

# Aristotle on agency, habits and institutions

RICARDO F. CRESPO\*

*Department of Economics, IAE (Universidad Austral) and Consejo Nacional de Investigaciones Científicas y Técnicas, Pilar, Argentina*

**Abstract.** This paper introduces Aristotle's conception of agency, habits and institutions as a way of contributing to some current discussions about the definition, nature and theory of institutions. Aristotle developed a theory of human action, where we can find a place for 'agency'. His views on habits are linked to his theory of virtue and art (skill). Concerning institutions, Aristotle provides a sound social and political philosophy that encompasses the nature and role of institutions. The paper will subsequently present Aristotle's ideas on these three notions – agency, habits and institutions – and will finally establish which of the current accounts of institutions involved in the discussion sparked by Hindriks and Guala's recent paper (2005a) he would support. Given that some realities tackled in the paper are nowadays radically different from Aristotle's times, the paper tries to keep an 'Aristotelian-minded' point of view – that is, analysing current topics based on Aristotelian concepts.

## 1. Introduction

Hindriks and Guala's (2015a) proposal for a framework to unify three theories of institutions – rule-based, equilibrium-based and constitutive rule theories – has provoked a rich reflection on the fundamental underpinnings of a theory of institutions. This discussion includes papers by Aoki (2015), Binmore (2015), Hodgson (2015), Searle (2015), Smith (2015), Sugden (2015) (all 2015), and Hindriks and Guala's reply (2005b). By introducing what would be Aristotle's views about basic notions on institutionalism, this paper will try to shed some light on this discussion.

Hindriks and Guala (2015a) set out to posit a unified theory of institutions that encompasses their sociological and philosophical conceptions, including the descriptive and prescriptive role of institutions. Their proposal has fuelled a fruitful discussion about the definition, nature, characteristics, emergence, persistence and evolution of institutions.

The rule account especially points at the definition of institutions. According to Hodgson, institutions are 'integrated systems of rules that structure social interactions' (2015: 501). For the equilibrium theory, rules and institutions are

\*Email: [rcrespo@iae.edu.ar](mailto:rcrespo@iae.edu.ar)

the fruit of interactions among individuals, which underscores the process aspect of institutions: an adjustment of individual behaviours that leads to the establishment of an institution and its further evolution. Searle's (2005) constitutive rule account points at a collective acceptance of obligations. In Aristotelian terms, the first account concerns the definition; the second one refers to the action of efficient causes; and the third account focusses on the final cause of institutions.

Rule-based theories have their roots in traditional sociology – Hindriks and Guala mention Max Weber and Talcott Parsons – while the equilibrium account is associated with game theory, and Searle's constitutive rule approach draws from continental philosophers like Kant (see for example Searle, 2015: 512). Philosophy consistently lies beneath social theories, sometimes surfacing but mostly – consciously or not – underlying and permeating them. Hindriks and Guala (2015b) mention David Hume. Sugden (2015) and Smith (2015) explicitly and approvingly mention Hume and Adam Smith. Aoki mentions Hegel, while Binmore holds an evolutionary stance, and Hodgson (2015) turns to Aristotle, stressing the relevance of inner ontological capacities over outcomes. This paper will draw inspiration specifically from Aristotle.

Old Institutionalism stresses the role of habits and institutions in the motivation of economic decisions and actions, and, as a result, the relation between habits and their relative impact on human actions is a relevant field of exploration for Institutionalism. This is the first topic – agency, habits and institutions – that I will tackle from the mentioned Aristotelian philosophical angle. More specifically, I will try to build a possible Aristotelian theory about agency, habits and institutions. Aristotle developed a solid theory of human action, where we can find a place for 'agency'. His views on habits are linked to his theory of virtue, vice and art (skill). Concerning institutions, Aristotle does not mention the categories used by contemporary sociology, but he does provide a sound social and political philosophy that encompasses the nature and role of institutions. In his ethical and political treatises, we can track indications about the relation between these three concepts.

The paper will explore Aristotle's possible contributions to establish an Aristotelian minded conception about these three concepts – agency, habits and institutions – in the following three sections. Section 4, on institutions, will present three cases dealing with their origin and functioning discussed by Aristotle: the *pólis*, the market and money. These cases will illustrate how Aristotle's previously considered notions apply to institutions, serving as a bridge and contributing to the contemporary discussion (Section 5). The conclusion will be that Aristotle's ideas are compatible with the rule account, only partially with the equilibrium account and best fit with the constitutive rules account.

## 2. Aristotle on human action and agency

Aristotle considered human action as voluntary and rational in a *broad* sense, making a distinction between two dimensions of it: a practical or

immanent dimension and an instrumental, ‘poietical’ or technical dimension. He correlatively distinguished between practical and poietical (or technical) reason as guiding these dimensions of human action (*Metaphysics* IX, 8). Practical reason is related to the immanent aspect of human actions – that is, to the effect of the action on the agent who decides and does. Even if an action is directed at a result outside the agent, it also bears an impact on the agent himself. Poietical or technical reason drives action results. While practical reason asks how one should act to find one’s own fulfilment, technical or poietical reason asks what means and actions are required to achieve the desired exterior result. Aristotle (*Metaphysics*, IX, 8, 1050a 35) believed that, while some actions are purely practical, like seeing and theorizing, there are no purely technical actions because all human action leaves some mark on people’s inner self. In other words, actions feature immanent and transient aspects. While practical reason deals with the ends and means to the extent that it impacts ends, technical reason is exclusively a rationality of means. Weber’s value-rational, affectual and traditional motives are part of Aristotle’s practical reason (Weber, 1978: 24–5).<sup>1</sup> This is why I asserted that, for Aristotle, human action is rational in a *broad* sense – values, emotions, habits and also instincts drive human decisions and actions, with reason present to some extent. Aristotle views ‘agency’ as this immanent practical aspect of human action.

Aristotle underscores this practical dimension of actions, as this dimension relates with the end of actions, not only their external goal: there is no choice of means without a desired end. As he notes in *Nicomachean Ethics*,

The origin of action is choice, and that of choice is desire and reasoning with a view to an end. This is why choice cannot exist either without reason and intellect or without a character; for good action and its opposite cannot exist without a combination of intellect and character. Intellect itself, however, moves nothing, but only the intellect which aims at an end and is practical [...] everyone who makes makes for an end, and that which is made is not an end in the unqualified sense (but only an end in a particular relation, and the end of the particular operation) – only that which is done [the very action] is that [the end]; for good action is an end, and desire aims at this (VI, 2, 1139a30 to 1139b2).

In other words, the most relevant aspect of human action is its immanent dimension, not its external result. Instrumental reason deals with ‘how’ to achieve an end, and practical reason tackles ‘why’ we look for this end. Within the framework of the first question – the technical one – we may consider how to *best*

1 For Weber, actions intended to allocate means to attain agents’ ends are instrumentally rational, while value-rational actions are determined by a conscious belief in the intrinsic value of a specific behaviour. Affectual actions are driven by individuals’ affects and feelings, and traditional actions stem from ingrained habits. Weber argued that, although one specific motive often prevails, actions are also ruled by various types of motives.

allocate means in order to achieve a specific end: this is a matter of instrumental maximizing rationality, generally used by standard economics. Strictly speaking, however, instrumental rationality does not necessarily include maximization: a technique is not necessarily efficient. The efficiency of a technique is alien to Aristotle's conception of *poiesis*. As the French sociologist Boudon has noted, there is only a *psychological* tendency – not a logical implication – to consider instrumental rationality as maximizing (Boudon, 2004: 47). For example, Simon's (e.g., 1979) notion of bounded satisfying rationality is an instrumental, non-maximizing rationality. This reduction prevents a thorough explanation of economic events, almost completely doing away with the possibility of economic predictions, and it is highly dangerous as a guide for political economy. It also fosters a widespread maximizing mindset that shapes behaviour. As Sen states, 'this narrow view of rationality as self-interest maximization is not only arbitrary; it can also lead to serious descriptive and predictive problems in economics (given the assumption of rational behaviour)' (2002: 23).

The particular characteristics of human actions – the fact that we own our actions and aim them at our goals – make actions, difficultly predictable. This is why Aristotle argues,

Our treatment discussion will be adequate if it has as much clearness as the subject-matter admits of; for precision is not to be sought for alike in all discussions, any more than in all the products of the crafts. Now fine and just actions, which political science investigates, exhibit much *variety and fluctuation* (...). We must be content, then, in speaking of such subjects and with such premises to indicate the truth *roughly and in outline* (I, 3, 1094b 11–27, emphasis added).

Aristotle identifies two reasons for 'inexactness' in practical sciences like politics (or economics – *oikonomikè*): action exhibits 'variety and fluctuation' – that is, there are many possible situations, and human beings may change their decisions. As a result, Aristotle views human action as always singular. He asserts,

We must, however, not only make this *general statement*, but also apply it to the individual facts. For among statements about conduct, those which are general apply more widely, but those *which are particular are more true*, since conduct has to do with *individual* cases, and our statements must harmonize with the facts in these cases. (II, 7, 1107a 31–3, italics added).

He also notes,

(...) actions are in the class of *particulars*, and the particular acts here are voluntary. What sort of things are to be chosen, and in return for what, it is not easy to state; for there are many differences in the *particular* cases.' (III, 1, 1110b 6–8, italics added).

Actions are not always the same, which leads Aristotle to point out, for example, that 'a young man is not a proper hearer of lectures on political science, for he is

inexperienced in the actions that occur in life, but its [Politics] discussions start from these and are about these' (I, 3, 1095a 2–4).

He often compares politics to medicine in this respect, as in the next quotation. In sum,

matters concerned with conduct and questions about what is good for us have no fixity, any more than matters of health. The general account being of this nature, the account of particular cases is yet more lacking in exactness; for they do not fall under any art or precept, but the agents themselves must in each case consider what is appropriate to the occasion, as happens also in the art of medicine or of navigation (II, 2, 1104a 4–9).

At first glance, this notion would leave us in an unmanageable and unpredictable situation. However, this is where habits come into play, providing guidelines to act and to roughly anticipate others' behaviour. Now that human action and its immanent dimension have been introduced, we can delve into their roots, exploring the role of habits in their origin.

### 3. Aristotle on habits

Habits are instrumental to human life. We cannot decide on everything all the time without becoming psychologically ill; moreover, it would be impossible to process all the information regarding any situation to fully rationally decide on every occasion. We need habits to streamline behaviour in daily life. Personality is shaped by acquiring habits. Habits constitute a person's 'second nature' and are determined by actions, but actions remain free. Habits differ from one individual to another –they are contingent – and facilitate not only economic actions but also economic coordination.

This section will address the following questions: how does Aristotle characterize habits? Where do they come from, or how are they shaped? And what are their effects?

For Aristotle, a habit (*héxis*) is a quality, a 'having' (*Metaphysics* V, 20). Habits are lasting and stable dispositions. He distinguishes intellectual habits (*dianoethikés*), which enable people to know, and character habits, which drive individuals to act (NE VI, 1, 1139a1). As noted in the introduction of this paper, Aristotle speaks about this second type of habits in relation to virtues, vices and skills, which he views as habitual dispositions (NE II, 6, 1106b36 in relation to virtue). In fact, Aristotle consistently draws a parallel between virtue and art.<sup>2</sup>

Concerning the origin of habits, Aristotle indicates: 'Habits are born of similar activities. So we have to engage in behaviour of the relevant kinds, since the habit formed will follow upon the various ways we behave' (NE II, 1, 1103b21–25). Ethical virtues, vices and skills are ingrained by habituation: they can be

2 In *Nicomachean Ethics* 1103a31–32, 1103b6–14, 1105a8–10, 1106b9–14, specifically with medical art in 1104a 14–18, 29–30, 1105b12–18. On the analogy between virtues and skills, see Annas (2011).

relatively unconscious (Lear, 1988: 186). However, habit creation also involves a cognitive component (Lockwood, 2013: 22) – we learn by practice: it is not something merely mechanical, automatic (see Burnyeat, 1980: 73). As nicely put by Aristotelian scholar Julia Annas, with habits (specifically virtues and skills) ‘the agent becomes more intelligent in performance rather than routinized’ (2011: 4). Consider this long quotation from Annas (2011: 13–14), as it provides a good example:

When we see the speed with which a skilled pianist produces the notes we might be tempted to think that constant repetition and habit have transformed the original experience, which required conscious thought, into mere routine. But this is completely wrong. The expert pianist plays in a way not dependent on conscious input, but the result is not mindless routine but rather playing infused with and expressing the pianist’s thoughts about the piece. Further, the pianist continues to improve her playing. The way she plays exhibit not only increased technical mastery but increased intelligence [ . . . ] If practical skills become routine they ossify and decay.

Obviously, given these characteristics of habits, Aristotle rules nature out as their origin, stating in *Nicomachean Ethics* that ‘none of the excellences of character comes about in us by nature, for no natural way of being is changed through habituation’ (II, 1, 1103a19–21). However, habits do have a basis on our nature, because we are naturally capable of acquiring them, which, by the way, also means that habits are not infallible or unexceptionable. As a result, though habits point us towards a specific behaviour, we can always act against habit.

Habits produce a character, which is a kind of second nature. Aristotle starts the second book of *Nicomachean Ethics* with the following statement: ‘Excellence of character results from habituation’ (II, 1, 1103a17–18). Habits may create a sense of stability. This is right, but it is a dynamic rather than a fixed stability that enables people to react to changing or different situations in dissimilar, adequate ways. As Lockwood asserts in his work about Aristotle views on habits, ‘although *héxeis* [habits] are distinguished from other mental states by their enduring, permanent or entrenched nature, their permanence is paradoxically dynamic or kinetic rather than static’ (2013: 24). In the same vein, Jonathan Lear notes, ‘habits, in Aristotle’s view, do not merely instil a disposition to engage in certain types of behaviour: they instil a sensitivity as to how to act in various circumstances’ (Lear, 1988: 166). Thus, it is not necessary to learn a complete (impossible) set of rules on how to act in different occasions. Once developed, habits indicate how to act. As Annas explains,

we are engaged in an activity which is not simple enough to be routine, but not such as to require self-conscious figuring out what to do. We respond to the situation in a way that has already been educated by practice and so can be

direct and unselfconscious, but it is still intelligent in responding to feedback, and so consists of more than simple repetition (2011: 73).<sup>3</sup>

The stability and adaptability of habits make it relevant to shape adequate habits. Hence, Aristotle remarks that ‘It is not trivial matter, then, that we form habits of one kind or another right from childhood; on the contrary, it is very important, indeed all-important’ (*NE* II, 1, 1103b21–25).

In *Nicomachean Ethics*, Aristotle also posits that ‘some first principles are studied by means of induction, some by means of perception, some by means of habituation’ (I, 7, 1098b 3–4), specifically noting that this third way leads to practical principles. So, people build their ideas about practical matters from the kind of habits they possess. Habits affect the way we think, we wish, we desire, and facilitate the corresponding actions (II, 6, 1106a15).

Lear (1988: 167) also states that ‘habits also organize the desires in one’s soul’. Indeed, Aristotle also explains that habits produce specific pleasures: ‘each state of character has its own distinctive view of what is fine and pleasant’ (II, 4, 1113a31). This is why ‘the psyche of the student needs to have been prepared by habits for enjoying and hating finely like ground that is to nourish seed’ (X, 9, 1179b23–27).

For Aristotle, the ways available to legislators to foster citizens’ virtues are mainly indirect: education and law. People are not virtuous if they have not been well educated since youth. In the final chapter of *Nicomachean Ethics* (X, 9), he summarizes the means to create habits: (1) what parents should take into account in order to instil good habits in their children, (2) the influence of the social expectations with which children are brought up, (3) the threat of punishment, (4) the force of argument and (5) the sense of shame (see Hughes, 2013: 73).

However, not only children but also adult citizens need education:

The greatest, however, of all the means we have mentioned for ensuring the stability of constitutions – but one that nowadays is generally neglected – is the education of citizens in the spirit of their constitution. There is no profit of the best of laws, even when they are sanctioned by general civic consent, if the citizens themselves have not been attuned, by the force of habit and the influence of teaching, to the right constitutional temper (*Politics* V, 9, 1310a 12–18).

Yet, it is imperative for education to be supported by laws:

The law bids us to practice every virtue and forbids us to practice every vice. And the things that tend to produce virtue taken as a whole are those of the acts prescribed by the law which have been prescribed with a view to education for the common interest (*Nicomachean Ethics* –*NE*– V, 2, 1130b 23–27).

<sup>3</sup> What supposes a different classification of habits and routines from the usual in sociology: habits are of the individual and routines of the organization.

It seems that laws take priority, but virtue is necessary to enact good laws. In short, there is a virtuous circle binding virtue, education and law.

It is time to wrap up the topic of habits. The previous section ended with an appraisal of the value of Aristotle's concept of agency as a dimension of human action that goes beyond mere instrumental behaviour – i.e., the only dimension considered by neoclassical economics – stressing its immanent aspect. However, given the variable and dynamic character that this aspect introduces in human action doubts about the possibility of prediction had arisen. Fortunately, habits provide an important dose of stability and guidance in one's own and others' actions. Aristotle believes that habits – especially good habits – make actions more predictable. He views the incontinent man as unpredictable, while the virtuous man, who is continent, is more predictable because he perseveres: 'A morally strong person remains more steadfast and a morally weak person less steadfast than the capacity of most men permits' (*NE VII*, 10, 1152 a, 26–7).

#### 4. Aristotle on institutions

As mentioned in the introduction, Aristotle did not work on a theory of institutions, as construed by 20th-century sociological developments. However, I consider that Aristotle's views on political communities (*póleis*), markets and money, and his ideas about the ties among these institutions, habits and human action contribute to the field of institutionalism.

##### *The pólis*

A first contribution that I find highly valuable in Aristotle's thinking concerning institutions is his position about the relation between human beings and communities. At the beginning of *Politics* (I, 2), Aristotle describes the human person as a rational animal – *lógou dè mónov ánthropos héxei tôn zóon*: 'man alone of the animals is furnished with the faculty of language [or reason]' – and as a *zóon politikòn* – 'political [social] animal'. This characterization bears profound significance. Aristotle claims that, with speech, human beings can both know and express what is good and what is evil, morally just and unjust, as well as what is technically expedient and inexpedient – that is, the Greek word *logos* goes beyond mere language; it has a wide range of meanings including knowledge. As a result, this passage has produced the famous definition of man as a rational animal. At the same time, 'it is an association of [a common perception of] these things [known] which makes a family and a polis' (*Politics* I, 2, 1253a 18). Rationality and political communities are closely intertwined for Aristotle: he cannot conceive one without the others. People develop their rationality or capacity for theoretical (metaphysical), practical (ethical) and technical knowledge in the realm of the family and political community. How does Aristotle view the relation between these two realities: human individuals and communities?



In *Politics* I, 1–2, Aristotle presents two strong metaphysical theses: first, the natural character of the *pólis* and, second, human beings' political nature – *hóti tôn phýsei he pólis estí kai hóti ánthrôpos phýsei politikòn zôon* (*Politics*, I, 2 1253a 2–3). From a metaphysical standpoint, clearly, given their substantial nature, human beings take precedence over a city, which is an association of individuals. Then, how should we interpret the following statement by Aristotle? *Kai próteron dé tê phýsei pólis hèn oikia kai ékastos hemôn estín* – ‘and the *pólis* is prior by nature to the house and to each one of us’ (1253a 19). Aristotle recognizes the temporal priority of the parts of the *pólis* when he explains that a household stems from the union of a man and a woman, a clan stems from the union of many households, and a *pólis* stems from a group of clans. However, he adds: *télos gàr aúte ekeinon, he dè phýsis télos estín* – ‘for it [the *pólis*] is the end of the [former] and the nature is the end’ (1252b 31–2). Thus, individuals, households and clans have the *pólis* as their final end, and, in Aristotle's system, the final end (the reason for the sake of which) is the first cause of every reality.

For Aristotle, though it may be chronologically last, the end is ontologically first. Adding the thesis that human beings' end is *eudaimonía* or *eû zên* (happiness as personal fulfilment or flourishing as a result of a good life; *NE* I, 7) to the thesis that the human being is political, he concludes that human beings can only achieve their end within the *pólis*. The *pólis* exists ‘for the sake of a good life’ (*eû zên*, 1252b 30), and the end of the *pólis* is and ‘includes’ (*NE* I, 2, 1094b 7) the end of human beings. The happiness of the *pólis* (*eudaimonía*) is the same as individuals' happiness: ‘It remains to discuss whether the felicity of the state is the same as that of the individual, or different. The answer is clear: all agree that they are the same’ (*Politics* VII, 2, 1324a 5–8). This explains why ‘for even if the good is the same for a city as for an individual, still the good of the city is apparently a greater and more complete good to acquire and preserve’ (*NE* I, 2, 1094b 8–9; see also *NE* VIII, 9, 1160a 9–30).

This good of both *pólis* and individuals is to achieve a good life that leads to happiness (i.e., flourishing or fulfilment): ‘the best way of life, for individuals severally as well as for states collectively, is the life of goodness’ (*Politics* VII, 1, 1323b 40–41). When this good is complete (*teleion*), it is self-sufficient (*autarkeías*). However, Aristotle notes, ‘what we count as self-sufficient is not what suffices for a solitary person by himself, living an isolated life, but what suffices also for parents, children, wife, and, in general, for friends and fellow citizens, since a human being is a naturally political animal’ (*NE* I, 7, 1097b 9–12).

This idea is also expressed in the following passage from Aristotle's *Politics*:

The end [*télos*] and purpose of a *pólis* is the good life, and the institutions of social life are means to that end. A *pólis* is constituted by the association of families and villages in a perfect and self-sufficing existence; and such an existence, on our definition, consists in a life of true felicity and goodness [*tò zên eudaimónos kai kalôs*] (*Politics* III, 9, 1280b 29–35).

Thus, the task of the political community and its practical science – Politics – of the political organization and of society’s authorities is to drive and support the good actions that enable all citizens to live this life of true flourishing and goodness – i.e., a life of virtues: ‘the political philosopher is the architect of the end that we refer to in calling something bad or good’ (*NE* VII, 11, 1052b3–4). Three additional quotes reinforce and complement this aim of politics:

- (1) ‘Political science spends most of its pains on making the citizens to be of a certain character, viz. good and capable of noble acts’ (*NE* I, 9, 1099b 30–31). Being virtuous is having a good character that enables noble acts.
- (2) ‘There is one thing clear about the best constitution: it must be a political organization which will enable all sorts of men [e.g. the ‘contemplative’ as well as the ‘practical’]<sup>4</sup> to be at their best and live happily [*árista práttói kai zóe makaríos*]’ (*Politics* VII, 2, 1324a 23–25; quoted also by Nussbaum, 1987: 2).
- (3) ‘The true end which good law-givers should keep in view, for any state or stock or society with which they may be concerned, is the enjoyment of partnership in a good life and the felicity [*zoês agathês ... kai ... eudaimonías*] thereby attainable’ (*Politics* VII, 2, 1325a 7–10; quoted also by Nussbaum, 1987: 3).

The idea of a common end underlies these notions. Indeed, in *Politics* III, 6 and 7, Aristotle refers to a ‘common interest’ (*koinê symphéron*), noting, for example, that ‘governments which have a regard for the common interest are constituted in accordance with strict principles of justice [general or legal]’ (1279a 17–18). In a nutshell, Aristotle views the common interest as *eudaimonía* for all citizens, who are political animals, and, thus, *eudaimonía* is only achievable within the *pólis*; for him, the common good is the end of a just *pólis*.

This notion is clearly normative and leads to political action, to a downward influence of the community over citizens via its politicians. Aristotle, indeed, states that ‘legislators make the citizens good by forming habits in them, and this is the wish of every legislator’ (*NE* II, 1, 1103b3). In Aristotle’s world, there is a community that embodies values and finds ways of instilling these values in people. By encouraging and discouraging, training and teaching, as showed in the previous section, educators create habits in young and adult people. Laws also foster the development and consolidation of habits. Apart from law and education, the society also features ‘spontaneous’ influences that shape individuals’ habits. For Aristotle, different kinds of societies, with different values, produce different habits and social customs (cf. *NE* I, 5). Yet, it should be noted that the institutional order is, for the most part, not a fact but something to be done. The root of this order lies in a common end (the common good) that is normative and that, consequently, cannot be achieved if it is not intentionally pursued. Actually, along with the different kinds of regimes, Aristotle considers

4 This parenthesis in square brackets has been added in the original by Barker. Unless otherwise noted, all other square brackets have been added by me.

their corresponding corrupted forms. The latter emerge when the actions and habits leading to pure regimes are not effectively shaped.

When the normative character of institutions effectively exert its power, the uses ingrained by communities make social events and people's behaviour predictable and social science possible. This is, because generalizations in social science are made possible by the tendency of agents to repeat certain actions. As Alasdair MacIntyre explains, predictability in the social sciences is only possible in an imperfect manner. However, it is often achievable as a result of (1) knowledge of statistical regularities; (2) the way people handle their need to schedule and coordinate their social actions and (3) an awareness of the causal regularities of both nature and social life (see MacIntyre, 1984: 102–3). These considerations go beyond Aristotle's thinking about society, but are consistent with it.

Thus, institutions matter greatly in the economic realm. They both embody and reinforce steady habits. In fact, habits build institutions, and institutions create habits. Institutions reinforce the realization of certain acts through rewards and punishments, or even unconsciously. As a result, institutions are relevant because facilitate economic coordination, for it is only possible when acts are foreseeable. Indeed, as MacIntyre writes, 'it is the degree of predictability which our social structures possess which enables us to plan and engage in long-term projects' (1984: 98).

### *The market*

In *Nicomachean Ethics* V, 5, Aristotle dealt with justice in reciprocity (*antipeponthos*). It should be noted that he referred to reciprocity, not exchange. Reciprocity keeps a community united (1333a 2). It may be safe to say that reciprocity is at par with justice, because it is a condition for unity in society: 'this is why we set up a shrine of the Graces in a public place, to remind men to return a kindness; for that is a special characteristic of grace, since it is a duty not only to repay a service done one, but another time to take the initiative in doing a service oneself' (1133a 2–6). It involves a free disposition to give and to reciprocate when given – 'thanks go to the one who gives' (*NE* IV, 1 1120a 16) – a kind of justice that both precedes and exceeds exchange, including it as well.

Scholars agree that this chapter an obscure passage of Aristotle's work. Taken literally, his writing argues that justice in reciprocity entails a proportional equality between reciprocated things, which implies that these things can be compared. The criterion used for this comparability is the need for them:

for if this [proportional equality] does not happen, there will be no exchange and no community. But proportionate equality will not be reached unless they [the goods exchanged] are equal in some way. Everything, then, must be measured by some one measure, as we said before. In reality, this measure is need [*chreía*], which holds everything together; for if people needed nothing, or needed things

to different extents, there would be either no exchange or not the same exchange (1133a 24–29).

Need is the key for union through exchange: ‘now clearly need holds a community together as a single unit, since people with no need of each other, both of them or either one, do not exchange’ (1133b 6–7).

However, this need has to be fairly appraised in order to get a just reciprocation. Thus, what does justice in reciprocity consist of? What is Aristotle talking about? Assuming the absence of fraud, when reciprocity is truly proportional, an exchange takes place through the value that emerges from a need and the resulting common appraisal. Equality is the condition required for an exchange and for this exchange to be fair. The exchange is fair, hence, when both parties satisfy what they deem necessary. The subjectivity of estimation does not imply arbitrariness, as need is not ambiguous but rather geared toward the ‘good life’ – a life of virtues in the *pólis*.

For this, people need some habits. Actually, a constellation of virtues helps the performance of suitable economic actions. Specifically for the case of exchange we need prudence and justice. As explained, for Aristotle the tenet ruling demand – and, therefore, prices and wages – is *chreía* or economic need. *Chreía* is subjective and intrinsically moral. It is subjective because every individual judges what is necessary for him or her. There is another Greek term for necessity, *ananke*, also used by Aristotle in other contexts. *Ananke* is strict necessity (as, for example, it is necessary that an effect has one or more causes), while *chreía* needs specification: in order to survive, it is necessary to eat, but you may eat one thing or another, in one meal or another, and so on. *Chreía* means that the use of things required is not determined *a priori*, but it is up to every individual’s will, with a view to achieving an end. This is a typical example of practical reasoning. What virtues are needed in this process? First, prudence or practical wisdom – an intellectual and ethical virtue – is required to accurately assess a specific situation and the real necessity of the things needed: the suitable *chreía*. Second, justice helps individuals to act in the way indicated by prudence. If market relations are regulated by justice, there are no commercial vices: people who are strongly committed to justice do not free-ride.

When these virtues work properly, markets are coordinated. However, this implies the general acceptance of normative rules of behaviour – rules focussing on market coordination as an end. Ontologically, the market is an accidental reality, a network or order of relationships – of buyers and sellers, people who exchange: the order or unity comes from the coincidence of wills willing to buy or sell in order to satisfy their needs, and this coincidence is achieved through price. This network of relationships belongs to the broader network making up society. For Aristotle, both society and exchange are natural in the sense that they are institutions required by human nature to achieve its natural fulfilment. Man is both a *zôon politikòn* (e.g. *Politics* I, 2, 1253a 3–4) and a *zôon oikonomikòn*

(*Eudemian Ethics* VII, 10, 1242a 22–3). However, for Aristotle, ‘natural’ in the realm of human beings does not mean ‘automatic’. Performing good actions in the *pólis* and exchange demands effort, they are not given facts.

Transactions take place in the market. The market, just like society, is composed of relationships that link its members, guiding them toward a common end. The web of market relations is formed by citizens, acting as buyers and sellers; market order or unit comes from the matching wills to buy and sell in order to satisfy needs, and this coincidence is made possible by prices. Markets are part of society, and their proper functioning depends on their orientation towards common good (*Politics* VII, 1, 1324a 1). The end of a market is for everyone to obtain what is needed and is embedded in society’s end. Finally, I want to make an important point. The economy of Aristotle’s time was very different from today’s economy. For example, markets were not today’s markets. Consequently, Aristotle did not have a theory of market institutions, but a normative theory of justice in exchange. Here, I wanted to put Aristotle into conversation with modern theories of markets. I think that I have done it in the way Aristotle might be expected to do it, given his philosophical thinking.

### Money

Comparisons between needs are possible using money and prices (cf. *NE* V, 5). Here, money comes into the picture because ‘currency has become a sort of pledge of need’ (1133a 29). The relevance of money becomes clear:

This is why all goods must have a price set on them; for then there will always be exchange, and if so, association of man with man. Money, then, acting as a measure, makes goods commensurate and equates them; for neither would there have association if there were not exchange, nor exchange if there were not equality, nor equality if there were not commensurability’ (*NE* V, 5 1133b 15–20).

Money is the instrument by which justice can be exercised in exchanges; it is an element used to maintain reciprocity in social relations. Justice, in norms (*nómoi*), requires the measurement that money makes. Second, money plays a role in social cohesion, as, by facilitating exchanges, it is an instrument for the distribution of what *pólis* members need: without money, there is no exchange in society (*NE* V, 5, 1133 b 18–9).

Money is important on account of its measurement capacity – much like a ruler or a meter-stick that allows for comparisons. Its absolute value is not as important as its stability – Aristotle points out that, even though money can change in value, it is quite stable (*NE* V, 5, 1133 b, 14–5) – which allows for relative measurements, setting prices, making exchanges and society itself possible. With money, exchange values can be expressed in monetary terms.

What do money and prices represent? They stand for need – *chreía*. The fact that something is more necessary or scarcer than something else is reflected in the

fact that more money is required to obtain it. This representation is conventional: ‘it exists not by nature but by law and it is in our power to change it and make it useless’ (*NE V*, 5, 1133 a 31–2). Money is a sign, just like the decimal system or the vocabulary of a language.

Aristotle names three functions of money:

- (1) It is a unit of measurement: ‘There must, then, be a unit, and that fixed by agreement [...] for it is this that makes all things commensurate, since all things are measured by money’ (*NE V*, 5, 1133 b 19–23). In this sense, money is also a standard value.
- (2) It is a means of exchange. He states that ‘all things that are exchanged must be somehow comparable. It is for this end that money has been introduced’ (*NE V*, 5, 1133 a 19–21). He also affirms that ‘money was intended to be used in exchange’ (*Politics I*, 10, 1258 b 4).
- (3) It is a value reserve: ‘for the future exchange – that if we do not need a thing now we shall have it if ever we do need it – money is as it were our surety; for it must be possible for us to get what we want by bringing the money’ (*NE V*, 5, 1133 b 11–3). Money is meant to be spent, but it can also be accumulated (*NE IV*, 1, 1120a 8–10). Thus, it becomes capital, or accumulated wealth, to the extent that it maintains its purchasing power. This feature turns money into an implicit payment means.

In short, Aristotle separates the conventional aspect of money from the value underlying it, which is something real. We conventionally award value to something, but conventions emerge naturally, as a result of necessity, to the point that society could not exist without them.

However, two phenomena can unfold: first, money can acquire an independent value in the money market, and, second, money can be vilified, paving the way for inflation. Aristotle considered both these phenomena. When it comes to money, as Aristotle indicates, we run the risk of falling into an unlimited chrematistic (*Politics I*, 9, 1257b 37–39). These ideas merge in a reductionist view of reality: money takes the place of true and fundamental reality. Marx ([1887] 1965: 712–I, II, 5) elaborates on this inversion, arguing that, while economics responds to a C–M–C circulation model (commodities are traded for commodities through money), unlimited chrematistics (of capitalism) responds to an M–C–M scheme: commodities are converted into money, and commodities become the means of exchange. This is a keen, graphic way of demonstrating an actual process, underlain, as Aristotle also points out, by a limitless appetite (*Politics I*, 9, 1257b 40 a 1258a 2). In short, there is also a normativity associated with the creation and use of money.

### *Summary of Aristotle’s ideas on institutions*

Before appraising the closeness or lack thereof of Aristotle’s notions with current accounts of institutions, it will prove useful to briefly review them:

- (1) Aristotle posits that there is a reinforcing virtuous circle linking human actions, habits and institutions.
- (2) For him, the final causes of institutions – though chronologically the last – are ontologically their first causes, as they trigger the working of the efficient causes leading to them. Some of these final causes are ingrained in human nature [and are then specified in conventions], while others are conventionally defined by people. In any case, on account of human freedom, final causes are objectives that are not automatically given; rather they are tasks to be performed. They feature a normative status and have to be accepted by institution members.
- (3) The ontological priority of the final cause entails the priority of practical reason in human decisions and actions. Practical reason is the truly human ingredient of human action. Once practical reason determines the ends and convenient means for human actions, instrumental reason executes them –this is the mechanical-like aspect of human action.
- (4) Language plays a crucial role in all human interactions, including the creation of institutions.

Now, we are ready to appraise the current theories of institutions involved in the discussion of Hindriks and Guala's paper from an Aristotelian standpoint.

## 5. Aristotle and current accounts of institutions

I will now confront Aristotle's ideas with the accounts of institutions – rule-based, equilibrium based, and constitutive rule theories – at play in the discussion prompted by Hindriks and Guala's (2015a) proposal for a unifying framework.

### *Aristotle and the rule theory*

The rule account particularly points to the definition of institutions. Hodgson defines institutions as 'systems of established and prevalent social rules that structure social interactions' (2006: 2), or as 'integrated systems of rules that structure social interactions' (2015: 501). A rule is a habit that has become normative, can be codified, and has been adopted by a group of people (cf. Hodgson, 2006: 6). Following Veblenian and American Pragmatist traditions, Hodgson also notes that 'institutions work only because the rules involved are embedded in shared habits of thought and behaviour' (2006: 6). Also, based on these traditions, he explains that institutions constrain and enable behaviours, create stable expectations, have the potential to change agents' habits of thought and action and feature strong self-reinforcing and self-perpetuating characteristics (see Hodgson, 2004 and 2006).

I think that this account is compatible with Aristotle's ideas. The rule theory and Aristotle's views share the following elements:

- (1) the links among actions, habits and institutions;
- (2) the normative character of the system of rules that constitute an institution;

(3) the creation of stable behaviours as a result of institutions.

The rule account does not include some philosophical underpinning characteristics considered by Aristotle, such as the teleological nature of institutions and the role of language in their origin and functioning. However, the rule account is not a philosophical but a sociological theory and consequently it is not expected to explicitly include these features.

### *Aristotle and the equilibrium theory*

According to the equilibrium account, institutions are equilibria of strategic games. This position relies on instrumental rationality, leaving practical rationality aside (see Colman, 2004: 287; Bicchieri, 2014: 216, 229). Like the previous account, this theory might be compatible with Aristotelian ideas, but it captures – at most – a possibly partial instance of the Aristotelian process. In Aristotle’s market case, for example, buyers and sellers may be expected to eventually reach at equilibrium after some interactions. However, for Aristotle, market equilibrium requires more than this, as practical reason comes into play to determine the actual need for the good in demand. This is an essential trait of the Aristotelian market. If practical reason were absent, equilibrium would only be achieved by chance. The same applies to the case of the *pólis*: the Aristotelian *pólis* is not a kind of liberal equilibrium among individual goals. If there is not a common end as well as a conscious reasoning and search for the specific way to accomplish it, a *pólis* will not emerge. In sum, the equilibrium account involves a kind of process that differs greatly from Aristotle’s view of practical reason. Searle (2015: 512) clearly elaborates on this regard:

You cannot do an equilibrium analysis of institutional facts of the sort that they [Hindriks and Guala, 2015a] propose, because the equilibria are insufficient to generate the deontology –rights, duties, obligations, etc. – that is the defining trait of institutional facts.

He adds that Hume already made the same mistake, and he remarks that an inadequate notion of rationality is involved in this account (2015: 514).

### *Aristotle and the constitutive rules theory*

Aristotle’s ideas fit very nicely with Searle’s (2005) constitutive rule account. In his article, ‘What is an Institution?’ (2005), Searle introduces three basic notions that he considers necessary to explain social and institutional reality: (1) collective intentionality, as the basis of all societies; (2) the assignment of functions to objects and (3) the collective assignment of a certain status function to objects and/or persons (2005: 6–8). For Searle, an institution is a set of status functions that stem from a system of constitutive rules (2005: 10). It creates desire-independent reasons for action (2005: 11) – that is, deontic obligations that are the glue of every society. For Aristotle, the deontological duties emanated



from societies are synergic with the individual well-being because he is a political animal. Searle stresses the relevance of language as crucial for the constitution of institutional facts: institutions and their deontic power cannot emerge and persist without language (2005: 12ff.).

Additionally, the constitutive rule theory cannot be reduced to the ‘rules-in-equilibrium’ account proposed by Hindriks and Guala (2015a). The essential intentional and deontic character of rules cannot be narrowed down to the equilibrium of individual strategic behaviours.

Summing up, the constitutive rules theory and Aristotle’s views share the following elements:

- (1) the idea of a common end underlying in Searle’s collective intentionality;
- (2) the normative and unitive character of reasons that constitute an institution;
- (3) the role of language in the emergence and persistency of institutions.

## 6. Conclusions

In this paper, I have introduced Aristotle’s ideas on human action, habits and communities. These ideas shed light on the nature and links among agency, habits and institutions. For Aristotle, the community is ontologically prior, because human beings can only flourish in a community, not alone. Communities, with their rulers and educators, laws and education, try to instil in citizens the habits that, according to every individual community’s shared values, make them flourish. These habits facilitate the corresponding actions of people who simultaneously self-govern themselves. These connections are grounded in philosophical theories of human action, human habits and communities and notions about the interactions between them. I think that these philosophical theories offer additional support to Institutionalism’s ideas about the relation among agency, habits and institutions, and may help to clarify contemporary discussions about the nature of institutions. When confronted with the contemporary accounts of institutions involved in the discussion provoked by Hindriks and Guala (2015a), the conclusion is that Aristotle’s ideas are compatible with the rule account, only partially with the equilibrium account and best fits with the constitutive rules account.

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