle's Economic Thought*, p. 15.

67 Aristotle, *Ethics*, 1133a19.



posed as a solution to the difficulty of commensurability precisely because of its autonomous operation. Money is characterized by Aristotle as a median or "middle" term, for it has the ability to "measure all things, (not only their equality but) also the amount by which they exceed or fall short (of one another)."<sup>68</sup> However as the Greek root of the word indicates, currency is conventional -- and thus unstable:<sup>69</sup> as Aristotle tells us, because money has the name of "currency" or *nomos*, it does not exist by nature, and it is in our power to "change and invalidate it."<sup>70</sup> Moreover, as Aristotle notes, it is also true that "what happens to goods also happens to money" -- that is to say, money is not consistent in its representation of value.<sup>71</sup>

Although Aristotle concludes that money "tells us how many shoes are equal to a house or to a given quantity of food"<sup>72</sup> -- there is a critical problem. Establishing a measure cannot itself create

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68 Aristotle, *Ethics*, 1133a19.

69 The Greek word for money, or currency coin is *nomisma* and is derived from the same root as *nomos* "law" or "convention."

70 Aristotle, *Ethics*, 1133a30-1.

71 Aristotle, *Ethics*, 1133a19-20, 1133b8-14.

72 Aristotle, *Ethics*, 1133a23-26.

commensurability between objects that are incommensurable; indeed, measure requires that a relation between objects has already been established.<sup>73</sup> Money, precisely because of its serviceable autonomy, is not in any way essentially linked to that which it must measure.

In terms of Aristotle's categories, money, as the expression of exchange value and as the initial corrective to the problem of rendering objects "comparable," is inadequate to such a task because it ultimately can not be brought into equalized accord with the objects themselves: again, because qualities can not be relations nor can they be quantities, and *visa versa*.

Because of the quantity/quality lacuna, it is consequently impossible for money, an autonomous form of *quantitative* measure, to solve the problem of incommensurability. The initial problem posed by the commensurability/incommensurability dichotomy is reproduced in the "solution" which money provides: the objects can now be quantified (and hence equalized),

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73 That is, there is no difference in this sense between equating two cabbages with a shoe, or two cabbages with a coin. Or as Meikle phrases it, "A measure does not create the property in things which it measures." (*Aristotle's Economic Thought*, p. 23 and *passim*).

but there is no necessary connection between the quantitativity of money and the qualitative essence of the objects themselves. The problem of commensurability is thus only shifted to a second level.

That such a solution merely displaces the problem appears to be borne out when, in an effort to articulate the two disparate categories of quality and quantity, Aristotle introduces "need" (*chreia*) into the narrative.<sup>74</sup>

Money, as Aristotle now offers, is the quantitative representative of a qualitative element -- need. This has evolved, he tells us, by way of "general agreement."<sup>75</sup> However, the fundamental difficulty of reconciling the quantitative and qualitative elements is again reproduced: because it is lodged in the qualitative realm of use, although "need" emerges as a basis for things to be measurable in, it

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74 Aristotle, *Ethics*, 1133b20-21. Meikle warns against translating *chreia* as demand (a mistake which Rackham, for one, makes). As Meikle reminds us, "demand," together with "supply" has no Greek equivalent. Meikle writes that demand "is now a theory-laden term carrying a weight of suggestion that can not be attributed to a Greek author. The use of 'demand' might also suggest falsely that a modern subjective or utility form of value might be attributed to Aristotle." (*Aristotle's Economic Thought*, p. 23, nt. 19).

75 Aristotle, *Ethics*, 1133a30.

itself lacks a unit of measure. As such, it does not possess the compound essence necessary to making objects commensurable.

To summarize, the two elements, quantity and quality, form the core -- and the limit -- of the commensurability problem in the *Ethics*. As occupying the category of the qualitative, "need" can not establish the basis for quantitative measure necessary for rendering the unequal equal. Money, coterminously, is both necessarily -- and dangerously -- autonomous. At the close of Aristotle's account of exchange in chapter five, this lacuna -- and thus the commensurability problem -- remains. This unbroachability is reflected in the peculiar ending of the chapter. After posing an ostensive solution via the combination of money and need, Aristotle informs us that

Clearly, this is the way in which exchange took place before the existence of money, for it makes no difference whether five beds or the money value of five beds is the equivalent of a house.<sup>76</sup>

We are thus returned to the very beginning of the inquiry. In other words, "proportionate reciprocity," as founded on the fundamental incommensurability of

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76 Aristotle, *Ethics*, 1133b25-30.

objects, forecloses the possibility of strict accuracy in restitution which would draw commercial exchange into a more explicit relation with corrective justice.

A persistent tension runs between the imperative of particular justice as to *ison*, which posits that one leaves the transaction with what one had when one entered it ("one's own"), and the unsteady outcome of Aristotle's discussion, which poses an imprecise "adequation" between objects through human need (*chreia*). This tension between an ideal equality and the inequality which is both contained in, and generated by, the exchange transaction is implicated in Aristotle account of the relation of fair commercial exchange as the "bond" which holds together the *koinonia*.

We noted above the integral bond mentioned by Aristotle in regard to the importance of fair exchange to political community. In the first portion of the chapter we were told that the just, as the "equal," establishes a bond "which holds the association together."<sup>77</sup> As we saw, the critical import of commensurability lies here, in that it holds the promise of an equalization of difference which is measurable, and somehow exact, even though it does not

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77 Aristotle, *Ethics*, 1133a2.



return the Pythagorean literality of the "same." The point of establishing commensurability was to eliminate the "two part" excessive (quantitative) remainder of the transaction which can accrue to one of the two participants. In chapter five however, there is a second context in which a communal bond is mentioned.

The second form is introduced soon after the initial introduction of money, at the point where Aristotle acknowledges the "impossibility" of formal commensurability.<sup>78</sup> It is at this juncture, as we will recall, that need (*chreia*) is interjected into the account as a way of augmenting the quantitativity of the money form. Need, as purportedly inserting a dimension of comparison, renders the exchange transaction *hikanos*, translatable as "adequate" or "sufficient."<sup>79</sup> The positioning of "need" in this final attempt to forge an accommodation between the exchangeable objects, is significant -- for, as Aristotle seems to be suggesting, it itself is productive of a bond. Aristotle has already told us that "if men were to require nothing, or were to

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78 "Now of course it is impossible that things differing so greatly from one another should in reality become commensurable." (*Ethics*, 1133b19-20).

79 Ostwald and Rackham, respectively.

require things equally, there would be no exchange or not the same kind of exchange."<sup>80</sup> And, a few passages later adding,

That it is need which hold the parties together as if they were one single unit is shown by the fact that there is no exchange when one or both parties do not stand in need of the other.<sup>81</sup>

The proximity between the role of need, on one hand, and the failed goal of equalization and commensurability on the other, poses a dramatic contrast to the first version of the communal imperative of cohesion as linked to *isonomia*. The absence of a formal solution to the problem of commensurability reveals, as we noted, an excessive remainder produced by the exchange transaction. This remainder, as Aristotle's impasse suggests, is not readily effaced. By the conclusion of the chapter this remainder, and the injustice it signifies, emerges as a potential nexus of the communal bond. The outcome of Aristotle's account of the transaction, as framed within these two critical contexts of communal cohesion, point toward two sets of implications.

First, the category of "need" is functionally implicated in the apparently intractable condition of

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80 Aristotle, *Ethics*, 1133a27-30.

81 Aristotle, *Ethics*, 1133b7-11.

incommensurability; however, as a socio-political bond, need gives rise to an imprecise reciprocity that is yet constituted by the structural imprecision it manifests. The very constitution of the *polis* itself is drawn into a dangerous proximity with the excessive remainder of exchange, notwithstanding Aristotle's exertions. To press this line of suggestion one step further, a question can be posed: might the effort to equalize, as the attempt to efface any excessive remainder of exchange, be somehow disruptive to the second bond implicated by Aristotle with regard to the exchange relation? Although Aristotle has reached an impasse, he has uncovered a most provocative circumstance.

#### B. Aristotle: The *Politics*

In the *Politics*, Aristotle's analysis of exchange shifts from an undifferentiated mode of exchange to an analysis based upon differentiating types of exchange as either "natural" or "unnatural." Here, exchange is presented as a form of acquisition (*chremistiké*), a term which can refer both to an activity of the household and the *polis*. As noted by Barker, *chrematistiké* is deployed in three different ways in the *Politics*: first, as the art of acquisition generally, in forms both "natural" and "unnatural";

secondly, as the unnatural forms through which individual gain is accrued; and third, as "necessary" and "natural" forms of acquisition.<sup>82</sup>

In the *Politics* Aristotle, roots the practice of exchange in the idea of sufficiency, or *autarkes*, the condition of "having enough"<sup>83</sup> -- far less demanding, as it would seem, than the onus associated with the *to ison*. Although *autarkes* may generally evoke the perception of a simple satiety reminiscent of the "city of pigs" in Plato's *Republic*, to "have enough" within the context of the political association is to possess not merely "enough" for mere life (*zoé*), but yet "something more." For although the state originates in the act of acquiring the rudimentary needs of life, it continues for the sake of the "good life" (*to eu zen*).<sup>84</sup> To partake in the "good life" is to practice

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82 Ernest Barker, *The Politics of Aristotle* (New York: Oxford University Press, 1958), p. 22, nt. E. Although *chremistiké* is the most commonly used term, *lambanein*, the antithesis of give, which can alternately mean "get," "take" or "receive," is occasionally used. Unless otherwise indicated, excerpts of the *Politics* are taken from Barker's translation.

83 Although in some contexts translated as "independence of other," the most common usage of this term in the writings of Aristotle is "having enough."

84 *To eu zen* can also be translated as "flourishing." As Aristotle tells us in the second chapter of Book I, "When we come to the final and perfect association, formed from a number of villages, we have already reached the polis -- an association which may be said to have reached the height of full self-sufficiency; or rather, we may say while it grows for the sake of mere

goodness (*eudaimonia*), a practice only open to those who are freed from necessity.<sup>85</sup> The "good life" thus requires a form of a "contained abundance" -- released from the constraints of, but supported by, natural abundance -- in order to allow the independent pursuit of politics for its own sake and not in the spirit of gain (*pleonexia*).<sup>86</sup> The end of the "art" of

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life [and is at that stage, still short of full self-sufficiency], it exists [once fully grown] for the sake of the good life [and is fully self-sufficient].

85 As Barker writes of the social strata of the Greeks: "Apart from the depressed class of household slaves (*douloi*) and that of serfs or dependents tied to the soil, (...generally designated as *perioikoi*), there were two main strata. The upper is called by various names in the course of the *Politics*... numerically, (this group) is 'the few' (*oligoi*); economically, it is 'the wealthy' (*plousioi*) or 'the possessing' class: in point of culture and prestige, it is 'the better' or 'the best' (*beltiones* or *aristoi*), or again it is 'the notables' (*gnorimoi*), or it is 'the reasonable and fair' (*epieikeis*) who make up the better sort, or it is 'the men who are reasonable and fair and able to enjoy leisure.' The other class has a variety of names, but all are by their nature 'unleisured' (*ascholoï*), spending their days in a cycle of 'toil' and 'relaxation' (*ponos* and *anapausis*), and having no opportunity for leisure." (*The Politics of Aristotle*, [New York: Oxford University Press, 1946], pp. lxxiii-lxiv). Compare to Plato, *Laws*, 807c-e regarding the detriment of engaging in a "multitude of little trivial directions about household arrangements." Pericles, as Plutarch tells us in his *Lives*, relegated the administration of all the economic affairs of the household to a single servant, Evangelus.

86 Thus, wealth, in its proper and limited form, is closely related to the notion of "sufficiency." It is contained likewise in the definition of wealth (*kouros*). Other terms for wealth include *ploytos* or *ktesis*. The ambiguous nature of the capacities and potentialities of wealth are found in the fifth century *Anonymus Jamblichus*, which ascribes the impulse



acquisition is thus a "supply of objects," which are "necessary for (the good) life" and "useful to the association of the *polis* or the household."<sup>87</sup>

The point of departure for Aristotle is Solon's commonly circulated adage: "But of riches no bound has been fixed or revealed to men." Rather, as Aristotle rejoins,

a limit has been fixed, as with the other arts, since no tool belonging to any art is without a limit whether in number or size, and riches are a collection of tools for the householder and the statesman.<sup>88</sup>

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toward wealth to "fear of common contingencies, sickness, old age and sudden loss of possessions and the desire to outdo others, ambition emulation and the desire to acquire positions of power." (Quoted in Singer, *Oikonomia*, p. 41).

87 *Politics*, 1256b30-34. "Wealth as a whole, consists in using things rather than owning them; it is really the activity -- that is, the use -- of the property that constitutes wealth." (*Rhetoric*, trans. John Henry Freese [Cambridge: Harvard University Press, 1967], 1361a23ff).

88 *Politics*, 1256a34ff (Rackham). Approaches to this issue are manifold: Plato in one instance defines proper wealth as "true" wealth (*athenos*) in non-material qualities -- the possession of the immaterial goods of wisdom and virtue. (*Symposium* iii 8 and iv 33-44). See also the discussion of wealth in the Pseudo-Platonic *Eryxias*. In a another tack, the definition of "proper" wealth is redrawn to signify the prepolitical condition. As Solon writes, "Surely equal is the wealth of him that hath much silver and gold and fields of wheatland and horses and mules, to him that hath but this -- comfort in belly and sides and feet." (*Elegy and Iambus*, Vol. I, trans. J.M. Edmonds [New York, G.P. Putnam's Son's, 1931], Frag. 24). Or, as Herodotus

Here, Aristotle broadly echoes the customary Greek treatment of wealth, which categorically asserts use as the limit to acquisition -- but he approaches this position, however, by identifying the specific modes of acquisition (*chremistiké*) which will express the limits designated by nature which are represented by use.<sup>89</sup> For Aristotle, use represents a fundamental form of measure and limit because nature -- as opposed to *techne* -- fashions nothing without a limit or purpose.<sup>90</sup>

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writes, "The very wealthy is no better off than he who has sufficient for the day." (*Histories*, i, 32). The ambiguity between limit, measure and surplus is suggested by Xenophon when he writes of "increasing the estate by showing a balance (*periousia*)."  
(*Oikonomikos*, I 4, in *Works*, ed. E.C. Marchant [New York: Oxford University Press, 1947]).

89 In both pre-classical and classical Greek literature the excessive attributes of wealth are commonly contained by an association with an extremely amorphous sense of "use." For example, as we are told by Xenophon, wealth is that which consists of "serviceable things." Or, elsewhere, wealth is "whatever is useful to life" and "useful," in turn, is tautologically defined as "everything that anyone knows how to use." (*Oikonomikos*, ii. 2-8, iv 33-44, vi 4). Xenophon uses the term *chremata* to signify the "excess of goods over needs," *chremata* itself receiving no further elaboration. The definition of proper wealth through use also appears in Aristotle's *Rhetoric*: "In a word, being wealthy consists rather in use than in possession, for the actualization and use of such things is wealth." (*Rhetoric*, 1361a23ff).

90 Cf. *Politics*, 1253a10. Nature may be understood in two ways; first, in terms of natural objects which serve larger purposes, and secondly, that there exists in the universe an comprehensive order or aim that is reproduced throughout nature. As Barker tells us, "The

The first form of *chremistiké* introduced by Aristotle is represented by occupations dependent on one's own labors: herding, farming, piracy, fishing and hunting.<sup>91</sup> Such acquisition is deemed by Aristotle to be in conformity with the contained abundance of "true wealth" (*to alethinos ploutos*),<sup>92</sup> indicating "goods, capable of accumulation, which are necessary for (the good) life and useful for the community or household."<sup>93</sup> For Aristotle, the household, or *oikos*, serves as a model for "sufficiency," without which

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conception of end has come before us in many names, and from many aspects. As a 'form', it represents the shape into which amorphous matter is molded: as 'Nature', it represents identification with that ideal, towards which all movement is directed. As 'function', it is that full height of action, to participate in which constitutes partnership in the body politic which the degree of participation is the standard... As 'essence', the end has already presented itself as the content of definition and the criterion of classification: as 'limit', we still have to notice, it determines the character of its means." (Barker, *The Political Thought of Plato and Aristotle*, p. 229 and p. 269 *passim*).

91 The art of war is considered by Aristotle to be a form of hunting: "hunting ought to be practiced -- not only against wild animals, by also against human beings who are intended by nature to be ruled by others and refuse to obey that intention." (*Politics*, 1256b§11).

92 Aristotle, *Politics*, 1256b30ff. (Rackham)

93 Aristotle, *Politics*, 1256b7ff. (Rackham) Aristotle defines necessity as "anything without which it is not possible for good to exist or come to be, or for bad to be discarded, or gotten rid of." (*Metaphysics*, 1015a20ff).

there is no possibility for attaining the proper surplus of "true wealth": a ready stock of useful things.

However, as we are told "there is another kind of acquisition that is specifically called wealth-getting (*chrematiské*)...and to this kind it is due that there is thought to be no limit to riches and property."<sup>94</sup> As Aristotle continues,

There are many who hold this second form of the art to be identical with the other form, previously mentioned, because it has affinities with it. In fact it is not identical, and yet it is not far removed. The other form previously mentioned is natural, this second form is not natural, but rather the product of a certain sort of experience and skill (*techne*)...<sup>95</sup>

The task of demarcating the natural form from the unnatural is one which takes up the unsolved problem of incommensurability in an alternative way. The qualitative/quantitative antinomy that appeared in the *Ethics* prefigures the central dualism undergirding the discussion in the *Politics*: value-in-use and value-in-exchange. Here, Aristotle attempts to find *specific forms of exchange which are themselves inherently commensurable*. It is important to note putatively that the qualitative element of exchange is in all cases

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94 Aristotle, *Politics*, 1256b40ff. (Rackham)

95 Aristotle, *Politics*, 1257a4ff. (Rackham)

lodged in the objects transacted as opposed to the subjects transacting, as was the case in the example of *chreia*.

Aristotle ascribes to all objects which occupy the field of human intercourse a two-fold character:

All articles of property have two possible uses. Both of these uses belong to the article as such, but they do not belong to it in the same manner, or to the same extent. The one use is proper and peculiar to the article concerned; the other is not.<sup>96</sup>

The proper and "particular" use of an object is thus in accord with the qualitative nature of the object, rendering it suitable to a single purpose.<sup>97</sup> To use an object in this way thus allows the subject to be directed by the object's essential nature. The second "use," however, refers to each object's ability to be exchanged. A shoe, for example, can be used for "its wear as a shoe" and "its use as an article of exchange (*metabletiké*); for both are ways of using a shoe."<sup>98</sup> Although exchange thus is a use which "belongs to the article as such," it is yet not specific or endemic to the article concerned. As he continues,

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96 Aristotle, *Politics*, 1257a6-10.

97 Aristotle, *Politics*, 1257a2-3. And, as Aristotle tells us, "for whoever produces something produces it for an end." (*Ethics*, 1139b1-3).

98 Aristotle, *Politics*, 1257a2.



in return for money or food, with a person who needs the article, is using the shoe as a shoe, but since the shoe has not been made for the purpose of being exchanged, the use which he is making of it is not its proper and peculiar use.<sup>99</sup>

All articles of property, we are told, possess this dual capacity: "Exchange is possible in regard to them all: it arises from the natural facts of the case, and this is due to some men having more, and some less, than suffice for their needs."<sup>100</sup>

Exchange, absent from the first form of *chremistiké*, is now to be traced in successive forms. The first, barter, is a "proper" form of exchange -- yet apparently suitable only to pre-political tribal forms. Such associations, barter, we are told, is a "proper" form of exchange "for such tribes do not go beyond exchanging (*allagé*) actual commodities for actual commodities"<sup>101</sup> -- a form of exchange carried out only "to the extent that sufficed for the needs of both parties."<sup>102</sup> This mode of acquisition is not contrary

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99 Aristotle, *Politics*, 1257a2.

100 Aristotle, *Politics*, 1257a4.

101 Aristotle, *Politics*, 1257a24ff. (Rackham)

102 Aristotle, *Politics*, 1257a\$4. Rackham's translation reads "for it existed for the replenishment of natural self-sufficiency (*autarkeias*)."

to nature, and yet, as Aristotle tells us, it is from this that the "art of business" as a means of "wealth-getting" in due course arose.<sup>103</sup>

The next stage involves the shift from barter to exchange mediated by coinage, facilitated, according to Aristotle's account, by trade over distance.<sup>104</sup> We are told that initially money functioned as a "measure" which served to merely represent material wealth.<sup>105</sup> It was thus from this "necessary" innovation, that "unnatural" forms of exchange were to emerge. Exchange eventually became "more highly organized as experience discovered the sources and methods (*technikoteron*) of exchange that would cause most profit."<sup>106</sup> Although in this instance profit is cited as a function of method, the problem in fact arises from certain structural aspects of the exchange form itself, as freed from the barter form. As "the first element of commerce," money poses a singular problem: unlike the "natural" and limited forms of acquisition, the "riches" created "are truly unlimited."<sup>107</sup> The boundlessness of this form of exchange lies in the fact that money allows

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103 Aristotle, *Politics*, 1257a30ff. (Rackham)

104 Aristotle, *Politics*, 1257a33ff. (Rackham)

105 Aristotle, *Politics*, 1257a39.

106 Aristotle, *Politics*, 1257b4ff. (Rackham)

107 Aristotle, *Politics*, 1257b28.

each object to take on extrinsic characteristic independent of the object represented, distancing it from the natural limit of use. Value-in-exchange, as represented by money, does not possess an inherent limit, unlike the material object which pronounces its own end in the act of use. Money, as Aristotle tells us, is thus both the means ("the starting point") and the end of retail exchange (*kapeliké*), the act of buying in order to sell.

Aristotle's definition of money as either a measure or as a force which effaces the proper ends of the objects themselves; therefore yield two general types of exchange transactions.<sup>108</sup> First, as a gainful act (*kapeliké*) whereby exchange is undertaken to the end of an increase of money; and secondly, the natural or proper acquisition for which "money was intended to be used."<sup>109</sup>

Despite the differences between natural exchange (*metabliké*) and unnatural exchange (*kapeliké*), Aristotle remarks that there is yet a "close affinity"<sup>110</sup> (*epallattei*) between the two forms, an

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108 In this regard, see Aristotle's remarks as to the Delphic knife, which as made for the purpose not of use, but for a gainful exchange, is created in a "spirit of stint." (*Politics*, 1252b3).

109 Aristotle, *Politics*, 1258b8.

110 (Rackham)

affinity attributable to the monetary medium deployed in both instances. Consequently, as Aristotle tells us,

They overlap (*epallattei*) because they are both handling the same objects and acting in the same field of acquisition; but they move along different lines -- the object of the one being simple accumulation, and that of the other something quite different.<sup>111</sup>

In both cases, the vehicle is the same; however, the two ends, detrimental and beneficial, can not be clearly distinguished from one another. However, Aristotle does, in fact, discern quite clearly two types of wholly unambiguous transactions: barter, which excludes the money form, and usury (*obolostatke*) an unmediated exchange of money for money -- "the breeding of money from money."<sup>112</sup>

In concluding his analysis of exchange forms, Aristotle is not only unable to maintain a fundamental distinction between money usages, but his conclusion confirms the suspicion which he set out to annul:

"There are many who hold this second form of the art

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111 Aristotle, *Politics*, 1257b§55.

112 Aristotle, *Politics*, 1258b5. "For money was intended to be used in exchange, but not to increase at interest.... And this term interest (*tokos*) which means the birth of money from money, is applied to money because the offspring resembles the parent. Wherefore of all the modes of getting wealth this is the most unnatural." (*Politics*, 1258b1-8, 1258a37).

(unnatural) to be identical with the other form (natural)...In fact it is not identical, and yet it is not far removed."<sup>113</sup>

### C. Exchange and Political Community

As posed in the *Ethics*, strict commensurability between objects of exchange can not be established, and proper exchange forms can not be clearly demarcated from improper forms in the *Politics*. Troubling implications thus ensue not only for the ideal of justice as a form of *isonomia*, but for the very constitution of the *polis*. The outcome of Aristotle's discussions of exchange points to the excess produced by the exchange relation, an excess conferring gain ("both excesses") upon one of the two participants in the transaction. The implication of Aristotle's analysis is that such one-sided accretion can no longer be simply be an issue of the adventitious trader who practices a particular mode of *techne*. Because the unlimited essence of exchange-value can infect any money-mediated transaction, the intent to gain from another can not be clearly separated from the formal (monetary) means through which the exchange relation is executed. For this reason, the transaction of both the

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<sup>113</sup> Aristotle, *Politics*, 157a§1.



citizen and the trader traverse the surreptitious margin by which exchange can generate a gain incurred "at the expense of another."<sup>114</sup> This indeterminate realm of advantaging and mutuality is evoked in Book Eight of the *Ethics*:

Travelers....associate together for some advantage, (*sumpheronti*), namely to procure some of their necessary supplies. But the political association too, it is believed, was originally formed, and continues to be maintained, for the (general) advantage (*sumpherontos*) of its members.<sup>115</sup>

In this passage, the organization of the *polis* appears to be based upon the notion of "advantage" (*supheronti*) -- represented in both singular and mutual terms.<sup>116</sup> As such, there exists an ambiguity between that advantage which is individual and that which is common. It would

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114 The sizable stakes involved in keeping the two elements clearly separated is expressed in the fact that in classical Athens, trade was an occupation which was widely held by non-citizens (*metics*). In the secondary literature it is common to only attribute this separation to the lack of esteem accorded to trading, as simply grouped with mechanical work. See for example, Augustus Boeckh, *The Public Economy of the Athenians*, trans. Anthony Lamb (Boston: Little, Brown & Company, 1857). For a general discussion of the *metics*, see P. Gauthier, *Symbola. Les étrangers et la justice dans les cités grecques* (Nancy: 1972); and with regard to Aristotle, J. Pecirka, "A Note on Aristotle's Conception of Citizenship and the role of Foreigners in 4th C. Athens," *Eirene* 6 (1967).

115 Aristotle, *Ethics*, 1160a. (Rackham)

116 The term can also signify "profitably" or "with expediency." (H.G. Liddell and Robert Scott, *A Greek-English Lexicon* [Oxford: Clarendon Press, 1940], s.v. "*sumpherontos*").

here be useful to remark upon the more subtle characterizations of the relationship between individual and mutual forms of "advantage" as found in Plato's *Republic*, a work in which the question of advantage is pivotal.<sup>117</sup>

Political society, as Plato tells us, finds its inception in the fundamental needs of human beings, and it is the particular function of exchange to fulfill such needs.<sup>118</sup> In this account we find the following fascinating determination: "If one man gives another what he has to give in exchange (*metadosis*) for what he can get, it is because each finds that to do so is for his own advantage."<sup>119</sup> The word for "advantage" is derived in this translation by Barker from *ameinon*.

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117 "Advantage" is commonly rendered in the *Republic* as *pleonexia* -- a term capturing the essence of Plato's definitions of injustice. Derived from *to pleon* or "too much," *pleonexia* is to "exceed one's rightful sphere or function." The term means literally, "to have or gain some advantage over another," "to have or take more than another" or to "claim more than is one's due." (Liddell and Scott, *A Greek-English Lexicon*, s.v. "*pleonexia*").

118 "My notion is, said I, that a state comes into existence because no individual is self-sufficing; we all have many needs...So, having all these needs, we call in one another's help to satisfy our various requirements; and when we have collected a number of helpers and associates to live together in one place, we call that settlement a state." (*Republic*, trans. Paul Shorey, Loeb Classical Library [Cambridge: Harvard University Press, 1930], 369c).

119 Plato, *Republic*, 369c.

Barker chooses "advantage" over the more literal meaning of *ameinon* as "better for," a translation which Shorey, for one, employs. The word thus signifies both the sense of advantage over *another* as well as a sense of benefit promoting welfare, as for example in the benefit conferred by health.<sup>120</sup> This obscurity is likewise present in the word *opheleo* which is alternately used to signify "advantage" or "profit"; yet *opheleo* can also refer to "the common interest of all," "benefit" or "aid" -- an ambiguity shrewdly played upon when Plato uses *opheleo* in the context of describing the form of justice that at both "benefits" friends and harms enemies.<sup>121</sup> The way in which advantage, as relative advantage, and advantage as "beneficial" or mutual, play off one another is also found in the encounter with Thrasymachus at the end of Book I. Here, Plato progressively shifts the meaning of "advantage" toward the sense of benefit by purging the self-advantaging (*pleonastic*) element from the

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120 The ambiguity is likewise present in English usage. Although advantage generally signifies "a superior position" or "the position of being in advance or ahead of another." It can also connote "benefit, enhancement, improvement" or "to increase or augment the effect of any thing." In the former instance, the inflection can also be a "pecuniary profit or gain, interest on money lent"; and, in accord with the root of *pleonexia*, "greater quantity or number, 'more-ness'... overplus, excess." (*Oxford English Dictionary*, n.v. "advantage").

121 Plato, *Republic* 334b.

definition. In this chapter, advantage which exists outside of the context of the mutually beneficent political association is, in the final instance, deemed fundamentally "inadvantageous."

Such phrasing is especially interesting given the fact that in the *Republic* Plato's rudimentary state -- the infamous city of pigs -- already includes the presence of exchange *via* money forms. There thus exists an ambiguity with regard to the use of *metadosis*, for while it means literally "to give a share"; yet, as positioned in this example, it also suggests an act of simultaneous and unmediated transfer. In contrast to Aristotle's genealogy of acquisitive forms in the *Politics*, the acquisitive forms inhabiting the rudimentary state entirely outstrip their circumscribed context.<sup>122</sup> Indeed, that Plato is well aware of the dangers which ensue from these forms is attested to in the *Laws*, in which certain forms of trade and coinage are strictly regulated.<sup>123</sup>

This portion of Plato's account in the *Republic* approximates the same ambiguity suggested by Aristotle's discussion in book five of the *Ethics*. As we will recall, at the conclusion of Aristotle's

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<sup>122</sup> Plato, *Republic*, 371.

<sup>123</sup> See for example, Plato, *Laws*, V 742a.

account, the problem of commensurability is addressed in terms of "need" (*chreia*). Moreover, it is important to note that the usages of *chreia* not only include "need," "use" or even "service" -- but also "advantage."<sup>124</sup> "Mutuality" here becomes an *doppelgänger*, as it were, with the uneasy cohesion afforded by "advantage" -- or the expectation thereof.

To represent this element contained in need -- both excessive and cohesive -- in terms of exchange is to return to the very *raison d'être* of particular justice as the basis of a series of limits expressly designed to contain the possibility of taking from another that which is not "one's own." The entire problem of "advantage" is perhaps located within what H.H. Joachim refers to as the "generic identity" of justice and injustice -- by which both justice and injustice "issue in actions advantaging or disadvantaging another."<sup>125</sup>

The issue of exchange foregrounds the fundamental question of the relation between individual gain and community -- the negotiation of the relation between individual advantage and the "advantage" of others who

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124 Liddell and Scott, *A Greek-English Lexicon*, sv. "*chreia*."

125 Joachim, *Nichomachean Ethics*, pp. 128 and 130.



together constitute the political *koinonia*. While exchange is posed as a form of necessity and mutuality, it nevertheless stands in a mutable, if unstable, relation to individual gain. The transaction, in relentless defiance of a strict *isonomia*, is neither able to distinguish between need or advantage -- while the "unearned increment" may be conferred nonetheless.

In the end, despite all of Aristotle's exertions, mutual "gain" is found to be inseparable from individual advantage. It is here fitting to recall Aristotle's most favored category of *chremistiké* in the *Politics*. Agriculture and hunting, as portrayed in the *Politics*, are subsumed under a category of acquisition that is above all distinguished by the absence of exchange: "Property of this sort then seems to be bestowed by nature herself upon all."<sup>126</sup> The complexity of the exchange relation, a relation which, paradoxically, creates the possibility of both providing for and gaining from others, explains the inclusion of both piracy and war in Aristotle's natural or "proper" category of acquisition. In both instances the central criterion is met; for both piracy and war are forms of acquisition which avoid the questions of fairness and mutuality raised by the exchange transaction. In this case, "advantage" is

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126 Aristotle, *Politics*, 1256b8-9.

decisively conferred -- not from nature, but from those human creatures *who exist outside the political association.*

## CHAPTER II

### EARLY MODERN APPROACHES TO THE PROBLEM OF EXCHANGE

*The profit of one man is the damage of another... No man profitith but by the loss of others.*

Montaigne

#### A. Mercantilism: Exchange and Absolute Advantage

Aristotle's analysis of exchange as taken up by the Canonist doctrine of "just price" does not survive the accelerating expansion of trade in the late Middle Ages.<sup>127</sup> The body of economic thought which was to arise from this period of commercial expansion is

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<sup>127</sup> The problem of individual gain which lies at the heart of the issue of the just price is broadly cast in two forms in the Canonist literature: first, the stringent attempt to equalize exchange, the *pro par pari*, and the attempt to ascertain a minimal form of profit to be accrued. In the former instance, all gain was regarded as suspect, and in the latter, modest gains were regarded as acceptable. These two positions broadly follow the impulses of *Ethics*, Book V and the *Politics*, Book I, respectively. The extent of the faithful reproduction of the works of Aristotle by the Canonists, or to what extent their general depictions reflect my own reading of Aristotle, is not significant to the broader aim of the task at hand. For a useful summary of the social-economic factors which gave rise to mercantilism, see volume I, chapters I-IV of Eli Heckscher's *Mercantilism*, trans. Mendel Shapiro (London: George Allen & Unwin, 1955). Regarding the formal break between the disciplines of political economy and political thought which occurred in the 16th century, see Richard Olson, *The Emergence of the Social Sciences* (New York: Twayne, 1993).

broadly referred to as mercantilism.<sup>128</sup> Mercantilist reasoning may be generally summed by the following tenets: first, that money or treasure constitutes wealth; and secondly, that foreign trade is the only means to generate wealth.<sup>129</sup> The often fantastic logics which emerge within this form of economic thought have led to a tendency to dismiss mercantilism for "primitive" economic reasoning -- indeed, Schumpeter employs the word "contempt" when describing this general perception.<sup>130</sup> Despite this perception, the

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128 Regarding the difficulties and abuses associated with the moniker "mercantilism," see E.G.A. Johnson, *Predecessors of Adam Smith* (New York: A.M. Kelley, 1937), pp. 3-4.

129 See for example, M. Beer, *Early British Economics* (New York: A.M. Kelley, 1967), pp. 60-61. The degree to which these faiths are held by all those historically considered to be mercantilists will not be treated, given the purpose at hand. To most generally organize mercantilist thought, I have found Beer's division of mercantilism into two periods corresponding to English history most helpful: from Edward I to Queen Elizabeth and from the Stuarts to the ascension of the Hanoverians Beer emphasizes the continuity of the fundamental idea of drawing "treasure" into the realm, although methods employed differ: "In the first period personal monarchy enacted so-called bullionist ordinances and statutes for that purpose. In the second period, the merchants attempted to accomplish that aim by the balance of trade policy." (*Early British Economics*, pp. 61-62).

130 Schumpeter, *History of Economic Analysis*, p. 336. Beer is less acrimonious. He writes that despite all, "The mercantilist doctrine must have answered the interests and logic of its age." (*Early British Economics*, p. 62).

mercantilists afford a valuable expression -- or rather, a series of symptoms -- of the problem of gain resulting from exchange.

Aristotle's analysis of exchange had begun with the effort to distinguish between the two form of exchange, the one mutual and fair, the other adventitious and unequal. Aristotle's efforts reveal the simultaneous existence of both these elements, but his efforts to theoretically divide or cordon off the mutual and necessary aspects from the dangerous ones are, in the last instance, stymied.

Now, the central implication which attends the adventitious form of exchange is that quantitative advantage is conferred to only one of the two transacting parties. In the Middle Ages, once the possibility of the ideal of the *pro par pari* was yielded, the difficulty involved demarcating the proper degree of gain -- the determination of a proportionate "excess," as it were. In mercantilist doctrine, however, all ambiguities with regard to either equalization or gain are expelled. Mercantilist doctrine asserts the possibility of exacting a maximum monetary advantage from the exchange transaction, an end the classical world perceived as problematic. However, the mercantilist reasonings with regard to monetary advantage may be understood as a maneuver



which does not so much violate classical thought as it appears to outflank the Aristotelian problems associated with exchange. The mercantilists posed a direct solution for the theoretical, political and ethical ambiguities of monetary gain: simply phrased, the unequal or excessive element which emerges from exchange is to be expelled beyond the limits of the political association. The new political form which is to serve as the territorial limit is the nation-state.<sup>131</sup>

Characterized by "precise boundaries, and... objectives, loyalties, and recognized moral obligations largely confined to these boundaries" the nation-state represented a departure from previous European perspectives influenced by the universalism of Christian thought.<sup>132</sup> As the first legitimation of exchange as a means of exacting an unambiguous maximum of monetary gain from the exchange transaction, the

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131 For a good collection of writings on the relationship between the early forms of the nation-state and trade relations, see James D. Tracy, ed. *The Political Economy of Merchant Empires: State Power and World Trade 1350-1750* (Cambridge: Cambridge University Press, 1991).

132 Jacob Viner, "The Nation-State and Private Enterprise" in *Essays on the Intellectual History of Economics* (Princeton: Princeton University Press, 1991), pp. 45-46. As we are told by Beer, "The gradual abandonment of medieval universalism in commerce and religion was preceded in philosophy by the abandonment of the Universals in favor of the Particulars (nominalism)." (*Early British Economics*, pp. 73-74).

mercantilist approach to exchange defines clear lines of advantage -- as assumed over rival states. The founding tenet of mercantilist policy is that it "should be framed and executed in strictly nationalistic terms, that is national advantage alone is to be given weight."<sup>133</sup> In the seventeenth century, the material form of national advantage complements

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133 The nature of this advantage is generally posed in one of two ways in the secondary literature. Heckscher, following Gustav Schmoller (*The Mercantile System* [New York: Macmillan, 1910]), argues that the consolidation of power is the sole form of advantage sought by the early forms of the nation-state, a position countered by Viner who emphasizes the equal importance of material gain. These twin goals are interrelated by Viner, each a "prerequisite for the attainment of the other." See his "Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries" and "The Nation State and Private Enterprise" in *Essays on the Intellectual History of Economics* (Princeton: Princeton University Press, 1991). It is of interest to compare this conception of the nation state with the characterization of the medieval town, which, as Schmoller writes, was a self-sufficient economic organism: "each town, and especially each of the larger towns, seeks to shut itself up to itself as an economic whole, and, at the same time, in its relation to the outside world, to extend the sphere of its influence, both economic and political, as far as possible... "market-rights, toll-rights and mile-rights (Meilenrecht) are the weapons by which the town creates for itself both revenue and municipal policy... The soul of that policy is the putting of fellow citizens at an advantage, and of competitors from outside at a disadvantage." As Schmoller adds, the old constitution of the village "must be broken up by the creation of great states and by other forces, before another and higher development of economic life can make its appearance." (*The Mercantile System*, p. 6). Heinrich Kleist's "Michael Kohlhaas," a short story set within this historical period, will be the subject of a forthcoming essay on the issues associated with the symbolic and material transactivity of exchange.

that of political advantage: both forms were conceived as operating on the principal of zero-sum gain.<sup>134</sup>

Commerce here mirrors the strictures of foreign policy for which there exists a fixed quantity of not only political, but economic resources;<sup>135</sup> as the mercantilist Francis Bacon writes, "whatsoever is somewhere gotten is somewhere lost" and "what one gains, the other loses."<sup>136</sup>

Profits from commercial trade, as Thomas Mun tells us, are measured by the amount the sale exceeds the purchase and this difference in price is paid by the

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134 Viner attempts to distinguish the two usages of differential gain in a highly germane way: "In the field of power it is correct to say that power is relative, not absolute, and that therefore what A gains in power must be at the expense of some B. In the field of wealth, it is not correct to hold that wealth is static or has some definitely prescribed limits, and it is not correct to say that one man's or one country's gain must be another man's or country's loss. But one country's gain can be, may be another country's loss...By capturing booty in war, by piracy, by monopolizing trade routes... by monopolizing by force against potential rivals an export market or a source of valuable imports, it was wholly possible in theory and to some extent realizable in practice for a country by use of its power to enrich itself through impoverishing another country or countries." (*Essays on the Intellectual History of Economics*, p. 47).

135 "Scarcely any other element in mercantilist philosophy contributed more to the shaping of economic policy, and foreign policy as a whole." (*Mercantilism*, Vol. II, p. 24).

136 Francis Bacon, *Essays*, no. 15, "Of Seditions and Troubles"; Montchrétien, *Traicté de l'Oeconomie politique*. (Quoted in Heckscher, vol. II, p. 26).

foreign consumer.<sup>137</sup> As exchange in the form of foreign trade is the "ordinary means of national increase," Mun advises that this increase is brought about by a favorable balance of trade. According to Mun, "we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value," for it is only the "treasure which is brought into the Realm by the balance of our foreign trade" which constitutes the amount "by which we are enriched."<sup>138</sup> As Heckscher notes, this demand for an export surplus was expressed by the mercantilists "in every possible way."<sup>139</sup>

In mercantilist thought, the difficulties associated with the classical understanding of exchange are not directly solved but, rather, they are shifted, insofar as the surplus which now accrues is *exacted not from within the political community*. Here is Jean-Baptist Colbert in a letter to a King:

It is not possible to increase [the stock of one country] by 20, 30 or 50 million without at the same time taking the same quantity from neighboring states. Thus arises this twofold increase (*élévation*), which has been so clearly discernable

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137 Thomas Mun, *England's Treasure by Foreign Trade* [1664] (New York: Augustus M. Kelley, 1965), p. 21.

138 Mun, *England's Treasure by Foreign Trade*, p. 21. On the balance of trade, also see Beer, *Early British Economics*, chapter VIII.

139 Heckscher, *Mercantilism*, vol. II, p. 116.

for several years past: on the one hand the power and greatness of Your Majesty increases, on the other that of your enemies and ill-wishers falls.<sup>140</sup>

Or, as Francis Bacon phrases it, "It is likewise to be remembered that the increase of any Estate must be upon the Foreigner."<sup>141</sup>

The constitution of *domestic exchange* in much of mercantilist thought follows a complementary logic in accord with the principle tenets attributed to foreign exchange. Because the calculation of gain or loss is asserted only in terms of the state as an aggregate form, the problem of domestic individual gain or loss is absorbed, or rather, neutralized. As Mun tells us, because "the gain of one subject is the loss of another" exchanges in the home market are simply "unprofitable."<sup>142</sup> Alongside this position, which posits wealth as a "vibration" between transactors, is another, in which domestic trade is cast as a means to a *maintenance* of individuals. As F.W. von Schrötter writes, domestic trade makes people happy, but not

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140 Colbert, *Lettres VI*, quoted in Heckscher, vol. II, p. 27.

141 Francis Bacon, *Essays*, "Of Seditions and Troubles" (New York: C.S. Francis & Co., 1857). Most polished of this static conception is offered by Colbert, who, as Heckscher writes, "applied the conception in practice in a most ominous manner." (*Mercantilism*, pp. 26-27).

142 Mun, *England's Treasure by Foreign Trade*, ch. 14.



rich; and as Mathias de Saint-Jean tells us, foreign trade "fattens the natives while domestic trade only provides for sustenance."<sup>143</sup>

The mercantilist displacement of the excessive elements of exchange is, paradoxically, filtered through a group traditionally regarded in an ambiguous light -- the merchant traders. In the mercantilist epoch the status of the merchant was elevated to a new level. Praises of merchants now scale dazzling heights, most notably in the writings of Mun. Mun, himself a merchant, writes of merchants as "stewards of the stock of the kingdom," and, as the "principal Agent(s) in this great business" of increasing national wealth, the merchant is an ideal counsel to the sovereign.<sup>144</sup> As one commentator has suggested, given Mun's general description, the merchant would be the ideal citizen.<sup>145</sup> Such sentiments were not uniformly held. If Mun is the most effusive in his praise of the merchant, Gerald Malynes is the most critical, arguing that because trade is based upon the self-interest of

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143 Both quoted in Heckscher, *Mercantilism*, vol. II, p. 193.

144 Mun, *England's Treasure by Foreign Trade*, pp. 2-6.

145 E.G.A. Johnson, *Predecessors of Adam Smith* (New York: Augustus M. Kelley, 1965), p. 78.

merchants, it must be regulated by government to ensure the general benefit.<sup>146</sup> The mercantilist scope of inquiry, as organized around the aggregation of the nation-state, suggests that individual domestic exchange as merely a "vibration of wealth" between transacting parties, does not, or rather, can not, constitute a relevant and thereby detrimental form of internal gain. Aristotle's ambiguity with regard to exchange is here avoided -- if often in a specious way.

#### B. The Eclipse of Exchange: The Physiocrats

Mercantilist thought affords a calculation of advantage which negates prior notions of individual gain by shifting the focus of the exchange transaction from individuals within states to international commercial transactions. This, and not the familiar emphasis in the literature of Smithean and post-Smithean political economy which emphasizes limitations to free-trade, is the central significance of the mercantilists to the task at hand. Mercantilism, however, was to be last expression of the classical understanding of gain as accrued solely through the exchange transaction. The inauguration of classical political economy in the eighteenth-century is marked

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146 See Beer, *Early British Economics*, pp. 106-110.

by the rejection of this assumption -- replacing exchange as the theoretical pivot with the notion of production.<sup>147</sup>

Although the idea of production, as the fabrication or creation of objects, is longstanding,<sup>148</sup>

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147 As Marx writes, "Before the Physiocrats, surplus-value -- that is, profit in the form of profit -- was explained purely from exchange, the sale of the commodity above its value." (*Theories of Surplus Value* [Moscow: Progress Publishers, 1963], p. 54). And as Eric Roll writes, the problem of price and value was "hitherto conceived almost exclusively in terms of exchange. With Aristotle and the Schoolmen it had been part of the problem of justice...In the mercantilist era both the question and answer were different. With all the obscurities and individual variations, a common approach underlay mercantilist theory on the question of price. The approach was that of the merchant. What is the best means for making the country rich? Because wealth is the same as commercial capital (represented by money) the answer is, by making profitable sales. Profit can only arise *upon alienation*, i.e. in the act of exchange, when the seller sells more dearly than he has bought. All the mercantilist conclusions relating to foreign trade and their limited and distorted view of the relation between money and prices are the results of this approach." (Eric Roll, *A History of Economic Thought*, p. 99.)

148 As the role of exchange was emphasized by the mercantilists, the role of production was diminished when not presented as merely a means to the end of exchange: "The more a manufacture causes money to pass from one hand to another (which we call exchange) the more useful it is to the country." (F.W. von Schrötter, as quoted in Heckscher, *Mercantilism*, vol. II, p. 208). Production was even in some instances regarded as an *impediment* to the economic process. Not only, as Schrötter tells us, should money "always remain in circulation" but "neither should it pass into such manufacture where it is immediately destroyed and not brought back into use." (Heckscher, *Mercantilism* vol. II, p. 208). Here the assumption is that manufacture does not produce, but to the contrary, somehow consumes money by stripping away its exchange-value, thereby

the central point of origin for classical political economic thought was the elevation of this concept into a central analytical position.<sup>149</sup> Production as the center of economic analysis signified the end of a perception of a world of finite economic goods in which the gain of one was the loss of another; here the limits of a zero-sum economics as well as the finite stasis represented by a "neutral" transfer of domestic wealth from person to person, could potentially be

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creating an absolute use-value by which this form of "consumption" annihilates the object. Mun's position, though less extreme, is likewise an example of this impulse, as he argues that a nation can increase its wealth if money is regularly converted into goods and if these commodities are transformed back into money. (*England's Treasure by Foreign Trade*, p. 23). This preference for exchange, as represented in and confused with its nominal money form, over manufacture as the source of gain is found in another aspect of mercantilist literature. This is, as Heckscher calls it, a "fear of goods," the "nearly compulsive" concern with selling which characterized mercantilist thought. As Johann Joachim Becker writes, "it is always better to sell goods to others than to buy goods from others, for the former brings a certain advantage and the latter inevitable damage." (Quoted in Heckscher, *Mercantilism*, vol. II, p. 116). Finally, it is fascinating to note the mercantilist preoccupation with alchemy, a "science" which held the promise of the "production" of the source of nominal wealth -- gold. Becker and Schrötter themselves number among the group that regarded this means as a desirable possibility for the acquisition of bullion.

149 Gianni Vaggi writes, "The idea that trade cannot originate wealth had never been proposed before Quesnay; not even by authors like Cantillon, who were not Mercantilists and who never particularly stressed the influence of trade on the welfare of nations." (*The Economics of François Quesnay* [Durham: Duke University Press, 1987], p. 43).

overcome. The very nature of gain thus stood to be recast given the possibility of the creation of real wealth.<sup>150</sup> Conterminously, this suggests that goods need not be sold above their value in order for a profit to be accrued.<sup>151</sup>

The turn into the classical phase of modern political economy and its emphasis on production -- an emphasis which will remain until the inception of "neoclassical" marginal-utility theory in the late 19th century -- originates at the hands of the French physiocrats. François Quesnay's *Tableau Economique*, marks this turn.<sup>152</sup> The *Tableau Economique*, the first representation of the economic domain as a whole, is organized around the separation of two processes -- the

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150 Cf. Schumpeter's discussion of the Physiocrats and Quesnay in *History of Economic Analysis*.

151 The assumption of commodities as sold at their "real" value is, for example, mandatory to the Marxian explanation of profit. As Maurice Dobbs writes, "Gains of chance or of individual 'sharp-practice' could exert no permanent influence in a régime of 'normal values'... at most this could explain individual gains and losses among the class of capitalists." ("Classical Political Economy and Marx," in *Marx and Modern Economics*, ed. David Horowitz, [New York: MacGibbon & Kee, 1968], pp. 52-53).

152 Alfred Marshall writes that the physiocrats represent "the first systematic attempt to form an economic science." (*Principles of Economics* [1890] [London: Macmillan, 1972], p. 625). See also, J.R. McCulloch, *Principles of Political Economy* [1825] (London: John Murray, 1870), p. 30, and Schumpeter, *History of Economic Analysis*, pp. 242-30.



production of the "annual produce" and exchange, which is pursued in a supplementary stage as "circulation."

According to the physiocrats, production does not revolve around the process of manufacture; "Industrial work" as Quesnay avers, "does not increase wealth."<sup>153</sup> As we are told, the "artisan destroys in the form of subsistence as much as he produces by his labour."<sup>154</sup> The starting point of the physiocrats' emphasis on production poses the source of all gain instead in the fundamental fecundity of agriculture: "land is the unique source of wealth, and...it is agriculture that causes wealth to increase."<sup>155</sup> The category of agriculture appears to afford an analytical benefit by

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153 François Quesnay, "Corn," in Ronald L. Meek, *The Economics of Physiocracy: Essays and Translations* (Cambridge: Harvard University Press, 1963), p. 72.

154 Quesnay, "Corn", quoted in Meek, *Economics of Physiocracy*, p. 73.

155 Quesnay, "General Maxims", in Meek, *Economics of Physiocracy*, p. 232. Quesnay was the first to cast productivity only in terms of agriculture. Previously, the relation was conceived as a form of "par" or rate of correspondence between land and labour. Quesnay established a hierarchical relationship between the two elements in which land alone accounted for the increase in real wealth. Of course, the physiocratic focus on agriculture is a function of the actual basis of economic activity in France. Manufacture was not to assume an analytical role until the British engaged the discussion. (See also Meek, *Economics of Physiocracy*, pp. 379-382 for a discussion of this "exclusive productivity" with regard to existing social and political conditions.)

providing the most patent representation of "clear gain" or surplus as distinguishable from circulation. To wit: the amount of food consumed by the laborer plus what is used on seed is on the average less than the amount of produce raised.<sup>156</sup>

Now, despite the fact that exchange is considered "useful, often absolutely necessary," it is identified, along with manufacture, as *stérile*.<sup>157</sup> In the explanations of the *Tableau Economique*, Quesnay tells us that "trade...multiplies sales and purchases without multiplying things, and...represents nothing but an addition to sterile expenditure."<sup>158</sup> According to Quesnay, because exchange represents a mere *transfer* of goods, exchange *always entails the transfer of commodities of equal value*. As we are told, it is impossible that gain could be created from exchange, for no one would exchange a commodity for another of inferior value: "trade is only an exchange of value for equal value, and...so far as these values are concerned there is neither loss nor gain as between the

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156 Marx, *Theories of Surplus Value*, vol. I, p. 44.

157 See Vaggi, *Economics of François Quesnay*, pp. 42-45.

158 Quesnay, from the "Second Edition of the *Tableau*," in Meek, *Economics of Physiocracy*, pp. 119 and 130.

contracting parties."<sup>159</sup> This relegation of exchange to an auxiliary status approximates the mercantilist notion of domestic gain as a mere "vibration" of wealth within a country and thus, as not contributing to a net surplus, performing a purely mechanical distributive function.<sup>160</sup>

This description of exchange falls into one of two general categories of exchange articulated by the Physiocrats: that of resale trade, *le commerce de revendeur*.<sup>161</sup> This category of transaction, according to Quesnay, can not alter the value of a commodity and therefore renders such exchanges "stérile."<sup>162</sup> This is to say, "As with money, the products exchanged exist before they start to circulate among individuals. The process of resale does not affect their physical quantities."<sup>163</sup>

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159 Quesnay, "Dialogue on the Work of Artisans," in Meek, *Economics of Physiocracy*, p. 214.

160 See Quesnay, "Men," in Meek, *Economics of Physiocracy*, pp. 92-3.

161 Vaggi, *Economics of François Quesnay*, p. 44.

162 The use of *stérile* is related to the Physiocratic division of society into two fundamental classes -- productive and unproductive. (See Meek, *Economics of Physiocracy*, pp. 150-8).

163 Vaggi, *Economics of François Quesnay*, pp. 44-6. Such an argument is not an uncommon expression of suspicion toward exchange as a means to profit without value-addition. Hence the legitimacy of "production" which adds tangible value to a good. (Here value is assumed to be an expression of "physical qualities."

The other category of exchange is that of "sales at first-hand," *vente de la première main*. The prices of the products of land, the Physiocrats argue, are only determined on this first-hand market; likewise, first-hand sales are associated with the physiocratic concept of "permanent" prices. As we are told by Quesnay, "it is precisely by these sales that it is possible to measure the value of the annual produce of the nation's wealth."<sup>164</sup> Unique to the physiocrats, the notion of first-hand sales refers to the transaction between the producer and the merchant who initially purchases the commodity. It is only after commodities have completed this initial exchange transaction that the second category of resale exchange is entered.

Since the first category of exchange is defined as not existing within the category of circulation proper, but a part of the category of production, the possibility of a clear division between the two categories is negated; this is because physiocratic "production" actually includes the initial act of

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164 Quesnay, "Analysis," quoted in Vaggi, *Economics of François Quesnay*, p. 41). Mirabeau wholly defines circulation in this way. As he writes, "here by circulation we mean only the purchases first-hand." (Vaggi, *Economics of François Quesnay*, p. 43). For further definitions of circulation also see Meek, *Economics of Physiocracy*, p. 119.

exchange. This inclusion entails that the allegedly autonomous category of agricultural production, the self-contained foundation of the system, can only be ultimately defined as a function of exchange. In this way, exchange, in the form of exchange-value, contaminates the sovereignty of production.

The difficulty in definitively establishing production as the autonomous source of the economic process is paralleled in Quesnay's governing dictum of utility, or use. It is *subsistence*, as we are told, which forms the foundation of society. Accordingly, the physiocrats' notion of utility emphasizes the particular physical characteristics of a commodity, characteristics which make it suitable for the satisfaction of a particular need. Quesnay defines "general consumption" as that which "satisfies the needs of life."<sup>165</sup> Such an assertion follows the physiocratic definition of wealth, in opposition to mercantilist thought, not as money but as tangible goods. However, as we saw also with Aristotle, the construct of utility is likewise deployed as a means to circumscribe the potential excesses of wealth: "land...constitutes wealth only because of the fact that its products are necessary to satisfy men's

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165 And, "the foundation of society is the subsistence of men." (Meek, *Economics of Physiocracy*, p. 55). Cf. Vaggi, *Economics of François Quesnay*, p. 59.



needs...and because it is these needs themselves which are the basis of wealth."<sup>166</sup> And, via the same sollipcism, it is a means of defining exchange: "the action of exchange...is only necessary to satisfy the need which is itself the cause of exchange. One must then distinguish what is only necessary from what is productive."<sup>167</sup>

The pairing of exchange with utility is cast, however, in yet another form. Quesnay maintains that "normal trading situations" are governed by utility. When regulated by utility, the exchange transaction is deemed to be always advantageous *to both buyer and seller*. Such a scenario occurs because, as it is suggested, an individual will never exchange one commodity against another unless convinced of a gain -- in utility. Hence, "one must always assume that it [exchange] is always profitable to both contracting parties."<sup>168</sup> This is possible due to the fact that utility deems that any given commodities can be "enjoyed quite differently by different people" -- thus creating a mutuality of gain.

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166 Meek, *Economics of Physiocracy*, p. 84.

167 Quesnay, "Réponse au Mémoire de M.H.," quoted in Vaggi, *The Economics of François Quesnay*, p. 45.

168 Quesnay, "On the Work of Artisans," quoted in Vaggi, *The Economics of François Quesnay*, p. 60. (Cf. Meek's somewhat convoluted version of this passage, *The Economics of Physiocracy*, p. 214).

The problem with this description of a transaction -- commodity for commodity -- is that it implies a situation of barter, not an exchange mediated by money. For the Quesnay, this is a tricky element to introduce because, as noted, the physiocrats attempt to shift away from defining wealth through money to defining it in terms of useful goods. As we are nonetheless told, in order to achieve the form of wealth, agricultural goods must become *commerçables*.<sup>169</sup> So, although use-value exists as a condition for the exchangeability of a commodity, the amount of wealth measured in exchange depends solely upon the exchange-value of the commodity.<sup>170</sup> That is, only the exchange-value of a commodity can be used as a measure of the amount of wealth embodied in it,<sup>171</sup> and use value is here revealed as thus only a prerequisite to exchange value. The

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169 See Vaggi, *Economics of François Quesnay*, p. 40 and Meek, *The Economics of Physiocracy*, pp. 89-91.

170 Meek, *The Economics of Physiocracy*, p. 90. The difficult proximity between the two crops up at nearly every turn. In this instance, the context is the attempt to define the "wealth" in its non-nominal form: "If a kingdom is poor, that is not, as is vulgarly claimed, because it lacks money, but because it lacks exchangeable wealth." (Meek, *The Economics of Physiocracy*, p. 92).

171 Quesnay, "Maxims," quoted in Meek, *The Economics of Physiocracy*, p. 235.

emergence of wealth from the process of production can thus only become fully manifest within the exchange transaction.

The relation of exchange, as I am suggesting, indicates the point at which the physiocratic structure is at its most vulnerable. This becomes all the more clear in a third example. In dividing acts of exchange into two categories, Merciere de la Rivière writes, "a man *trafique* when he *buys and resells* the commodities which *originally belonged to other men*; a man *commerce* when he obtains from his own land the commodities which he exchanges against some other values."<sup>172</sup>

The ambiguity between the two posited categories of exchange -- "first-hand" versus "retail" sale -- is here expressed not through the categories of exchange *per se*, but through a specific class of exchangers -- the merchants. Given the preeminence granted to production in the creation of surplus and the lack of a possibility of surplus in the second-hand market, the interjection of the merchant appears surprising, a second-order element of an already diminished role of exchange. Merchants, as Quesnay tells us, necessarily operate in the "first-hand" market, a market linking

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172 Quoted in Vaggi, *Economics of François Quesnay*, p. 44.

producers of commodities and the purchasers,<sup>173</sup> as well as playing a role in the second-hand market. The complaint runs thus: merchants take advantage of their "privileged position" in the process of circulation and "at the expense of *either end of transaction*," operating only in their own interest which is "always that of buying as cheap as possible and selling as dear as possible."<sup>174</sup> Rivière also warns us of the merchant as the "*agent intermedaire* who keeps for himself ten measures on your corn and the same on my wine."<sup>175</sup> The gain of the merchant does not only neglect to contribute to, but rather diminishes the surplus product, the *produit net*, of the nation. Therefore, the interest of the majority of traders stand opposed to those of the majority of citizens.<sup>176</sup>

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173 See Vaggi, *Economics of François Quesnay*, pp. 66-68.

174 Vaggi, *Economics of François Quesnay*, p. 67. (*italics added*).

175 Quoted in Vaggi, *The Economics of François Quesnay*, p. 67. The merchants thus interpose themselves between the producer and the final consumer: "Their activity is not limited to the mere transportation of products from town to country and province to province nor is it sporadic or unusual." (*Economics of François Quesnay*, p. 66).

176 Mirabeau adopts a less acrimonious tone. In any society, as he writes, "people compete against one another for their survival and enjoyment; everybody tries to acquire goods for himself...Each man tries to satisfy his needs while minimizing his expenses and toil." (Meek, *The Economics of Physiocracy*, pp. 212-13).

The merchant, as so positioned in the physiocratic analysis, characterizes a recurring problem: the difficulty of theorizing a full separation between the vaunted sphere of production and the realm of exchange. The merchant, in effect, performs a neat traversal of the two carefully constructed production/exchange categories -- and as it seems, becomes a scapegoat for the *potentia* of adventitious gain, as falling outside the construction of "real wealth" as produced through agriculture.

The stakes which seem to underlie the attempt to cordon off the excessive elements by establishing one particular form or location as the seat of excessiveness or adventitiousness,<sup>177</sup> not only indicate the ambiguity between forms of exchange, but demonstrates a fundamental structural deficiency in the Physiocrats' claim to analytical comprehensiveness. Because an excess as "surplus" can exist only to the extent that it is granted expression within the *Tableau* -- rooted, that is, in the production/first-hand exchange classification -- gain existing outside the *produit net* cannot be represented. The ambiguous

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177 A forthcoming project will argue that much of the history of anti-semitism is related to this general ambiguity.



excess of exchange, here cast in terms of the gain of the merchant, thus *outdoes or exceeds* the analytical totality attempted by the *Tableau Economique*.

The significance attributed to the physiocratic *programme* by the history of economic thought, namely, the analytical shift to production as the founding principle of analysis, masks an old proclivity. The Physiocratic preoccupation with surplus garnered from nature, not from one's fellow citizens, reflects an alternative solution to the uncertain character of material acquisition. To pose land as a self-sufficient entity in the origin of gain is to constitute a "surplus" *sui generis*; as it is an autonomous "free gift" of nature, recounting Aristotle's ideal form of *chremistiké*. The isolation of an agricultural surplus succeeds precisely as a form of a foreclosure on the difficulties of acquisition by exchange; namely, that of a potentially unequal acquisition exacted from one's fellows. Physiocratic "gain" as a function of both "natural" abundance and production, casts a category of surplus as a pure positivity. This is to say, no transgressive elements are in excess of the *produit net* -- other than the difficulties posed by exchange. The resort to exchange

as a means of defining production marks the weak point of the *Tableau* by posing the allegedly autonomous category of agricultural production, the self-contained *sine qua non* of the system, as ultimately beholden to the still errant exchange function.

### CHAPTER III

#### ADAM SMITH AND THE TRANSMOGRIFICATION OF EXCHANGE

##### A. Production and "Universal Opulence": The Division of Labor

As previously suggested, the idea of production, situated as the new pivot of economic analysis, signified the end of a perception of a world of finite economic goods in which the gain of one entailed the loss of another. Adam Smith, who follows the physiocrats in asserting production as the reigning element of economic analysis, is responsible for the most innovative, and by any count, the most successful modification of the notion of exchange. In Smith's epochal *Wealth of Nations*, the issues associated with exchange undergo prodigious changes. An account of the construction of a transmuted understanding of individual pecuniary gain begins with the notion which inaugurates the *Wealth of Nations*, the division of labor.

As his organizing feature of production, Smith opens the *Wealth of Nations* with the concept of the division of labor. Broadly defined as the separation of a process of production into parts, each of which is carried on by a separate person, the concept of the

division of labor may be traced from its most rudimentary forms in classical Greece.<sup>178</sup> It is Smith's emphasis on the division of labor, however, which makes his account so extraordinary. As Joseph Schumpeter remarks, "nobody, either before or after A. Smith ever thought of putting such a burden upon the division of labor...With A. Smith it is practically the only factor in economic progress."<sup>179</sup>

The prodigious increase in quantity of work provided by the division of labor according to Smith, is due to three factors: an increase in dexterity of the workman, saving of time commonly lost in

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178 The concept of the division of labor as the specialization of work processes may be traced from Xenophon, through Plato, Aristotle, Aquinas, Luther, Thomas Mun, John Locke, and Bernard Mandeville. (See Cannan's account in *A Review of Economic Theory* and Bonar's summary in *Philosophy and Economics*). The concept is also to be found in works in which the economic aspect is not so pronounced; for example, in the writings of Hegel (*Philosophy of Right*) and Schiller (*The Aesthetic Education of Man*). The division of labor was revived in the English economic literature at the latter portion of the 17th century, in Sir William Petty's 1671 *Political Arithmetick*.

179 Schumpeter, *History of Economic Analysis*, p. 187. As elsewhere noted, it is "Smith's emphasis on the division of labor as a factor in growth via its enormous influence on productivity which makes his treatment of the subject so original." (*The New Palgrave: A Dictionary of Political Economy* [London: Macmillan Press, 1987], s.v. "division of labor"). Cf. Marx, *Capital*, vol. I, p. 348, nt. 4.

'sauntering' from one species of work to another and the invention of new machinery by workmen.<sup>180</sup> The emphasis Smith places upon these three claims for the division of labor have been vigorously contested by one of Smith's greatest admirers, Dugald Stewart.<sup>181</sup>

First, although Stewart acknowledges that a worker increases dexterity by engaging only one task, he argues that the actual gain is limited. "The advantage gained by the division of labor," Stewart writes,

...bears so very small a proportion to that which is gained in the last result, that it is by no means entitled to stand at the head of the enumeration; and certainly goes a very little length in accounting for that minute division and subdivision of labor which has been introduced into some of the most prosperous manufactures of this country.<sup>182</sup>

Stewart thus agrees with Lauderdale "where he observes, that even in the trade of the pin maker, without the use of machinery to supersede the work of the hand, no great progress could have been made in the rapidity

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180 Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776] ed. Edwin Cannan (Chicago: University of Chicago Press, 1976), pp. 11-14.

181 Stewart begins his discussion of the division of labor somewhat dryly: "The observation, that 'A Jack of all trades is master of none', is one of those maxims of common sense which the slightest survey of human life forces on the most careless observer." (*Lectures on Political Economy* [1855] [New York: Augustus M. Kelley, 1968], pp. 310-11).

182 Stewart, *Lectures on Political Economy*, p. 315.



with which pins are formed."<sup>183</sup> With regard to Smith's second point, while it was true that to some extent time was saved by the worker not changing tasks, Stewart notes that "the economy of time gained in this way must plainly bear a still more inconsiderable proportion than the former, to the magnitudes of the effect which it is brought to explain."<sup>184</sup> As for the third factor, the invention of machinery, Stewart acknowledges that the division of labor does indeed spur mechanical innovation, but, as he points out, Smith's single proof of the boy who improves a steam engine in order to acquire more play-time, is "extremely unsatisfactory." Such invention, Stewart suggests, is unlikely because the effect would not necessarily shorten the work day for the inventor; moreover, it could well lead to the loss of a job.<sup>185</sup>

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183 Stewart, *Lectures on Political Economy*, p. 315.

184 Stewart, *Lectures on Political Economy*, p. 315. John Rae (*Statement of Some New Principles on the Subject of Political Economy* [1834] [New York: Augustus M. Kelley, 1964]) regarded savings in tools as far more significant than time saved. Variations on these criticisms are echoed in the work of other 19th century writers such as Charles Babbage (*On the Economy of Machinery and Manufactures* [Philadelphia: Carey & Lea, 1832]) and Andrew Ure (*Philosophy of Manufacture* [1835] [London: Cass, 1967]).

185 Stewart, *Lectures on Political Economy*, p. 318. And, as Hegel writes, as the division of labor makes "work more and more mechanical...man is able to step aside and install machines in his place." (*Philosophy of Right* [New York: Oxford Press, 1952], p. 129). See also Andrew Ure, *The Philosophy of Manufactures*.

Moreover, the division of labor relies upon the principle of a single simple function, whereas mechanical innovation requires considerably broader knowledge. The origin of innovation, Stewart concludes, is thus not to be found in "living automaton, who are employed in the details of the work."<sup>186</sup> According to Stewart, it not the worker but the employer or "speculative observer" who is significant to the process of innovation.<sup>187</sup>

These three advantages derived from the division of labor by Smith are all associated with the division of labor in *production*. In Smith's terminology, this division of labor in what he refers to as the "trifling manufactures" is where the effects of the division of labor are most readily understood:

the important business of making a pin is...divided into about eighteen distinct operations...Each person, therefore, making a tenth part of a forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day.<sup>188</sup>

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186 Stewart, *Lectures on Political Economy*, p. 318.

187 Stewart, *Lectures on Political Economy*, p. 318. A "spectator" that workmen "are placed under the view of..." is mentioned at *Wealth of Nations*, p. 8.

188 Smith, *Wealth of Nations*, pp. 8-9. In every other art and manufacture, we are told, "the effects of the division of labor are the same, resulting in a "proportionable increase in the productive powers of labor."

This characterization of the division of labor, however, is not sustained throughout Smith's account. A second form is present, a form referred to as the "social" division of labor. In this form, the division of labor is posed in terms of a broader function in which the emphasis is on the exchange of the commodities between commodity owners.<sup>189</sup> Smith's term for this is "great" as opposed to "trifling" manufactures --those which supply "the great wants of the great body of people." As we are told,

...every different branch of the work employs so great a number of workmen, that it is impossible to collect them all into the same workhouse. We seldom see more, at one time, than those employed in one single branch. Though in such manufactures, therefore, the work may really be divided into a much greater number of parts, than in those of a more trifling nature, the division is not near so obvious, and has been accordingly been much less observed.<sup>190</sup>

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189 The use of the term "social" with regard to a second category of the division of labor is commonly found in the Marxian context. The distinction between the social division of labor by commodity exchange and its division within the labor process for which exchange does not intervene, is crucial for Marx. Smith's neglect in clearly making this distinction is discussed in section four of the chapter on the division of labor, in volume I of *Capital*. Smith, of course, is here not alone, for the collapse of this distinction within the division of labor marks all of classical and neoclassical economic thought.

190 Smith, *Wealth of Nations*, p. 8. This statement leads Marx (who inserts his own parenthetical exclamation mark at the end of the quote) to argue that for Smith, the difference between the division of labor in production and in society as a whole was "merely

Two contrary tendencies are thus found in the two unclarified forms of the division of labor -- tendencies which underscore the apparent existence of a breach between the claims for the division of labor and the actual gains in productivity. In one instance, the reigning principle of (an increase in) production is fundamentally associated with the division of labor in production -- the production of the single, tangible commodity. This "preference," as David Levine phrases it, serves to "obliterate the exchange relations which tie together the elements of the division of labor"; consequently, different manufactures are simply parts of one "great manufacture" and the presence of exchange becomes merely one of form.<sup>191</sup> The two forms of the division of labor, as functions of production, on the one hand, and exchange, on the other, confront one another in the passage where Smith describes how "universal opulence" occurs as an outcome of the division of labor:

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subjective," that is, existing "merely for the observer." (*Capital*, vol. I, p. 354). Cf. Ronald Meek, *Studies in the Labor Theory of Value* (London: Lawrence & Wishart, 1973), p. 61.

191 David P. Levine, *Economic Studies: Contributions to the Critique of Political Economy* (Boston: Routledge & Kegan Paul, 1977), p. 46 and p. 37, respectively.

Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being in exactly the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what amounts to the same thing, for the price of a great quantity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of society.<sup>192</sup>

To suggest that every workman has "a great quantity of his own work to dispose of," and that every other is in "exactly the same situation," is to negate the division of labor in production which is central to Smith's argument in the *Wealth of Nations*.<sup>193</sup> In other words, the piecemeal role played by the worker in the fabrication of commodities is not applicable to the act of exchange, which presumes full ownership as the prerequisite of the transaction.<sup>194</sup>

In the section which follows, Smith's fundamental investiture in the division of labor in production, on one hand, and his subsequent ambivalence with regard to

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192 Smith, *Wealth of Nations*, p. 15.

193 Cf. Levine, *Economic Studies*, p. 44.

194 See Marx's examples at the beginning of his chapter on the division of labor which usefully distinguish between the varying forms of pre-capitalist and pre-industrial manufacture as opposed to later capitalist forms. (*Capital*, vol. I, pp. 337-338). Of course, many pre-capitalist forms of the division of labor did themselves not meet the criteria which Smith indicates -- that of an independent artisan-producer who has full ownership of an object.



the less prominent "social" or exchange form of the division of labor, is resolved in an astonishing manner. In the final portion of the first chapter we find the oft-quoted passage inviting us to ponder the material world of the laborer:

...the different parts of his dress and his household furniture, the course linen shirt which he wears next to his skin, the shoes which cover his feet, the bed which he lies on...the kitchen grate upon which he prepares his victuals...

No less, our attention is directed to the coal with which he prepares his food "dug from the bowels of the earth and brought to him by a long sea and a long land carriage."<sup>195</sup> The extraordinary things about this passage is that although phrased in terms of the "advantages" of the single laborer, the picturesque language admits of no individual exertion. Objects are somehow "dug," and, whilst the common man awaits, these objects are directly "brought" to him -- despite all manner of arduous difficulty. Not only is the laborer distanced from the principle of labor, but also from the requirements of exchange. Hence, the heady and vertiginous sense evoked by the passage.

Smith's phrasing may be fruitfully compared to a similar passage in Bernard Mandeville's *Fable of the Bees* with regard to the procurement of goods. In this

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195 Smith, *Wealth of Nations*, p. 16.

passage, we are invited to "reflect on the toil and hazard that are to be undergone abroad, the vast seas we are to go over, the different climates we are to endure, and the several nations we must be obliged to for their assistance."<sup>196</sup>

Mandeville's account, we may note, does not produce the same effect as Smith's; it is more continent, as anchored by not only the sobering mention of "obligation," but a string of pronouns. In Smith's version, "we" are ever so far from the scene of the factory -- suspended, as it were, in a nether realm between the two forms of the division of labor. The idea of "opulence" in this scenario takes on a new inflection -- as pure *gratis* it creates a new and extraordinary form of absolute surplus. In Smith's account, the humble objects of "opulence," outflank both direct labor and exchange, appearing, as it were, out of thin air. One lacks immediate obligation to one's fellows, and matter itself is made to exude an almost mysterious atmosphere -- mere coal, linen shirts and stove-grates become objects worthy of astonishment. This *mis-en-scene* depicting an indisputably ideal expression of both production and

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196 Mandeville, *The Fable of the Bees: Or Private Vices, Publick Benefits* [1732] vol. II (Oxford: Clarendon Press, 1924), p. 335. Compare also to Locke's discussion of the division of labor in "Civil Government", §43.

exchange through their absolute negation, overwhelming both issues of magnitude and the awkward relation between the division of labor in production and the division of labor expressing itself through exchange. Indeed, an alternate variant of an invisible hand is here suggested, a resolution of plot complexities, a *deus ex machina*. Through such macrological superaddition, the worker, the common man, here somehow obtains something for nothing, a strange turn indeed on the "unearned increment" of capitalist production. In this apotheosis of the division of labor, labor itself is transmogrified, or rather, completely transcended.

The passage with which Smith closes the chapter likewise contains hyperbole of some significance:

...if we examine, I say, all these things, and consider what a variety of labor is employed about each of them, we shall be sensible that without the assistance and co-operation of many thousands, the very meanest person in a civilized country could not be provided, even according to what we very falsely imagine, the easy and simple manner in which he is commonly accommodated. Compared indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy, and yet it may be true, perhaps, that the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African King, the absolute master of the lives and liberties of ten thousand naked savages.<sup>197</sup>

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197 Smith, *Wealth of Nations*, p. 16.

The hyperbolic language is, again, symptomatic of the limitations and difficulties of the chapter at large, while the nature of the "opulence which extends to all classes" here takes another turn. A strange atmosphere is at work -- only a few sentences have elapsed since it was established that the "most mean" had at one's disposal the labor of hundreds, nay, thousands. Now, the "meanest of persons," who in the prior passage did not need to divest in order to receive, nor labor in order to possess, is now positioned in a sphere in which economic "opulence" runs closely alongside a form of dominion -- "absolute mastery." Through this juxtaposition, there is a suggestive blurring between the authority of rulership and that authority conferred by the "command" of objects. As availed by the labor of thousands, the priveleged notions of "cooperation and assistance" are, in the final instance, posed in a language that is strikingly autocratic.<sup>198</sup>

The notion of production as the pivot of economic analysis lays the ground for a material world that is no longer constituted by a finite set of objects which

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198 An interesting parallel may be drawn between the rhetorical tone of the above passage and the position, held in some quarters, that Smith's labor theory of value is essentially a theory of the *disutility of labor*. See for example, Marian Bowley, *Studies in the History of Economic Theory Before 1870* (London: Macmillan Press, 1973).

are to be contested at the expense of one another, but a realm of *potentia* in which all possess the capacity to gain, as conferred by the essential quality of labor.<sup>199</sup> In the *Wealth of Nations*, the division of labor is made to assume the burden of the concept of production *en toto*.

The division of labor in production, which, as argued, is necessarily a form of incrementalism, is conceptually contrary to Smith's tendency in this chapter to emphasize the absolute and universal idea of "opulence" -- the pivotal promise of the *Wealth of Nations*. In other words, this gap between the form and the content of the chapter is also the breach between an ideal of absolute magnitude and the limits of incremental necessity. The ability of the division of labor to shoulder the larger claims of the *Wealth of Nations* is thus, as suggested, arguable. The conceptualization of the division of labor must, for this very reason, be fortified against further potential diminution, as represented by the vicissitudes of exchange as the necessary and defining characteristic of the "social" division of labor -- as opposed to that which is autonomous. Once again, the

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199 As opposed to the mercantilists who only regarded the "objective essence of wealth" (money), Smith, as Marx writes, discovered in labor the "subjective essence of wealth."



ideal of production is rendered structurally and conceptually ambiguous because of the necessary entry into the social form.

On one hand, Smith initially resists acknowledging fully the social division of labor, in instances we have noted above. However, the social division of labor serves a specific, if understated, purpose. As conceived as a mere formal distributive element, this form of social transaction serves as a bulwark for a significant part of Smith's argument. Namely, the presentation of wealth as an "opulence" which is "universal," that is to say, mutual and cooperative.<sup>200</sup>

Now, the appearance of exchange as a means to reinforce the fundamental principle of mutuality can only be so by assuming a form which is made to appear specifically and solely as a function of simple distribution; hence performing a broadly "equalizing" function. Suffice it to say that the category of profit is nowhere sighted in this spontaneously promulgated "universal opulence."

As we will recall, each individual has a "great quantity" ("equal magnitudes") to exchange ("beyond

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200 Halévy emphasizes Smith's use of the division of labor as itself a demonstration of the "theorem of the identity of interests." (*The Growth of Philosophical Radicalism*, pp. 90-91).

what he himself has occasion for").<sup>201</sup> However, the function of distribution as so connected with a general "opulence" is only conceivable if there exists neither nominal forms of mediation, nor the possibility of an excessive individual incremental remainder of exchange -- of course, in this context the later is not a problem because production has assumed the preeminent role previously allotted to exchange while the former issue is simply not part of the portrayal. Although Smith interjects the notion of price into the above passage, it will be noted that this already presumes that the labor theory of value is in place; it is inconsequential to the actual argument in this chapter and will not make its appearance until chapter five.

Smith's appropriation of the language associated with pure distribution -- that is, associated with the first paradigm of exchange which is only fully enacted as mutuality without individual gain, through the barter form -- is involved in one other way. Namely, that the nature of the "wealth" discussed is characterized as not a monetary gain, but, as for Quesnay, a gain in goods. The magnification of the qualities of certain quotidian commodities -- the pin, the linen shirt -- are telling of the preeminence granted to this form of "wealth."

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201 Smith, *Wealth of Nations*, p. 15.

In short, Smith's portrayal of exchange presents no trace of the possibility of the excesses of exchange; the numerical demands of equal exchange are absorbed, first, by the "universal abundance" which conditions the tone of the chapter, and, when exchange is invoked, employs the vernacular of a distributive or barter form. In this way, problematic excesses or individual advantage are not to be found in this chapter -- only circulating magnitudes of "abundance."

B. Exchange: "Of the Principle Which Gives Occasion  
to the Division of Labour"

As illustrated in the prior chapter, the division of labor, although asserted as a source of a mutual "abundance," is positioned -- if at times somewhat tenuously -- as the central productive factor in the first chapter of *Wealth of Nations*. In this initial chapter, exchange is broadly positioned as a neutral element of *distribution* -- as befits its secondary status. For as we are told at the onset of chapter two, the division of labour is the *consequence* of "the propensity to truck, barter and exchange one thing for another."<sup>202</sup> Smith's effort to craft a neutral role for exchange which does not encroach upon the import of the principle of production is underscored by the order of

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202 Smith, *Wealth of Nations*, p. 17.

these first two chapters: despite the fact that for Smith, exchange conceptually precedes the division of labour, he places the chapter on exchange after the chapter treating the division of labor. The same impulse may be observed with regard to the fact that no direct mention of "exchange," the principal subject of Smith's second chapter, is permitted to enter into the chapter's title, "Of the Principle which gives Occasion to the Division of Labour" -- an omission which serves to likewise maintain the emphasis on the reigning principle, "production."

The "propensity" to exchange, Smith tells us at the beginning of chapter two, is either "one of those original principles in human nature, or...as seems more probable...the necessary consequence of the faculties of reason and speech."<sup>203</sup> Smith poses exchange as a function of "expediency" -- we have simply not the time "on every occasion" to venture other forms of appeal, or to rely on the "benevolence" of others.<sup>204</sup> Such expediency, Smith tells us in language echoing that of the prior chapter, is crucial due to the vast numbers of persons with whom one necessarily transacts: "In civilized society [he] stands at all times in need of

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203 Smith, *Wealth of Nations*, p. 17.

204 Smith, *Wealth of Nations*, p. 17.

the cooperation and assistance of great multitudes."<sup>205</sup> The human species is thus differentiated from all others "who seem to know neither this nor any other species of contracts."<sup>206</sup> To the degree that animals act in consort, it is merely the result of an "accidental concurrence of passions"; indeed, "Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog."<sup>207</sup>

Smith associates the capacity for speech specifically with the potential for persuasion. The introduction of persuasion appears to be not entirely confluent with this context, for it weakens Smith's first portrayal of exchange, as appearing in chapter one, as a spontaneous facilitation or rather, a *diffusion*, of "great opulence." As enacted through persuasion, one can not simply and instantaneously

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205 Smith, *Wealth of Nations*, p. 17.

206 Smith, *Wealth of Nations*, p. 17.

207 Smith, *Wealth of Nations*, p. 18. Animals, bereft of speech, and those humans who have nothing to exchange, must resort to other "servile" means: "a spaniel endeavors by a thousand attractions to engage the attention of his master" while "Man sometimes uses the same arts with his brethren... endeavor(ing) by every servile and fawning attention to obtain their good will." (Smith, *Wealth of Nations*, p. 18).



exchange, rather, one must be *persuaded to exchange* -- despite the occasions provided by the surpluses created by the division of labor.<sup>208</sup>

The notion of persuasion is nonetheless pivotal to the passage which is the famous centerpiece of chapter two:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.<sup>209</sup>

The astonishingly blunt pronouncement of "self-love" marks this passage as the scandal of the Smithian corpus. As a depiction of a willful assertion of self-interest in the act of exchanging, this passage is startling -- not only for the vigorous assertion of

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208 Smith, *Wealth of Nations*, p. 18. The association of the "expediency" of exchange with speech in this particular form, appears to tax aspects of his account, namely the very possibility of "expediency" itself.

209 Smith, *Wealth of Nations*, p. 18. The significance of this passage is described by Kenneth Lux, who sees it as representing "The very core of Smith's work, the idea that is taken to be the essence of his contribution... This statement is so important that it could fairly well be said that if one were to choose a statement that most characterizes the transition from the thinking of the Middle Ages to that of modern economic society, it would be this. It is this statement that represents the epochal significance of Adam Smith as a philosopher and as the fate of economics." (*Adam Smith's Mistake: How a Moral Philosopher Invented Economics and Ended Morality* [Boston: Shambhala, 1990], pp. 24-5).

self-interest, but also because of the context against which this "self-love" is juxtaposed. This is to say, the objective of the self-interest is indeed no more than the simple procurement of an evening meal, a modest intent situating "self-love" in the service of a most benign purpose. Indeed, once the aim of the transaction is perceived to be merely mutton, the proclamation of "self-love" appears rather puffed-up in this otherwise minute drama.

The revelation of the aim of the transaction, however, lends no directive which might illuminate a fundamental obscurity; for it is quite impossible to ascertain from Smith's description if the transaction portrayed is mediated by coinage or if it suggests a barter transaction. Smith has, however, already signalled an indifference to such a distinction in the very beginning of the chapter where he quite speedily -- by the second sentence, in fact -- collapses the different forms of exchange into one single "propensity": thusly "to truck, to barter and to exchange."<sup>210</sup> Since each form is thus itself rendered interchangeable, what sort of an equivalency, then, can

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210 Smith, *Wealth of Nations*, p. 17. "Trucking" is generally associated with the barter form: "trading by exchange of commodities, barter..." "truck-economy is the term used to denote the period which precedes the use of money." (*Oxford English Dictionary*, s.v. "truck").

be said to exist within this transaction, in which the only certain medium of exchange involves the vagaries of "persuasion"?

We may begin an answer to this question by noting that in Smith's depiction, we see none of the common pejorative connotations associated with the role persuasion may assume in an exchange transaction, specifically, as some form of duplicity, dishonesty or "sharp practice." This is because the principal goal of Smith's use of this notion is something other than a simple assertion of "self-love." The significant point is not so much the manipulation of the other transactor's perception of advantage to suit oneself, as, more significantly, that it establishes a *particular sort of identity* between the two transactors. That money is omitted from Smith's account of exchange -- not only in this episode but throughout the chapter -- is, in fact, fundamental to grasping what I perceive to be the significance of this portrayal of the exchange transaction. Namely, the introduction of a version of adventitiousness rendered autonomous from exchange-value.<sup>211</sup> Were money to be present in this encounter, the identity which Smith is

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211 The single reference to money in this chapter is dropped in an aside regarding the beggar who also invariably trades the various objects of charity for "lodging, food or money." (*Wealth of Nations*, p. 18).

here suggesting could not be established. The subtle tenor of barter, a provisioning and distributive expression of exchange conditioning the known elements of the transaction is therefore highly significant.

The absence of money takes on an even greater significance when compared to a passage from the *Lectures*, a passage composed prior to the writing of the *Wealth of Nations*:

If we should inquire into the principle in the human mind on which this disposition of trucking is founded, it is clearly the natural inclination every one has to persuade. The offering of a shilling, which to us appears to have so plain and simple a meaning, is in reality offering an argument to persuade one to do so and so as it is for his interest.<sup>212</sup>

In this discussion of the "disposition of trucking," we find Smith explicitly and unhesitatingly asserting a direct association between persuasion and the money form -- unlike the discretion exercised in the *Wealth of Nations*.

As established in the first portion of this work, the exchange relation, as a transaction of two diverse elements, whether object for object or object for money, can not effect a precise restitution. One

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212 Smith, *Lectures on Jurisprudence* (Oxford: Clarendon Press, 1978), p. 352.

exception was noted earlier, namely, forms of symbolic exchange occurring in particular indigenous communities by which identical objects are exchanged in order to express the renunciation of self-interest.<sup>213</sup> In this instance of exchanging same for same, the economic or "distributive" goal of exchange is rendered moot, along with any possibility of an excessive remainder. Smith's account of exchange, in a variant twist, involves a material transaction, but he has structured it in such a way that it takes on an intangible existence. Smith presents us with a purely abstract transaction, which, as creating an occasion for a precise repetition, posits an absolute and irrefutable "equalization." This "equalization," as effected by the substitution of one's own "self-love" for that of another, uses an intangible -- persuasion -- as the medium of reflexivity. Because the advantaging is *itself rendered as transactable it is therefore neutralized*. Herein lies the origin, and indeed, the very and possibility, of the famous solipcisms: "to prevail is to interest another's self-love in one's own favor" and "to show them that it is for their own advantage to do for him what he requires of them."<sup>214</sup> In order to be rendered as non-excessive, the modality

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213 See above, p. 1, nt. 1.

214 Smith, *Wealth of Nations*, p. 18.

of exchange is thus cast in an abstract form, creating a matrix of transposition through which an *interchangeable pseudo-economic subject is created*.

Here, the emphasis of the transaction shifts from the matter transacted to the actors who transact, and consequently, the exchange transaction is rendered *meta-economic*.

The removal of quantity from the transaction is aided by two implicit forms of exchange -- forms which are directly or indirectly associated with the barter form. This innovative chapter is thus propped up with the most rudimentary forms of economic practice. These elements, taken from the paradigm of exchange as mutual and beneficial, are subtle, but pervasive. One is cued by reference to use-values, "necessities," mutton, as well as the specious relevance of the inability of dogs to barter bones, as well as the insertion of the medium of "persuasion" as the pivot of the exchange transaction. Although these forms position exchange as material transaction, the modality of exchange is thus prevented from expressing itself in a form which assumes a social expression of quantitatively, that is, exchange-value. Through this removal of quantity in the transaction, the possibility of individual pecuniary gain is likewise foreclosed. Smith's



insertion of self-advantaging is notable (recall again the hyperbole of the central exchange passage) if, as the premise of the *Wealth of Nations* asserts, *the source of gain is not to be had within the realm of exchange but in that of production?*

Through the dematerialization of the exchange transaction, which leaves only the act of transacting, it is demonstrated that the exercise of such propensities as "interest" and "self-love" do not culminate in individual advantage. Through an emphasis on the transaction as a purely formal and mechanical equation, "mutuality" is redefined not in terms of equal gain, but of the *equal desire for gain*.

"Advantage" is thus now not an unequal or unfair quantity or increment, but a perception. Thus, in a first instance, the transaction is unquantifiable; and, in a second, the formal mechanism of a transactive substitution carries the weight of the idea of exchange -- *qua* transaction and not as matter transacted. The non-quantitative exchange transaction, under the auspice of "production," provides a matrix for this interchangibility, as a portrayal of the harmonious relation between self-interested transactors. Smith has executed a remarkable maneuver. He has secured not

only a new ground of "equalization" in exchange, but has introduced the idea of advantage in such a way so as to establish a contained influence.

Smith's stance in chapter two, and the strain it portends, becomes all the more evident when juxtaposed with the chapter which formally introduces money to the *Wealth of Nations*. Because the portrayal of money as an equalizing medium preserves the issue of exchange as an equilibrium removed from issues of inequality or disequilibrium, it is unsurprising that money is presented by Smith as simply a medium of exchange, by which "necessities" and "wants" are met, traceable along a single trajectory of function from salt, shells and tobacco to metal coinage, selected for its durability and divisibility.<sup>215</sup> It is instituted, we are told, to "avoid...inconveniency."<sup>216</sup>

Given what we have already seen, this representation is not astonishing, as fitting with the situation of exchange as itself performing a distributive or circulative function. There is yet, however, something of considerable interest in this chapter. For all of Smith's evasiveness with regard to

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215 Smith, *Wealth of Nations*, p. 27. In the second chapter of Book II Smith will return to the topic of money in a more detailed fashion, in order to more directly counter particular mercantilist presuppositions.

216 Smith, *Wealth of Nations*, p. 27.

the presence of money in chapter two, it is quite remarkable to now witness a retroactive "clarification":

But when the division of labour first began to take place, this power of exchanging must frequently have been much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former would consequently be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them.<sup>217</sup>

We now return to the pivotal exchange scenario, with one primary modification: the prior medium of the exchange, persuasion, is ejected. Money is now interjected as the mediating form, *post facto*:

The butcher has more meat in his shop than he can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange, except the respective productions of their respective trades and the butcher is already provided with all the bread and beer he has immediate occasion for. No exchange can, in this case, be made between them.<sup>218</sup>

In this discussion, the role of persuasion, unsurprisingly, is truant, and no possible means or suggestion of "advantaging" is present. The retroactive insertion of the money form into chapter

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217 Smith, *Wealth of Nations*, p. 26.

218 Smith, *Wealth of Nations*, p. 26.

two underscores the obstructive capacity of exchange-value to Smith's preeminent goal in the first section of the *Wealth of Nations*, that is, to establish a foundation for "the doctrine of the mutuality of interests."<sup>219</sup>

### C. Barter and the Labor Theory of Value

Classical theories of exchange-value are, strictly speaking, a means of imposing order upon exchange beyond that which is granted by the nominal expression of value, money. Smith's labor theory of value appears as a means of directly employing the reigning principle of production to confine and define exchange-value. Smith's theory of value, which asserts that value in exchange is found in labor, and that only labor can measure it, expresses Aristotle's demand that the objects exchanged be *essentially, not merely conventionally* equalized.<sup>220</sup>

The goal of equalization which such a theory represents, however, is a problem which Smith's emphasis on production as the source of gain has ostensibly rendered moot. Moreover, such a theoretical

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<sup>219</sup> See above, p. 16.

<sup>220</sup> Smith is credited by Marx for recognizing labor as the constitutive essence, the *einfach substanz* of commodities.

effort is not analytically congruent with the work at large. As Schumpeter notes, Smith "wanted a price theory by which to establish certain propositions that do not require going into the background of the value phenomenon at all."<sup>221</sup> Given this, why indeed is the topic of value treated at all? The labor theory of value as presented by Smith in the *Wealth of Nations* serves, first and foremost, to reassert the primacy of the principle of production as the origin of all wealth, as first advanced by the division of labor.<sup>222</sup> However, there could also be a second purpose. In chapter five of Book I, Smith introduces his two basic formulations, "labor embodied," a definition of value through production, as defined through the labor contained in an object; and secondly, "labor

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221 Schumpeter, *History of Economic Analysis*, p. 22.

222 Smith, *Wealth of Nations*, p. 1. As Eric Roll writes, "The great advance in economic thought which is due to Smith is the emancipation from mercantilist and physiocratic fetters. For two hundred years economists had been searching for the ultimate source of wealth. The mercantilists had found it in foreign trade. The physiocrats had gone further and had shifted the origin of wealth from the sphere of exchange to that of production. But they had still remained confined within one particular form of production, agriculture. Adam Smith, building on the foundations of Petty and Cantillon, effected the final revolution. With him labour as such becomes the source of the fund which originally supplies every nation." (*A History of Economic Thought*, 3rd ed. [Englewood Cliffs, N.J.: Prentice-Hall], p. 154). See also Schumpeter, *History of Economic Analysis*, p. 558, and Ronald Meek, *Studies in the Labour Theory of Value* (New York: International Publishers, 1956).

commanded," a definition of value through exchange; that is, as the amount of labor one can acquire through the exchange of the object.<sup>223</sup> As Smith writes, all value is rooted in an originary act of labor and, as such, value may be traced, if at least in principle, to this moment of origin:

What is bought with money or with goods is purchased by labour, as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase that was paid for all things. It was not by gold and silver but by labour, that all the wealth of the world was originally purchased.<sup>224</sup>

Here, production and exchange-value are drawn by Smith into an initial accord through an originary act of labor. Although labor is "precisely equal" to a quantity of labour which it can enable one to purchase

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223 Smith begins by again returning to an emphasis upon the narrow capacity of each to fully furnish one's "necessities and conveniencies"; one is thus rich or poor according to the quantity of labour one can *command*, or one can afford to purchase. "Once the division of labour has thoroughly taken place, it is but a very small part of these which a man's own labour can provide him." (*Wealth of Nations*, p. 34).

224 Smith, *Wealth of Nations*, p. 34. Cf. David Hume, "everything in the world is purchased by labour". ("Of Commerce," collected in *Essays*, ed. E. Miller (Indianapolis: Liberty Fund, 1985)).



or command,"<sup>225</sup> value is not commonly estimated by labour because of the difficulty of measuring it. The "different forms" of labour are therefore adjusted to one another not by a precise method, but by a "higgling and bargaining of the market... which though not exact is sufficient for carrying on the business of common life."<sup>226</sup> Secondly, because commodities are more commonly exchanged for other commodities than for labour, they are most commonly compared with commodities:

It is more natural, therefore, to estimate [a commodity's] exchangeable value by the quantity of some other commodity than by the labor which it can purchase. The greater part of people too understand better what is meant by a quantity of a particular commodity, than by a quantity of labour. The one is a plain palpable object; the other an abstract notion, which, though it can be made sufficiently intelligible, is not altogether so natural and obvious.<sup>227</sup>

However, when "barter ceases" and "money has become the common instrument of commerce, every particular commodity is more frequently exchanged for money than for any other commodity."<sup>228</sup> As Smith continues:

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225 Smith, *Wealth of Nations*, p. 35.

226 Smith, *Wealth of Nations*, pp. 35-36.

227 Smith, *Wealth of Nations*, p. 36.

228 Smith, *Wealth of Nations*, p. 36. The comments following this summation, however, could not have been in any way anticipated -- a second retroactive incursion into the butcher-baker scenario. Again, the

...it comes to pass that the exchangeable value of every commodity is more frequently estimated by the quantity of money, than by the quantity of labour or of any other commodity which can be had in exchange for it.<sup>229</sup>

The fundamental problem in Smith's account is that he performs a circular series of assertions which fail to define value-in-exchange in terms of labor.

Instead, one manifestation of exchange-value is used to measure another, only prompting a return to the initial problem. In the end, the "real" price of commodities is also the price in labor; the nominal price is the price in money; and with regard to labor, the "real" price is the price in goods.<sup>230</sup>

In the account of the labour theory of value in chapter six, we find another example of a pre-currency exchange -- although unlike the account in chapter

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absolute lack of a role for persuasion may be noted: "The butcher seldom carries his beef or mutton to the baker, or the brewer, in order to exchange them for bread and beer; but he carries them to the market where he exchanges them for money, and afterwards exchanges that money for bread and for beer. The quantity of money which he gets for them regulates too the quantity of bread and beer he can afterwards purchase." (Smith, *Wealth of Nations*, p. 36.)

229 Smith, *Wealth of Nations*, p. 36.

230 Despite all, at the end of the discussion Smith reasserts his position: because money varies in value, labour is thus the only stable and unvarying factor which enters into exchange. (*Wealth of Nations*, p. 37.) The problems are, however, prohibitive enough for Smith to use corn, not labor, in his actual analysis. (*Wealth of Nations*, p. 43).

two, the transaction is clearly demarcated as such, existing in "that early and rude state of society."<sup>231</sup> Smith's account in this chapter provides a demonstration that affords an alternative attempt to reconcile labour embodied and labor commanded. As Smith begins, "the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule of exchanging them one for another."<sup>232</sup> Further,

If among a nation of hunters, for instance it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days' or two hours' labour should be worth double of what is usually the produce of one days' or one hours' labour. In this state of things, the whole produce of the labour belongs to the labourer; and the quantity of labour commonly employed in acquiring or producing any commodity is the only circumstance which can regulate the quantity of labour which it ought commonly to purchase, command or exchange for.<sup>233</sup>

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231 That is, which "precedes both the accumulation of stock and the appropriation of land." (Smith, *Wealth of Nations*, p. 43).

232 Smith, *Wealth of Nations*, p. 53.

233 Smith, *Wealth of Nations*, p. 54. Cf. Schumpeter, *History of Economic Analysis*, pp. 188-89, 310. In the subsequent history of economic thought, the split between labor embodied and labor commanded is carried on by Ricardo and Malthus, respectively. The third direction of the analysis is the socialist critique of the surplus extraction of labor.

A view of an essential and original economic condition is here presented to the reader via the barter form of exchange.

Exchange, expressed non-quantitatively, creates a union of the labor embodied and labor commanded forms, a synthesis not fully enacted in Smith's prior attempt at reconciliation. Transactivity no longer disrupts the essence of production but now is manifested in the object, not as a theory of value, but through the blurring of production and exchange in labor as a mixed form of "acquisition." As permitted by the absence of quantitative forms, the barter transaction absorbs attendant deficiencies, difficulties, and dissimilitudes. Smith's essentialized labor in the primordial state shows an ideal form of unmediated acquisition, one that may be seen as somewhat of a companion to the strange fable of acquisition which ends the discussion of the division of labor. Moreover, in this example we see barter sliding imperceptibly into the sphere of pure opulence, negotiating the [u]topos between production and exchange, whereby a transmutation which includes and exceeds the invariable slippage of the identity of simple exchange is effected. Blurring the spheres of exchange and production, this evokes what for Aristotle would be an ideal form of *chremistiké*.

Smith's theory of value asserts a "real" exchange-value in opposition to the nominal expression of exchange-value, which, as an independent feature, exists as mere "appearance." The price mechanism, which affords the structural distributive schematic of the *Wealth of Nations*, is the structure which takes up the task, after the terminus of the labor theory of value, of finding and representing the exchange-value ("price") which is "real" to the exclusion of the spurious form. The price mechanism does not thereby absolutely treat the issue of exchange value so much as it effectively bisects it: one version of value in exchange is mapped and defined within the analytical structure of the price mechanism, whereas the other expression of exchange-value, as left solely to a singular nominal expression, exists outside the matrix -- and is thus rendered irrelevant to the broader analysis.<sup>234</sup>

Several comments may be made with regard to the relation between the labor theory of value, as the

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234 See Thornstein Veblen's critique of the "animistic" elements in Smith's use of the word "real." ("The Preconceptions of Economic Science," *Journal of Economics* XIII, July 1899. Reprinted in Veblen, Marx, Race, Science and Economics [New York: Capricorn Books, 1969]).

essential representation of labour which is to provide an equalizing order to the exchange transaction, and the price mechanism, the actual analytical matrix of the *Wealth of Nations*. The classical pursuit of theories of exchange-value, as we saw, concerns itself with the alignment of an exchange transaction into an equalized symmetry in which disequilibrium creates an excessive remainder. Smith's price mechanism has as its goal the sale at the "natural price" which, as the economics textbooks attest, is the precise value of bringing the object to market. As Smith's formula runs:  $\text{price} = \text{rent} + \text{wages} + \text{profit}$ . The "real" value is thus worked out outside the immediate exchange transaction, posing an alternative to the strata of demands posed by the problems of fair exchange, as meted out to the labor theory of value.<sup>235</sup> The price-mechanism defers the locus of the analysis outside the exchange transaction; and with it the issue of individual advantage. As such, material gain is now deferred into the market dynamic. This is the essence of the Smithian innovation. No errant actual or

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235 A detour which, as we noted above, is irrelevant to Smith's structural innovation. It nonetheless does gesture, if with little success, to the old issue of value-in-exchange. Exchange-value, as an analytical category is to be altogether jettisoned from economic analysis with the onset of the marginalist revolution. (However, with regard to the role of the labor theory of value in Smith, see Louis Dumont's excellent commentary in *From Mandeville to Marx*).



theoretical excess can register because "price" now incorporates "gain" in the form of "profit" -- precisely because it is now structurally incorporated as the "non-excessive excess" of capital.

The relation between exchange as such and the price mechanism is marked in the relation between exchange-value and profit. Equalization in exchange, as we saw in the essentialized form of the labor theory of value, can not be maintained when exchange-value in the form of labor embodied is introduced into the scheme, which necessarily moves outside of the barter form. In other words, the labour theory of value ultimately fails because it can not withstand the *displacement* into the representational realm, a displacement required if it is to assume the form of exchange-value defined as "labor commanded."

As we also saw in chapter two of the *Wealth*, the element of reflexivity allotted by the formal process of the exchange relation is purely one of process or action. This transitivity of exchange, to the express exclusion of matter, permits the release of exchange from the burden of quantitative equalization. A dematerialized exchange thus serves the most rudimentary necessities of the constitution of profit. In this regard, the failure of the quantitative component, the labour theory of value, is notably

fortuitous. That is to say, the failure of one definition of exchange -- as a quantitative value form -- enables the second manifestation of exchange as pure function.

The very possibility of profit, therefore, precisely as a deferral of gain, relies on this initial (unsuccessful) representational rupture of essential production/exchange into the value form. In this sense, profit also functions as the excess of the inequality of the exchange transaction; although the gap which causes the original theoretical difficulty is now, as it were, availed to other ends.

## CHAPTER IV

### REVERBERATIONS AND ASSESSMENTS

#### A. Barter: "Need," Use and Ambiguity

Barter, as we will recall, is cast by Aristotle as a non-excessive exchange form because it does not rely upon the mediation of coinage which carries the potential of transgressive excess. In the barter transaction, the dissimilitude in outcome is not regarded by Aristotle as dangerous, but as necessary and proper, broadly absorbed through the limits ascribed by need and nature. In the barter transaction, the socially codified quantitative form providing mediation is replaced by a purely distributive function, and as such, is broadly regarded as not quantitatively calibrated, but nonetheless mutual. According to Aristotle, although barter is applicable to pre-political "tribal" associations, because it is devoid of formal quantitative forms of measure it is functionally inappropriate to the acquisitive requirements of political community.

The elements of use and limit associated with barter are employed by Aristotle to contain the quantitative expression of exchange, money and

exchange-value, which possess no inherent limit. The reasoning which directs the employment of use-value in the *Politics* is also that which makes *chreia* so appealing as a solution to Aristotle's treatment of exchange in the *Ethics*. However, as we proposed, although *chreia* and use are employed to define and contain transgressive elements of acquisition, they themselves harbor a significant ambiguity which, if subtle, is not ancillary in its implications. As posed at the conclusion of Part I, Aristotle's analysis in the *Ethics* associates *chreia* with a useful communal "bond." This bond, however, is based not on a precise restitution, but on the adequate or "sufficient" (*hikanos*) accommodation between goods exchanged. The implications of this, as suggested, are quite problematical to Aristotle's schema -- the natural and limited category of "need" is not only incongruent with Aristotle's idea of particular justice as the equal, but also poses a disturbing question with regard to the very underpinnings of political association. There thus exists, in addition to the problems associated with the quantitative elements of money and exchange-value, another difficulty. A problem, that is, which stems from the fact that the most rudimentary elements of exchange, represented by Aristotle as necessary, natural and limited, *reside outside* the domain of

quantitative social representation. The oblique inadequacies of purely qualitative or subjective elements to social representation, as associated with use or *chreia*, are, indeed, the very reasons nominal forms of codification and regulation were initially set in place in order that the material relations of the *polis* could be commonly apprehended and mediated.

The barter form, as an expression of the denial of "the objectivity of commodity exchange," encloses these elements by shielding them from collective observation. As Marx has phrased it, barter is an "*elementary or accidental form of the expression of value*."<sup>236</sup> It is this space of arbitrary or "accidental" value which Aristotle attempts to theorize and clearly demarcate with the notions of use, need and nature, notions which, as we said, for Aristotle, contain their own limit. This sphere related to acquisition, existing outside social, quantifiable representation, is one in which not only the concept of *chreia*, but other related notions, such as *ophelio*, *ameinon* and *sumpheronti*, are positioned to instruct and condition. Such notions, however, inevitably lose their way -- for neither money

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236 Marx, *Capital*, vol. I, pp. 48-49. Also see David Levine, *Economic Theory, Volume One: The Elementary Relations of Economic Life* (Boston: Routledge and Kegan Paul, 1977), pp. 111-112.

nor "nature" can fully define this realm. Smith, however, appropriates this "accidental" space quite differently; by rendering it, one may say, even more "accidental." That this is so may be attributed to Smith's complete effacement of the forms which Aristotle used in attempts to configure or represent the random elements of this exchange sphere. Therefore, although for both the Physiocrats and Smith, wealth is understood to be constituted by tangible goods,<sup>237</sup> Smith dismisses use-value *en toto*. It is dispatched in a few lines at the end of chapter four:

The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the possibility of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other, 'value in exchange.' The things which have the greatest value in use frequently have little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use.<sup>238</sup>

Thus, after utilizing all connotation associated with this notion in chapter two, Smith formally expels the

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237 That is, in direct opposition to the mercantilist emphasis on money as the representative of wealth.

238 "Nothing is more useful than water: but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it." (*Wealth of Nations*, pp. 32-33). See also Cannan's footnote on p. 33.



classical content of "use" from his schema by chapter four.<sup>239</sup> The arbitrary or "accidental" elements harbored with the "beneficial" and mutual relation of exchange are now more fully exposed. Smith simultaneously exploits and constitutes the non-quantitative phenomena, while extirpating the elements which were used by Aristotle to limit exchange-value. Here, the conditions of possibility of an exchangeability not of matter, but of self-interest, may occur. This is to have a subtle but powerful influence upon the reconstitution of this "arbitrary" space existing outside of the realm of quantitative gain.

#### B. The "Adam Smith Problem"

The ambiguity of the exchange transaction, and the modern economic turn it assumes in Smith's *Wealth of Nations* via the collapse of Aristotle's metaphysical imperative, necessarily conditions the topography of Smithean scholarship. This is most patently true for the longest running and most contentious debate issuing from the *Wealth of Nations*.

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239 Despite this formal dismissal of use, Smith's choice of language throughout the remainder of the work is nonetheless punctuated with analogous words such as "necessity." Such mention, of course, is always found mixed with acquisitive opening leading beyond mere sustenance, such as "conveniency" or "occasion."

In the nineteenth-century, the emergence of "das Adam Smith Probleme" among German scholars inaugurated a controversy revolving around the relationship between the presence of self-interest<sup>240</sup> as associated with the *Wealth of Nations* and the sympathy and benevolence found in the *Theory of Moral Sentiments*.<sup>241</sup> The contention over the reconciliation of sympathy and self-interest in Smith's work is a fist-to-cuffs over a subject which, as placed in the context of the intent of the *Wealth of Nations* at large, is relatively puny: the issue revolves not around the character of "mutual opulence," but the affect and intent of the transacting subject. This focus sidesteps Smith's significant

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240 The *Wealth of Nations*, as Max Lerner writes, is founded on the "bedrock" of self-interest. (Introduction, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan [New York: Modern Library, 1937], p. ix). And, as Robert H. Frank remarks, "the modern behavioral scientists' focus on self-interest traces directly back to Adam Smith." (*Passions Within Reason* [New York: Norton, 1988], p. 21). Such an interpretation of the *Wealth of Nations* is widely regarded as the basis of the Chicago School, most notably represented by George Stigler and Milton Friedman, as well as rational choice theory.

241 For an overview of some of the key issues see Richard Teichgraeber, "Rethinking the Adam Smith Problem," *Journal of British Studies* 20 (Spring 1981). The most significant attempt to broach the apparent divergence between the two works is found in A.L. Macfie's *The Individual in Society: Papers on Adam Smith* (Oxford: Oxford University Press, 1967). Jacob Viner's seminal article, "Adam Smith and Laissez Faire," (*Journal of Political Economy*, Vol. 35 [April 1927], pp. 198-232), is, to the contrary, an enduring example of the case against a reconciliation between the two works.

innovation -- the displacement of gain from the immediate exchange form, a displacement which opens a space by which "material" exchange, as now expunged of the issue of value-in-exchange, may be loaded up with all manner of qualitative forms. In this sense, Smith simultaneously creates the conditions for, and the solution to, "the Adam Smith Problem."<sup>242</sup>

One of the more striking approaches to forging a "reconciliation" between the mutuality suggested by benevolence and self-interest is found in the work of Patricia Werhane.<sup>243</sup> Werhane's goal, as she phrases it, is to defend the *Wealth of Nations* against those who charge it with giving "new dignity to greed and a new sanctification to the predatory impulse."<sup>244</sup> Werhane

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242 That the stakes of the debate assume such a pitch over the affective and not on the formally economic elements of his work are indicative of the supplantation of the distributive features of Smith's price-mechanism by neo-classical economic models.

243 Patricia Werhane, *Adam Smith and His Legacy for Modern Capitalism* (Oxford: Oxford University Press, 1991), p. 92. The text will be referred to hereafter as ASL. Werhane's argument is a variation of P.L. Danner's "Sympathy and Exchangeable Value: Keys to Adam Smith's Social Philosophy," *Review of Social Economy* 34 (1976), pp. 317-331, and Robert Boynton Lamb's "Adam Smith's System: Sympathy, Not Self-Interest" *Journal of the History of Ideas* 35 (1974), pp. 671-682.

244 Lerner, Introduction, *An Inquiry into the Nature and Causes of the Wealth of Nations*, p. ix. George Stack suggests that the view of predominating self-interest is the one most commonly held in the Smithean literature. "Self Interests and Social Value," *Journal of Value Inquiry* 18 (1984), pp. 123-137.

seeks, in turn, to expose elements in the *Wealth* which are in accord with the benevolence and sympathy of the *Theory of Moral Sentiments*.

Werhane begins her appraisal with the observation that in the *Wealth of Nations* the term "self-interest" appears usually in the context of "individual economic exchanges," and directs our attention to the "single exchange transaction" portrayed in the butcher-baker passage in chapter two of the *Wealth*.<sup>245</sup> This passage is of special import, as she tells us, because it is commonly used in defense of the thesis that "self-interest...is the dominant motivating force in the *Wealth of Nations*."<sup>246</sup> According to Werhane, although self-interests "appear to dominate" in the butcher-baker passage, cooperation is "both natural and essential."<sup>247</sup> In support of this effort to draw out elements of "mutual and cooperative" elements in the *Wealth of Nations*, Werhane cites, first, the "non-adversarial" nature of exchange, and by way of emphasis, directs our attention to the role played by persuasion in the butcher-baker scenario. Next, Werhane cites Smith's examples of the distributive function of commercial exchange -- such as relations

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245 Werhane, *ASL*, p. 92.

246 Werhane, *ASL*, p. 92.

247 Werhane, *ASL*, p. 94.

between city and country by which cities provide the country with finished manufactures and the country provides the city with raw materials.<sup>248</sup> The result: "both thus gain from such...mutually advantageous arrangements."<sup>249</sup>

Given the presence of cooperation within the purportedly self-advantaging exchange transaction, the "best" definition of self-interest, Werhane concludes, is that of Lionel Robbins who renders self-interest not as selfishness, but as "personal interest." Werhane, after Robbins, describes this "personal interest" as "only the interests of the individual concerned in the matters with which he is most intimately concerned."<sup>250</sup>

This definition gives forceful expression to the distance between the modern and the classical understanding of self-advantaging -- dangerous *precisely to the extent that it enacts an encroachment upon another.*<sup>251</sup> As we have seen, this maneuver was

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248 Werhane, *ASL*, p. 94.

249 Werhane, *ASL*, p. 94.

250 Werhane, *ASL*, p. 89. Robbins is quoted from his *Political Economy: Past and Present*, Vol. 1 (London: G. Routledge & Sons, 1946), p. 180.

251 For this reason, the choice of some modern translators to use the phrase "self-interest" to translate *pleonexia* is less than optimal. For a succinct example of the modern conception, see for example, the fourth chapter of Eric Fromm's *Man for Himself: An Inquiry Into the Psychology of Ethics* (New York: Holt, Rinehart & Winston, 1966).

effected by Smith's transactable self-interested subject. In Werhane's instance, however, the logic which conditions and limits Smith's transacting subject is pressed further through the positing of sphere of autonomy for the self-interested subject. In this realm of privacy, self-interest, in any conceivable form, is not so much redefined as sheltered by a zone which absorbs both motives and ends of self-interest. As such, the "personal concerns" which make up self-interest are made to occupy an unassailable bastion, a neutral sphere preserved from the rigors of representation. By way of one comparison, the ostensive goal (and foil) of the transaction in Smith's account of the encounter between the butcher and the baker is the procurement of mutton; in Werhane's account, this tangible object gives way to "concerns" which are ineffable. (And, if this is not sufficiently impervious to scrutiny, one may be repelled simply by the vague prurience of "intimate" concerns.

A primary discrepancy is thus presented. Werhane asserts the self-interested subject on the one hand, as a cooperative, exchanging being. Yet, on the other hand, this self-same subject is presented as occupying a sovereign sphere.<sup>252</sup> That this sphere of private

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252 Werhane's obliviousness to this fundamental discrepancy in her argument is staggering. The confusion which ensues from the employment of an



interest is truly impermeable is indicated by the inclusion among "personal" concerns not only the obligatory Smithian categories of "self-betterment" and "approval-seeking" but Werhane's highly peculiar catch-all for the demands, actual or conceptual, of intersubjectivity: "intimate social interests."<sup>253</sup> In this distention of the notion of privacy, the self-sufficient autotelic subject coopts its negation and limit, the "social," within its own inscrutable confines.

Given that the point which Werhane sets about to establish is the essential role of cooperation in the *Wealth*, this argument crafts a curious train of events. At the root of the tension in Werhane's account between "cooperation" and an autonomous realm of "intimacy" is a fundamental deviation from Smith's argument. As we will recall, early in the discussion Werhane locates self-interest in the realm of "appearances" while positing cooperation as the underlying element of the transaction: although self-interests do "appear to dominate" cooperation is "both natural and

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autotelic self-interest to organize an argument which is purportedly based on cooperation produces strange results. Nonetheless, in one instance we find Werhane proclaiming that "economic exchanges cannot operate in the vacuum of self-interest." (Werhane, *ASL*, p. 89).

253 Werhane, *ASL*, p. 95. (*italics added.*)

essential."<sup>254</sup> I will argue that this appearance/essence split is central to the significance of Werhane's conception of "self-interest."

Werhane's impulse (at least in the portion of her argument that treats the issue of cooperation), tries to argue from the position that the defense of the *Wealth* must consist of drawing these "essential" elements to the surface. As Werhane ventures: "I will suggest that it is the desire to cooperate which drives the impulse to exchange."<sup>255</sup> Smith, as we will recall, does not assert cooperation as the impulse which drives exchange. Instead, it is an obtuse "propensity" which serves as the founding impulse to "truck, barter, and exchange."<sup>256</sup> This is to say, for Smith, the impulse to exchange is ultimately founded upon a *sub-rational process*.

To attempt, as does Werhane, to draw cooperation to the level of transactive appearances and intentionality, is anathema to the requirements of Smith's project. At one end of the schema, the

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254 Werhane, *ASL*, p. 94.

255 Werhane, *ASL*, p. 95.

256 Although arguing that "our natural desire to cooperate motivates us to barter with other individuals," the order of such originary impulses is elsewhere inverted: "I suggest that it is the natural interest in trading with others that triggers such cooperation." (Werhane, *ASL*, p. 92).

intentionless "propensity" founding the exchange transaction permits the free-rein of self-interest ("appearances"), to emerge in a two-fold outcome: materially, as profit, and ideologically as "common advantage." The outcome of the Smithian process, from the vantage point of the individual, is that of Goethe's Mephistopheles, unintended and unforeseen. As Smith tells us in the famous phrase, the individual is often deceived, "led as it were by an invisible hand" to contribute toward a greater good.<sup>257</sup>

The negation of the centrality of unintended social outcomes resulting from intentional acts of self-advantaging to the structure of Smith's argument is here negated by Werhane, whose effort to reconcile appearance and essence appears, at this moment, somewhat Aristotelian. As such, Werhane's attempt to reconcile appearance *qua* self-interest and essence *qua* cooperation, may be also phrased as the effort to unify these two aspects within the *single exchange transaction*.

Because Werhane denies both the space of deferral and subsequently the location of the excessive remainder, she may be said to be working exclusively

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257 See in particular Book III of the *Wealth*. Compare also to Part IV, chapter 1 of *The Theory of Moral Sentiments* with regard to being "led by an invisible hand."

from the *first portion of the Wealth of Nations*. However, because Werhane's account, unlike Smith's, does not posit a space for deferral, the sanctimonious motif leads into a corner: because of the rife mutuality and cooperation, not only is there no place for the very *intention* to profit from another, but there is no place for *individual profit altogether*. Werhane's strict protection of a benign self-interest creates an untenable argument in which efforts to construct an autonomous non-encroaching subject foreclose on the potential for gain *en toto*. Here, the classical anxiety associated with exchange has taken a new, and exceedingly strange, turn.

Werhane's argument, a distillation of the first portion of the *Wealth of Nations*, is a symptom of the broader naturalization of the ideological origins of laissez-faire economics. This naturalization evinces the omission of the quantitative second portion of the work, the portion where individual gain occurs, as well as Smith's often acrimonious commentaries with regard to the capitalist desire for (excessive) profit. It is, indeed, the very success of Smith's innovation that permits such naturalization, a naturalization which is, as suggested, at the root of the "Adam Smith Problem" -- as well as the source of many of its purported solutions.

Because of this naturalization, a curious paradox ensues: on one hand, Werhane exists in a post-Smithean world in which profit and individual gain are already largely absorbed by a deferral into the market structure. However, because of the perceived need to defend Smith -- or rather, to moralize self-interest -- Werhane's own solution, which both distills and distorts Smith's position, casts her back to a pre-Smithean stage of transactive anxiety in which profit is fugitive and transactivity itself raises a threat.<sup>258</sup> Werhane's omission of the role of deferral in Smith's system, as a means to moralize the acquisitive impulses which drive the market, thus tampers with the structural positioning of profit as morally neutral. In the end, the opposition between the autonomous and morally righteous subject marks the impossibility of an absolute gain, while the ideological gap -- which Werhane is trying to close -- necessitates it.

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258 In a related vein, Werhane's "defense" of Smith, arguably, could be protective of a dimly perceived fissure in the ideological logic, one which would create the impulse for a wholesale purging of all vestiges of the unseemly affect of "self-interest."

### C. Conclusion

The exchange form poses a problem to theoretical attempts to represent political community. By tracing the Aristotelian and early modern genealogy of the problem and the concomitant attempts at resolution, we saw that for Aristotle the first approach to the problem was to attempt an equalization of the exchange transaction, and the second, to separate the dangerous and proper forms of exchange. According to Aristotle's schema, the proper, "beneficial" form is associated most unambiguously with barter and "use," while the second, as a potentially adventitious form of pecuniary gain is associated with exchange-value and the politico-social necessity of money. However, in the final instance, Aristotle is unable to maintain a distinction between a proper or limited form of exchange and an instance of excess.

The impulse to resolve the ambiguity of the money-mediated exchange transaction by cordoning off the gainful from the beneficial was given an often ingenious expression by the mercantilists who defined mutual and dangerous forms of exchange in terms of the boundaries of the nation-state: that is, the ambiguity surrounding exchange was "solved" by ejecting material



advantage -- profit -- from the domestic economy and into the agonistic international scene. The physiocrats, in turn, although responsible for laying the foundation for the theoretical shift from exchange to production as the source of gain, could not contend fully with the errant elements of exchange -- which in the final instance were attributed to the guile of the merchant class.

The *Wealth of Nations* marks the ideological resolution of the classical difficulties associated with exchange -- and thus the issue of material distribution in a community -- through a transmogrification of the exchange transaction. The work at hand has delineated three representations of exchange in the *Wealth of Nations*, each of which are distributive and/or non-quantitative. First, Smith's narratives of exchange as spontaneous circulation and distribution, as found in the account of the division of labor; second, the infamous butcher-baker *mise-en-scene* which omits the possibility of individual pecuniary gain while shifting exchange onto a meta-economic level; and third, the use of the barter form in order to effect the only successful expression of the labor theory of value. As I have attempted to show, in the first portion of the *Wealth of Nations* these usages perform, under the organizing aegis of

production, a separation between individual "economic" exchange and quantitative outcome; that is, severing the very possibility of gain from the individual "economic sphere" as represented by the single exchange transaction.

As suggested, the logic associated with the barter form of exchange serves two purposes: first, as a means of formal distribution, it offers a non-adventitious expression of exchange that creates a sphere wherein the imprecisions endemic to the relation between exchange-value and quantitative individual gain are absorbed. Second, the shift from a focus on the matter transacted to a transactability of two self-seeking subjects, creates a pseudo-economic modality of exchange removed from the thorny issues associated with quantitative gain. As such, the omission of socially quantifiable elements permit an ordering of the machinations associated with the "excessive remainder" in accord with the matrix of substitution conferred by the mechanistic notion of exchange. The atavisms of the barter form which permit this pseudo-economic reemergence of exchange as pure transactivity marks both the genealogy and the essence of *laissez-faire* economics -- and as such, the ground of neo-liberal discourse.

As has been argued, in the first portion of the *Wealth of Nations*, the omission of quantitative elements serves to suspend the difficulties associated with exchange-value and the attendant issues of equal exchange. As such, Smith's account in the first portion of the work forestalls the issue of actual material advantage until this alternative to single advantage is introduced, whereby a contained and legitimized form of individual advantage -- "profit" -- ruptures the mutual abundance created by the division of labor. Transposing the moment of gain from the single transaction to a macro level releases the single transaction from the onus of immediate fairness, while placing it under the formal aegis of the price mechanism provides the analytical and structural supplement for the rhetorical maneuvers of the first portion of the work.

Within the matrix afforded by production, the new conception of profit allows a potentially dangerous pecuniary "surplus" to be contained. When systemically purified in such a manner, the moment of individual advantage that was once regarded as dangerous to the community, becomes an occasion for gain hitherto absent. This is to say, Smith forges an accommodation of the paradigms of mutual benefit and individual advantage that Aristotle, the Mercantilists and the

Physiocrats struggled to separate. By means of such a combination of "mutuality" and gain, Smith reascribes the exchange form in the single version as qualitative in one sense, and as purely formal in a second. By thus driving a wedge between quantitative and qualitative forms, Smith's account may be likewise apprehended as the economic expression of Hume's undermining of the classical categories of metaphysics.

Smith's innovation presents a solution to the ambiguity lodged in Aristotle's accounts of exchange; namely, by redefining the adventitiousness which in Aristotle's account appeared as a repressed element existing at the very foundation of the *polis*. In the *Politics*, Aristotle's assessment of the various exchange forms suggested something quite disturbing: because the modality of exchange creates a remainder which can not be theoretically contained nor organically accounted for, the acquisitive ends of the citizen could not be fully distinguished from those of the merchant, who trades expressly for the sake of gain. Smith's innovation permits the voiding of any dangers associated with this ambiguity. Instead, now, as we are told, "every man... becomes in some measure a merchant."<sup>259</sup>

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259 Smith, *Wealth of Nations*, p. 26.

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