ARISTOTLE'S ECONOMIC DEFENCE OF PRIVATE PROPERTY

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Are modern economic justifications of private property compatible with Aristotle's views? Conor McGlynn deftly argues that despite differences, there is much common ground between Aristotle's account and contemporary economic conceptions of private property. The paper explores the concepts of natural exchange and the tragedy of the commons in order to reconcile these divergent views.

Introduction

Property rights play a fundamental role in the structure of any economy. One of the first comprehensive defences of the private ownership of property was given by Aristotle. Aristotle's defence of private property rights, based on the role private property plays in promoting virtue, is often seen as incompatible with contemporary economic justifications of property, which are instead based on mostly utilitarian concerns dealing with efficiency. Aristotle defends private ownership only insofar as it plays a role in promoting virtue, while modern defenders appeal ultimately to the efficiency gains from private property. However, in spite of these fundamentally divergent views, there are a number of similarities between the defence of private property Aristotle gives and the account of private property provided by contemporary economics. I will argue that there is in fact a great deal of overlap between Aristotle's account and the economic justification. While it is true that Aristotle's theory is quite incompatible with a free market libertarian account of private property which defends the absolute and inalienable right of an individual to their property, his account is compatible with more moderate political and economic theories of private property. In this essay, I will focus on two of Aristotle's arguments for private property rights, which can be seen as anticipating later defences of private property.

The Tragedy of the Commons

The 'Tragedy of the Commons' is a problem for property that is held in common between many people. Aristotle formulates this in the Politics as follows: "For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect something which he expects another to fulfil…" (1261b). Property held in common is likely to be neglected by everyone, because the benefit to any one particular individual of maintaining or caring for the commons will not be great enough for them to do so. We can compare this to a more recent formulation of the problem, in relation to pollution: "The rational man finds that his share of the cost of the wastes he discharges into the commons is less than the cost of purifying his wastes before releasing them. Since this is true for everyone, we are locked into a system of 'fouling our own nest' so long as we behave only as independent, rational, free-enterprises" (Hardin 1968: 5). The conclusions of the two formulations are the same: whether the resource in question is the environment or, in Aristotle's example, children who are cared for in common, if they are held in common then their care will be neglected.

Modern versions of the tragedy of the commons tend to be based on the formulation given by William Forster Lloyd in a pamphlet of 1838, and are often set out in terms of game theory. As an illustration, consider 100 families grazing goats on common land. Total milk production is maximised with a thousand goats in total. How many goats should each family keep to maximise its own utility? The apparent solution of 10 goats is not actually the optimal strategy for each family. If a family adds an extra goat to their own herd it will reduce total milk production, but will increase their personal quantity of milk, so it is in their own individual self-interest for families to increase their herds beyond the socially optimal quantity of 10 (Binmore 2007: 66-67). In game theory, this is an example of the 'diner's dilemma', where the individual utility maximising actions of many different agents leads to an outcome that is disadvantageous to all. The tragedy of the commons is that the individuals acting in their own self-interest will neglect the commons, and ultimately this will lead to worse living conditions for all.

While Aristotle's account is not as detailed as such modern versions of the problem, he does reach the same conclusion. There is, however, an interesting difference in Aristotle's account. In modern formulations, the problem is that people will take advantage of a resource that is common to the point where it is no longer usable, for example the use of common agricultural land to the point of desertification. Aristotle gives an opposite formulation of the problem: "Everyone is more inclined to neglect something which he expects another to fulfil" (1261b). For Aristotle, the problem is not that everyone will do what is bad for society if property is common, but rather that no one will do what is good for society. This different formulation gives us an insight into Aristotle's concerns in his ethical and political writings. Aristotle is concerned primarily with people living life well, with eudaimonia, and with having institutions in society that promote virtue. The absence of virtue in a society is for Aristotle at least as undesirable as society that operates inefficiently. This underlines one of the fundamental differences between Aristotle and modern defenders of private property. Modern accounts emphasise the inefficiency caused by the tragedy of the commons, and loss in societal utility it creates. The further tragedy for Aristotle, on the other hand, is the loss in virtue, as people won't do the virtuous act of caring for property under a system of common ownership.

How does Aristotle's argument fare as a defence of private property? The tragedy of the commons has been challenged on empirical grounds. Noam Chomsky disputes whether it gives an accurate description of how the world operates: "The tragedy of the commons [is] a doctrine which holds that collective possessions will be despoiled so therefore everything has to be privately owned. The merest glance at the world shows that the opposite is true. It's privatisation that *is destroying the commons*" (2013). The tragedy of the commons is an argument which should be able to be verified through experience. Ken Binmore points to desertification as verification that common property will ultimately be destroyed: "The Sahara Desert is relentlessly expanding southward, partly because the pastoral peoples who live on its borders persistently overgraze its marginal grasslands" (2007: 67). Beryl Crowe (1969) speculated that while the depletion of common resources might be inevitable on the scale of nation states, a self-enforcing value system in relation to common property might be possible in smaller communities. Ironically, this suggests that the tragedy of the commons is not inevitable in a small city state – the city state being precisely the type of political organisation that Aristotle favours. Nonetheless, Aristotle's observation is apposite: common property will generally not be as well cared for as private property. While Aristotle's ultimate motivation in defending private property in this way – namely the defence of a system which is most conducive to citizens living virtuously – is fundamentally different from the motivations of modern defenders of property, both his argument and his insights are reconcilable with modern economic theories of property.

Natural Exchange

Aristotle's next argument for private property is the argument from natural exchange, which appears in the Politics. A point to note in regard to this argument is Aristotle's use of the term "natural", which, as CCW Taylor observes with wry understatement, is "not entirely unproblematic" (1995: 136). Murray Rothbard, with more forthrightness, describes Aristotle's use of the term as "fallacious" (2009) in its negative attitude towards exchange for the sake of profit and its lack of definition. While the term does at first glance seem to be undefined, I shall argue against these views, and I will attempt to show that the distinction between natural and unnatural exchanges does in fact have a corollary in modern economic theory.

According to Aristotle, natural exchange occurs because "some men have too much, others too little for their needs", and so they will trade with each other, "giving and receiving wine, for instance, in return for corn and other such commodities" (1257a). Aristotle's account of why trade occurs is almost identical to the account given by General Equilibrium (GE) theory, the contemporary economic theory of exchange. According to this theory, exchange occurs because people's initial endowments of goods do not necessarily align with their preferred quantities of goods, given the total stock available, and so by trading with one another everyone can become better-off. People will trade out of their initial endowment into a general competitive equilibrium, where no one has an incentive to trade any further – in other words, they will engage in natural exchange, until they have "enough for their needs". In GE theory, everyone ends up in a Pareto efficient point, where they are optimising their own utility, given the utility and preferences of everyone else. From an initial endowment w, two individuals A and B can engage in trade to move to higher indifference curves, and hence will both be made better-off by trading, as in Aristotle's example, wine for corn. This is precisely what Aristotle means by natural exchange. The point at which the individuals end up is the market equilibrium, and no further trade will occur. In this context, Aristotle's use of the term "natural" doesn't seem so mysterious; a natural exchange is simply one which brings a market into equilibrium.

The extension of Aristotle's analysis of exchange to a defence of private property is then similar to the modern defence of private ownership offered by GE theory, namely that of markets being the best aggregators of information. Markets are means of allocating goods and services and, under the assumptions of GE theory, they do so efficiently. Markets are, in the words of the economist Kenneth Arrow, characterised by coherency brought about by numerous individual decisions; they are information processing machines. This is the intuition behind Adam Smith's invisible hand: that many individuals, each of whom "intends only his own gain" are "led by and invisible hand to promote…the public interest" (1937: 43). In a system of collective ownership on the other hand, goods and services must be allocated by some other means; this almost always means central planning. However, any attempt to centrally plan such allocations, and to do so efficiently, is faced with considerable information problems. It is effectively an impossible task to collect the level of information about individual preferences, relative scarcities, and utility levels that would be needed to even attempt such an allocation of goods. Aristotle realised this problem of getting information about individuals' preferences. Just as different patients get prescribed different medicines by a doctor, so too do different people have different preferences, and they therefore need different things to lead a happy and virtuous life. "Hence it seems that treatment in particular cases is more exactly right when each person gets special attention, since he then more often gets the suitable treatment" (1180b). No one knows what an individual needs to live virtuously, what they need for eudaimonia, better than the individual himself does. Since the individual knows how to live best, the individual should be in charge of deciding what material goods he needs, and so be able to engage in natural exchange to acquire the correct amount of goods.

There is, however, another difficulty with Aristotle's concept of natural exchange, namely the converse notion of unnatural exchange. Aristotle thought there should be limits on the amount of wealth that an individual should be able to acquire, "for the amount of property which is needed for a good life is not unlimited" (1256b). Many modern defenders of private property would baulk at such a notion, particularly since Aristotle includes retail trade for monetary gain in the category of unnatural exchange. Aristotle's notion of exchange is closely connected with his concept of the Mean, the right amount between excess and deficiency that is necessary for a virtuous life. In order to promote virtue, and for the sake of the Polis, property ownership needs to be limited. Libertarian defenders of private ownership who assert an absolute right to property will be scandalised by this proposition, and it will strike many as groundless and inconsistent. In the concluding part of this essay, I will suggest a way in which Aristotle's position might be defended in a modern context.

First of all, we should elaborate on Aristotle's criticism of retail trade. Murray Rothbard writes that "Aristotle, like Plato, was hostile to economic growth and favoured a static society, all of which fits with his opposition to money-making and the accumulation of wealth" (2009). It is a mistake, however, to think that Aristotle was opposed to any and all money-making activities. "What is really salient in Aristotle's condemnation of retail trade is its aiming at unlimited, and therefore a non-virtuous acquisition of goods of any kind at all not merely coin and money" (Grunebaum 1987: 41). Aristotle must have realised the importance and convenience of retail trade in the social life of the city. Indeed, in order for people to engage in natural exchange at all and not to be subject to the double coincidence of wants (where two people happen to meet who just by coincidence want to trade each other's goods) some sort of retail trade is necessary. There is nowhere in Aristotle's work where he suggests so radical a measure as the banning of retail trade. As Grunebaum points out, "There is no reason why retail trade cannot be practiced within virtuous limits" (1987: 42), and we can only assume that Aristotle came to the same conclusion.

What, then, would Aristotle consider to be unnatural exchange? Retail trade, as we have seen, can be natural as long as it is only engaged in to the extent that it aims to fulfil finite and natural needs and desires. Trade that goes beyond this, the pursuit of profit without end for example, is unnatural. There is a corollary of this distinction in modern economics: normal levels of profit versus economic rent. In economics, normal profit is profit that is "just sufficient to keep owners and investors satisfied" (Case et al 2009: 169). In other words, it is the profit level that is enough for the trader to stay in business, but nothing more. Economic rent is defined as "those payments to a factor of production [in this case, the retail trader] that are in excess of the minimum payment necessary to have that factor supplied" (Varian 2010: 424). Economic rent is any profit above the normal level of profit for a firm. In the market system known as perfect competition, economic rent equals zero and in the long-run only normal profits are possible. This outcome is usually considered to be the best from society's point of view; it maximises the welfare of the community. Economic rent arises in market systems such as monopoly, where one firm dominates and can set any price it chooses. This outcome involves a loss to society in terms of welfare, and the community as a whole is less well-off. Firms seeking economic rent engage in rent-seeking activities; this is equivalent to traders seeking unlimited profits in Aristotle's view. While libertarian advocates of the free-market claim that no interference should take place in the case of markets earning economic rent, many would consider the best outcome to be something close to perfect competition. Adam Smith's use of the term 'perfect' in this context was not accidental; he certainly felt that perfect competition was the best outcome, in a moral as well as an economic sense. We can now see that Aristotle's attack on unnatural forms of collecting wealth was not an ungrounded prejudice, but in fact reflects a modern intuition which is built into our economic theories.

Conclusion

J.O. Grunebaum concludes his discussion of Aristotle by saying "the later justifications of private ownership grounded upon free market maximisation of wealth and efficiency are in opposition to the virtue by which Aristotle justifies private ownership" (1987: 46). Robert Mayhew reaches a similar conclusion: "We cannot subsume Aristotle's conception of property under any one modern theory" (19: 831). These statements are true only up to a point. As I have shown, there is a lot of common ground between Aristotle's account and modern economic conceptions of private property. While there are significant differences in motivations, it is a mistake to think the two are irreconcilable. Although it is outside the scope of this current essay to provide a full account of it, I think Aristotle's theory of property is compatible with modern economic defences of property. The sketch provided here hopefully gives an outline of what such a project would entail.

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