

### **Book Reviews**

Ritenour, Shawn. *Foundations of Economics: A Christian View*. Eugene, OR: Wipf & Stock, 2010. Hardcover.<sup>1</sup>

Review by Jeffrey M. Herbener

Joseph Schumpeter seems an unlikely candidate to have contributed to the rehabilitation of Christian thought on economics, but he could not ignore the scholarship on this topic that had occurred in the fifty years prior to the writing of his monumental *History of Economic Analysis*, published in 1954.<sup>2</sup> Despite the commonly-held view that economics sprung from the Scottish Enlightenment in the person of Adam Smith, Schumpeter concluded that the founders of economic science were the Scholastics writing from the 14<sup>th</sup> to the 17<sup>th</sup> century.<sup>3</sup>

The source of their breakthrough was the Scholastics' philosophical framework of natural law. When God spoke the world into existence, He made a created order. He does not maintain order by continuous contact with creation for God is transcendent, apart from and above creation. Instead, He decreed order into the nature of created things. Order is maintained by the natural working of the things He has made. The order of the cosmos, for example, occurs because God has built gravitational attraction into objects with mass. Likewise, social order arises naturally from human action because of certain features God has built into human nature. By endowing man with reason, God made him capable of discovering the natural laws by which creation is ordered. And for His glory and man's benefit, He commands him to live in obedience to His decrees. The Scholastics sought to discover natural laws and thereby reveal and come better to understand the mind of God and to act in conformity to His

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<sup>1</sup> When this issue went to press, the page count and price for this title were not yet available from the publisher.

<sup>2</sup> "During the last half-century, research in medieval economic conditions and processes has grown to proportions that are unmanageable for anyone but the specialist." Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), 82, note 1.

<sup>3</sup> "But while the economic sociology of the scholastic doctors of this period was, in substance, not more than thirteenth-century doctrine worked out more fully, the 'pure' economics which they also handed down to those laical successors was, practically in its entirety, their own creation. It is within their systems of moral theology and law that economics gained definite if not separate existence, and it is they who come nearer than does any other group to having been the "founders" of scientific economics." Schumpeter, *History of Economic Analysis*, 97.

natural laws since, like other types of laws He had decreed, they were part of His will to which man ought to submit in all respects.<sup>4</sup>

Spurred by this twofold motivation, the Scholastics developed both natural science and social science within their natural law framework. The great philosopher of science, Stanley Jaki, points to the pioneering ten-volume work of Pierre Duhem, *Le Système du monde: les doctrines cosmologiques de Platon à Copernic* (the first five volumes were published from 1913-1917 and the last five posthumously from 1954-1959), in which Duhem chronicled the role of the Scholastics in founding modern science. Breaking with Aristotle's views on physics, Jean Buridan and Nicole Oresme formulated Newton's first law of motion in the fourteenth century on the basis of their conception of a created order. Not only did they lay down the foundation of modern science, they went further to discover other universal, cause and effect relationships that God had built into the working of the natural world.<sup>5</sup> The scientific knowledge the Scholastics gained they put to use in production to better the material conditions of human life. The technological innovations they developed sparked the "little industrial revolution" of the High Middle Ages.<sup>6</sup>

Because they also perceived social order as the result of the natural working of creation, Buridan and Oresme sought to discover cause-and-effect laws of human action. Since these are laws that operate in and help explain the world as it is, the Scholastics' approach to economics is called causal-realist. Buridan pioneered the correct theory of money.<sup>7</sup> Oresme explicated the

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<sup>4</sup> In particular, they sought to be good stewards of creation in fulfillment of the creation mandate: "Be fruitful and multiply, and fill the earth, and subdue it; and rule over the fish of the sea and over the birds of the sky, and over every living thing that moves on the earth" (Gen 1:28). God repeats this decree to Noah and his family after the flood (Gen 9:1-2). As Thomas Woods documents, Christians were sufficiently motivated by these considerations to build the university system, found natural and social sciences, and develop technology and commercial society. See idem, *How the Catholic Church Built Western Civilization* (Washington, D.C.: Regnery, 2005). Also, see Rodney Stark, *The Victory of Reason* (New York: Random House, 2005).

<sup>5</sup> "[Buridan and Oresme] arrived at such scientific breakthroughs as the formulation of what later became known as Newton's first law of motion without which his second and third laws and the entire system of classical physics are inconceivable....such and similar breakthroughs (among them the definition of constantly accelerating motion), so important for the purposes of Galileo, had been handed down in ever wider circles of scholars....Buridan and Oresme broke with the debilitating Aristotelian physics of motion by reflecting on what was demanded by the Christian dogma of creation in time and out of nothing....since the Creator was absolutely transcendental to the universe, the latter's motion could no longer be conceived, as was done by Aristotle, as a continuous participation in the divine, but as a power given to it once and for all." Stanley Jaki, *The Absolute Beneath the Relative and other Essays* (Lanham, MD: University Press of America, 1988), 184-185.

<sup>6</sup> See Thomas Woods, *How the Catholic Church Built Western Civilization*, 33-38.

<sup>7</sup> "But the main great leap forward in economics contributed by Jean Buridan was his virtual creation of the modern theory of money. Aristotle had analysed the advantages of money, and its overcoming of the double-coincidence-of-wants problem of barter, but his outlook was clouded by his fundamental hostility to trade and money-making. To Aristotle, therefore, money was not natural but an artificial convention, and therefore basically a creature of the state or *polis*. Aquinas's theory of money was basically confined within the Aristotelian shackles. It was Jean Buridan who broke free of those shackles and founded the 'metallist' or

economic laws of monetary inflation.<sup>8</sup> As in physics, Buridan and Oresme broke with Aristotle, in this case his view that money is a social convention. Instead they showed that money arises naturally on the market as a readily saleable commodity and that money's purchasing power is determined by the value people place on money as a medium of exchange. For them, money's "price" was just another instance of the universal, causal laws that determine the prices of all goods. As with knowledge gained about the working of the natural world, the Scholastics were eager to put knowledge about society to use in human action. They did this by advising merchants on proper commercial activity and politicians on proper public policy.

The Scholastics working in the sixteenth century, primarily at the School of Salamanca, built on their predecessors' foundation the first school of economics.<sup>9</sup> What stimulated their interest in economics were the changing conditions of economic activity in the wake of the discovery of the New World. And their concern with discovering economic law remained, as it had for Buridan and Oresme, ethical. They wanted to apply economic law to pastoral and policy issues posed by changing economic conditions. Within this context, they expanded the topics in their writings on economics beyond money and sought to integrate the new topics into a general framework.

Their achievements were noteworthy. They developed a general theory of pricing showing that the level of the price of any good is determined by demand for and supply of the good and that demand and supply are determined by the value people place on the good. All prices are speculative because traders must base their demands and supplies today on what they expect the value of their actions to be in the future. All changes in prices occur through changes in demand and supply. Thus, the effect on the price of a good of a change in the circumstances of trade, like buyers having more income to spend or additional competitors entering a market, occur through the valuations people make under the new circumstances. Money, being a good, has its price

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commodity theory of money, i.e., that money originates naturally as a useful commodity on the market...and the value of that money, just as in the case of other market commodities, 'must be measured by human need.' Thus, Buridan remarkably set the agenda for determining the value or price of money, on the same principles of utility that determine the market prices of goods..." Murray Rothbard, *Economic Thought before Adam Smith: An Austrian Perspective on the History of Economic Thought, Volume 1* (Brookfield, VT: Edward Elgar, 1995), 73-74.

<sup>8</sup> "The great pioneer of this approach [philosophical realism to the analysis of money and banking] was the fourteenth century mathematician, physicist, economist, and bishop, Nicholas Oresme, who wrote the first treatise ever on inflation and, in fact, the very first treatise on an economic problem. Oresme exclusively dealt with the debasement of coins, a form of inflation that is unimportant in our age. But the principles he brought to bear on his subject are still up to date and have by and large remained unsurpassed. In modern times, Oresme's work has found its vindication in the writings of the Austrian school." Guido Hülsmann, *The Ethics of Money Production* (Auburn, AL: Mises Institute, 2008), ix.

<sup>9</sup> On the contribution of the late scholastics, see Alejandro Chafuen, *Faith and Liberty*, second edition (Lanham, MD: Lexington Books, 2003).

or purchasing power determined in the same way as any other good. The Scholastics reasoned that if the same good was trading in different markets arbitrage would tend to bring the prices in the different markets together. The insight that a money's purchasing power tends to be the same everywhere it is traded led them to the conclusion that exchange rates between different moneys move to maintain each money's purchasing power parity in different markets. Labor services, too, are goods and, therefore, subject to the same economic laws that apply to all goods. Wages are set by demand for and supply of labor services and the demand for labor is related to labor's productivity in making goods people value. The Scholastics took note of the role of entrepreneurs in bringing about valuable production and their earning of profit as a result. They reasoned that government imposed price controls would result in shortages and surpluses and that government generated monetary inflation would result in higher prices, income redistribution, and changes in the pattern of production.<sup>10</sup>

Approaches competing with the Scholastics' arose in the seventeenth century. One was a sterile rationalism disconnected from reality. The other was an empty empiricism disconnected from theory. They would influence the course of economic thought in the centuries that followed, as we will discuss below.<sup>11</sup>

Before their ill effects were felt, the first treatise on economics, *Essai sur la nature de commerce en général*, was written by Richard Cantillon around 1730 and published posthumously in 1755.<sup>12</sup> Cantillon accepted the Scholastic approach, but developed economic law separate from the ethical aims of the schoolmen.<sup>13</sup> His interest in the scientific character of economics led him to

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<sup>10</sup> Schumpeter gave a laudatory assessment of the Scholastics' work in economics. He wrote, "It will appear, even, that the bases [the Scholastics] laid for a serviceable and well-integrated body of analytical tools and propositions were sounder than was much subsequent work..." Idem, *History of Economic Analysis*, 97.

<sup>11</sup> "Thomism and scholasticism suffered from the contrasting but allied assaults by the champions of 'reason' and 'empiricism.' In Thomist thought, reason and empiricism are not separated but allied and interwoven. Truth is built up by reason on a solid groundwork in empirically known reality. The rational and empirical were integrated into one coherent whole. But in the first part of the seventeenth century, two contrasting philosophers managed between them the fatal sundering of the rational and the empirical that continues to plague the scientific method until the present day. These were the Englishman Francis Bacon (1561-1626) and the Frenchman René Descartes (1596-1650). Descartes was the champion of a desiccated mathematical and absolute certain 'reason' divorced from empirical reality, while Bacon was the advocate of sifting endlessly and almost mindlessly through the empirical data." Rothbard, *Economic Thought before Adam Smith*, 129.

<sup>12</sup> Richard Cantillon, *Essay on the Natural of Commerce in General* (New Brunswick, N.J.: Transaction Publishers, 2001). About Cantillon, Schumpeter wrote, "Pride of place is reserved, however, for Cantillon, whose *Essai* can be looked upon as the first systematic working of the field of economics. It bears the stamp of the scientific mind. The individual problems are permeated by unified explanatory principles and together go to make up a comprehensive analysis of great design." Joseph Schumpeter, *Epochen der Dogmen-und Methodengeschichte, Grundriss der Sozialökonomik*, first edition (Tübingen, 1914), vol. 1:1, 143. Cited in Hayek, "Richard Cantillon," *Journal of Libertarian Studies*, Vol. 7, No. 2 (Fall 1985), 223.

<sup>13</sup> "Cantillon consistently uses the expression 'natural' in the sense of a cause and effect relationship—in other words, as a scientific causal explanation—and as such it occurs about thirty times in the *Essai*. Closely

advance the causal-realist technique of mental constructs on two fronts. Cantillon made extensive use of the *ceteris paribus* condition, i.e., given a situation of action changing one causal factor in one's mind while holding others constant to isolate its effect. And a main architectural feature of his *Essai* is successive approximation, i.e., beginning with a simple situation of action and adding complicating conditions one by one to analyze their effects.<sup>14</sup> Employing these methods, Cantillon surpassed the Late Scholastics by developing a more detailed description of the natural order of the market economy than they did.<sup>15</sup>

Cantillon's insights were taught to the next generation of French intellectuals by Marquis de Gournay.<sup>16</sup> His chief student was A.R.J. Turgot. Turgot employed the methods developed by Cantillon more precisely and thereby exposed some of the economic laws underlying all human action.<sup>17</sup> He also pioneered analysis in new fields, among them capital and interest.<sup>18</sup>

From Cantillon and Turgot in the eighteenth century, the causal-realist line of economic thought originating in the Scholastics runs to the French Liberal School and its branch in America in the nineteenth century, to the main line of the Austrian school, whose most prominent figures in the twentieth century were Ludwig von Mises and Murray Rothbard. The Scholastic

related to this is his conscious and unremitting pursuit of 'pure theory,' of explanation of relationships divorced from value judgments...Within the confines of his theoretical analysis Cantillon wields its most important tool, the method of isolating abstraction, as we would call it today, with true virtuosity." F.A. Hayek, "Richard Cantillon," 223-24.

<sup>14</sup> "Richard Cantillon greatly developed this systematic method of abstractions and successive approximations. He liberally used the *ceteris paribus* method. Through this analytic method he uncovered 'natural' cause-and-effect relations in the market economy." Rothbard, *Economic Thought before Adam Smith*, 348.

<sup>15</sup> More importantly, Cantillon was the first to show in detail that all parts of the market economy fit together in a 'natural,' self-regulative, equilibrating pattern, with existing supply and demand determining prices and wages, and ultimately the pattern of production. Consumer values, furthermore, determined demand, with population adjusting to cultural and economic factors. The equilibrators of the economy were the entrepreneurs, who adjust to and cope with the all-pervasive uncertainty of the market. And if the market economy, despite the 'chaos' it might seem to superficial observers, is really harmoniously, self-regulating, then government intervention as such is either counterproductive or unnecessary." Rothbard, *Economic Thought before Adam Smith*, 360.

<sup>16</sup> Rothbard, *Economic Thought before Adam Smith*, 386.

<sup>17</sup> "In this paper [Value and Money] Turgot, working in a method of successive approximations and abstractions, developed an Austrian-type theory first of Crusoe economics, than of an isolated two-person exchange, which he later expanded to four persons and then to a complete market. By concentrating first on the economics of an isolated Crusoe figure, Turgot was able to work out economic laws that transcend exchange and apply to all individual actions." Rothbard, *Economic Thought before Adam Smith*, 390.

<sup>18</sup> "In the roster of A.R.J. Turgot's outstanding contributions to economic theory, the most remarkable was his theory of capital and interest which, in contrast with such fields as utility, sprang up virtually full-blown without reference to preceding contributions. Not only that: Turgot worked out almost completely the Austrian theory of capital and interest a century before it was set forth in definitive form by Eugen von Böhm-Bawerk." Rothbard, *Economic Thought before Adam Smith*, 395.

framework of natural law also produced another line of thought from Hugo Grotius and Samuel Pufendorf in the seventeenth century, to the Scottish enlightenment of the eighteenth century, to the branch line of the Austrian school in the twentieth century, whose champion was F.A. Hayek.

Gershom Carmichael, the founder of the Scottish Enlightenment, began his study of economics with the works of the natural law thinkers Grotius and Pufendorf. They accepted, as the Scholastics before them, that the prices of goods are determined by the value people place on them operating according to economic law. Carmichael's successor to the chair of moral philosophy at the University of Glasgow was his student Francis Hutcheson. Although he accepted some of his teacher's insights, Hutcheson diluted Pufendorf's framework with utilitarianism. Adam Smith learned his economics from Hutcheson and followed his pedagogy. Although Carmichael and Hutcheson introduced particular errors and inconsistencies into their system, it was Smith who decidedly broke with the Pufendorf tradition. Like his teacher, Smith imbibed the Scottish Enlightenment.<sup>19</sup> While he did not become an enemy of natural law as his friend David Hume did, Smith produced his own amalgam of thought from natural law and enlightenment views.<sup>20</sup> His approach proved to be a retrogression.<sup>21</sup> In David Ricardo, Smith's line of economic thought degenerated into arid formalism, fixation with hypothetical situations, and the labor-theory of value.<sup>22</sup>

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<sup>19</sup> Rothbard, *Economic Thought before Adam Smith*, 417-425.

<sup>20</sup> "Hume's *Treatise [Treatise of Human Nature (1739-40)]* was pivotal in its corrosive and destructive skepticism, managing unfairly to discredit the philosophy of natural law, to create an artificial split between fact and value, and therefore to cripple the concept of natural rights on behalf of utilitarianism and indeed to undermine the entire classical realist analysis of cause and effect." Rothbard, *Economic Thought before Adam Smith*, 425.

<sup>21</sup> "Before Smith, centuries of scholastic analysis had developed an excellent value theory and monetary theory, along with corresponding free market and hard-money conclusions. Originally embedded among the scholastics in a systematic framework of property rights and contract law based on natural law theory, economic theory and policy had been elaborated still further into a veritable science by Cantillon and Turgot in the eighteenth century. Far from founding the discipline of economics singlehanded, Adam Smith turned his back not only [sic] the scholastic and French traditions, but even on his own mentors in the considerably more diluted natural law of the Scottish Enlightenment: Gershom Carmichael and his own teacher Francis Hutcheson." Rothbard, *Economic Thought before Adam Smith*, 501.

<sup>22</sup> Schumpeter claimed that the British Classical School shunted economics into a dead end track, an unfortunate detour which adherence to the scholastic tradition could have avoided. He wrote: "And not only that: it will appear, even, that the bases [the Scholastics] laid for a serviceable and well-integrated body of analytical tools and propositions were sounder than was much subsequent work, in the sense that a considerable part of the economics of the later nineteenth century might have been developed from those bases more quickly and with less trouble than it actually cost to develop it, and that some of that subsequent work was therefore in the nature of a time- and labor-consuming detour." Schumpeter, *History of Economic Analysis*, 97.

The causal-realist view of the Scholastics moved from Turgot to J.B. Say and the French Liberal school.<sup>23</sup> Say founded the school with the publication of his *Traité d'économie politique* in 1803. Other distinguished members were Count Destutt de Tracy, Frédéric Bastiat, and Gustave de Molinari. The school dominated economics in France for a century and placed it on causal-realist ground.<sup>24</sup> Although many members of the French Liberal School eschewed the Christian foundation for the causal-realist approach, others embraced it. Bastiat, in particular, was explicit in delineating the Christian foundations of causal-realist economics.<sup>25</sup> Rothbard considered Bastiat the central figure of the French Liberal School for his rhetorical gifts, theoretical insights, and organizing skills. This felicitous blend of traits in Bastiat inspired free trade associations throughout Europe in the nineteenth century.<sup>26</sup>

The French Liberal school views migrated to America through the works of Say and de Tracy.<sup>27</sup> Say's *Traité* was translated into English in America as *A Treatise on Political Economy* in 1821, and Thomas Jefferson himself had de Tracy's *Traité de la volonté et de ses effets* (1815) translated into English in 1817 under the title *A Treatise on Political Economy*. Both works influenced Jeffersonian thought in America.<sup>28</sup>

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<sup>23</sup> "It is on the French, self-avowed Smithian, J.B. Say, that Turgot had the most influence, especially in the subjective utility theory of value, and to some extent in capital and interest theory. Say was the genuine heir of the French *laissez-faire*, proto-Austrian, eighteenth-century tradition." Rothbard, *Economic Thought before Adam Smith*, 403.

<sup>24</sup> "The economists of the Liberal School labored within a unique paradigm that diverged radically from that of the Classical School. This paradigm was nourished by a long and glorious tradition that reached back through Condillac, Turgot, Quesnay and Cantillon to the Scholastics. This tradition was only partially absorbed by Adam Smith and later bastardized by the Ricardian-Classical School through hazy thinking and inept exposition." Joseph Salerno, "A Conspiracy of Silence on the French Liberal School," <http://mises.org/story/2227>. July 14, 2006.

<sup>25</sup> "The economists observe man, the laws of his nature and the social relations that derive from these laws....The central idea of this work, the harmony of men's interest, is a *simple* one....It is *religious*, for it tells us that it is not only the celestial but also the social mechanism that reveals the wisdom and reveals the glory of God....I believe that He who designed the physical world has not seen fit to remain a stranger to the social world. I believe that His wisdom extends to human agents possessed of free will, that He has been able to bring them together and cause them to move in harmony, even as He has done with inert molecules." Frédéric Bastiat, *Economic Harmonies* (Irvington, NY: Foundation for Economic Education, 1968 [1851]), xxv, xxix, and xxxvi. Emphasis in original.

<sup>26</sup> Murray Rothbard, *Classical Economics* (Brookfield, VT: Edward Elgar, 1995), 444-453.

<sup>27</sup> On the migration, see Joseph Salerno, "The Neglect of the French Liberal School in Anglo-American Economics: A Critique of Received Explanations," *Review of Austrian Economics*, Vol. 2, No. 1 (1988), 113-156.

<sup>28</sup> On Destutt de Tracy, see Timothy Terrell, "The Economics of Destutt de Tracy," <http://www.mises.org/journals/scholar/Terrell1.pdf>. July 28, 1999.

One nineteenth-century Jeffersonian in political economy was the Baptist preacher Francis Wayland.<sup>29</sup> His popular textbook, *Elements of Political Economy* (1837) adopts Say's pedagogy. Say arranges his treatise into three books: the first on the production of wealth, the second on the distribution of wealth, and the third on the consumption of wealth. Wayland presents four books in *Elements*: production, exchange, distribution, and consumption of wealth.<sup>30</sup> Like Bastiat, Wayland explicitly based political economy on Christian foundations.<sup>31</sup>

Bastiat's writings directly inspired other political economists in America included Amasa Walker, Arthur Latham Perry, and Francis Amasa Walker.<sup>32</sup> Perry's 1865 work *Elements of Political Economy* was the country's most popular textbook of the time, going through 22 editions in 30 years. It was self consciously in the causal-realist tradition.<sup>33</sup> In the first chapter, "On the History of the Science," Perry traces out economic thought placing emphasis on Condillac, Whately, Bastiat, and Macleod as blazing the proper trail.<sup>34</sup>

The causal-realist approach was developing in France and America parallel to the British Classical School of Smith, Ricardo, and J.S. Mill until the "marginalist revolution" in economic thought in the 1870s. Dissatisfied with

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<sup>29</sup> Joseph Dorfman devoted a chapter of his book on economic thought in America to "The School of Wayland." On Wayland's influence, he wrote, "[Wayland's] book on economics went into many editions....It superseded Say, except in the rare cases where the teacher wanted to use a more subtle work." Idem, *The Economic Mind in American Civilization*, vol. 2 (New York: Augustus M. Kelley, 1966 [1946]), 767. Also, see Laurence Vance, "Francis Wayland, Preacher-Economist," *Independent Review*, Vol. 10, No. 3 (Winter 2005), 401-410.

<sup>30</sup> Francis Wayland, *Elements of Political Economy*, fourth edition (Boston: Gould and Lincoln, 1870 [1841]), 27.

<sup>31</sup> "Political Economy is the science of wealth....By science, as the word is here used, we mean a systematic arrangement of the laws which God has established, so far as they have been discovered, of any department of human knowledge. It is obvious, upon the slightest reflection, that the Creator has subjected the accumulation of the blessings of this life to determinate laws. Every one, for instance, knows that no man can grow rich without industry and frugality. Political Economy, therefore, is a systematic arrangement of the laws by which, under our present constitution, the relations of man, whether individual or social, to the objects of his desire, are governed." Wayland, *Elements of Political Economy*, 15.

<sup>32</sup> Salerno, "The Neglect of the French Liberal School in Anglo-American Economics," 132-148.

<sup>33</sup> "Political economy is the science of exchanges, or, what is exactly equivalent, the science of value. Properly to unfold this science, requires an analysis of those principles of human nature out of which exchanges spring; and examination of the Providential arrangements, physical and social, by which it appears that exchanges were designed by God for the welfare of man; and an inquiry into the laws and usages devised by men to facilitate or impede exchanges. The science, accordingly, is built up partly on facts of consciousness and partly on facts of outward observation. When its propositions are strictly deduced from acknowledged principles of human nature, and are shown to be consonant with the structure of the world and society; when they are simply and logically set forth in a system; and when, in their light, human institutions and laws relating to exchanges are correctly explained and estimated; then the science of value is soundly based and orderly unfolded." Arthur Latham Perry, *Elements of Political Economy* (University of Michigan Library, 2005 [1865]), 1.

<sup>34</sup> Rothbard, *Classical Economics*, 468.

where the British Classical approach had led economics, the revolutionary writers sought to give human valuation its proper place in the determination of prices and build economic theory up from the action of individuals.<sup>35</sup> However, three distinct approaches to economic theory grew out of the marginalist revolution. One, stemming from Léon Walras, sought to explain prices using a system of equations to depict an economy in general equilibrium, i.e., a hypothetical situation in which there is no room for further improvement in economic activity. Another, from Alfred Marshall, reoriented economic theory away from consumers toward the action of businessmen as it had been in the British Classical approach. In contrast, Carl Menger sought to ground economics in the Scholastic tradition of causal-realist thought.<sup>36</sup> Building upon Menger in the early twentieth century were fellow-Austrian Eugen von Böhm-Bawerk, the Englishman Philip Wicksteed, and the Americans J.B. Clark, Frank Fetter, and Herbert Davenport.

United in their desire to correct the British Classical School, proponents of the three views considered themselves working on a common new orthodoxy. Only decades later, did they come to realize the fundamental incompatibility between causal-realist framework and that of the emerging neoclassical school. By the 1920s, Mengerian views had been eclipsed by the Marshallian approach and during the 1930s a synthesis was forged from the Marshallian and Walrasian frameworks.<sup>37</sup>

Fostering the rise of the neoclassical school were intellectual traditions antithetical to causal-realist analysis. They opposed the Mengerian paradigm not only on methodological grounds but because of its demonstration of the superiority of *laissez-faire* in organizing social production. The German Historical School controlled professorial appointments in the German-speaking universities in the late nineteenth century and early twentieth century and closed the door to causal-realist economists. French appointments, too, were increasingly made to those more likely to profess activist public policy as the nineteenth century progressed.<sup>38</sup>

The Progressive Movement led to a professionalization of economics in America.<sup>39</sup> In the late nineteenth century budding American economists headed to German Universities to earn their Ph.D.s and join the Progressive project of

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<sup>35</sup> The triad of marginalist revolutionaries consisted of the Frenchman Léon Walras with the publication of his *Éléments d'économie politique pure (Elements of Pure Economics)* in 1874, the Englishman William Stanley Jevons with the publication of his *The Theory of Political Economy* in 1871, and the Austrian Carl Menger with the publication of his *Grundzüge der Volkswirtschaftslehre (Principles of Economics)* in 1871.

<sup>36</sup> On the three approaches, see Joseph Salerno, "The Place of Mises's *Human Action* in the Development of Modern Economic Thought," *Quarterly Journal of Austrian Economics*, Vol. 2, No. 1 (Spring 1999), 36-37.

<sup>37</sup> On the development of economic thought in the period, see Joseph Salerno, "The Place of Mises's *Human Action* in the Development of Modern Economic Thought," 38-57.

<sup>38</sup> Salerno, "The Place of Mises's *Human Action* in the Development of Modern Economic Thought," 46-49.

<sup>39</sup> Michael Bernstein, *A Perilous Progress* (Princeton, NJ: Princeton University Press, 2001).

using state power to supplant the natural order of society decreed by God with one molded by the “science” of social engineering. The archetype of the Progressive economist was Richard T. Ely, founder of the American Economic Association. From his post at Johns Hopkins, Ely turned out a hoard of disciples dedicated to the Progressive project. At Wisconsin in 1892 he founded a new school of economics, political science, and history which helped created the Wisconsin Idea and led to a raft of state interventions. Ely also pushed for federal government control of society during the First World War.<sup>40</sup>

As an integral part of the state mechanism of social engineering, economists received an enormous boost during the Second World War.<sup>41</sup> Led by John Kenneth Galbraith at the Office of Price Administration, economists swarmed to Washington to run the apparatus of federal government control of the economy. Formal modeling became the norm for “scientific management” of the economy.

In the postwar years, the advance of formal modeling as the orthodoxy for “scientific” economics was proceeding apace. Led by the Paul Samuelson, the economics profession was relying increasingly on mathematical modeling of the economy as the proper method of constructing economic theory.<sup>42</sup> In this conception, economic laws are hypotheses whose merit is demonstrated by empirical testing. Milton Friedman substituted “falsificationism” for Samuelson’s more primitive positivism in the 1950s, but the formal model-building framework remained intact and tightened its hold on professional economists in the decades that followed.<sup>43</sup>

Undeterred by the direction of the economics profession, Ludwig von Mises revitalized the causal-realist tradition with the publication of his *magnum opus*, *Human Action* in 1949.<sup>44</sup> In this work, the causal-realist view was given its most elaborate and systematic presentation. The brilliance of the book attracted a number of talented followers to Mises, who accepted and built on his framework.<sup>45</sup>

When Murray Rothbard published his treatise, *Man, Economy, and State*, thirteen years later in 1962, he still harbored the hope of turning

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<sup>40</sup> Murray Rothbard, “World War I as Fulfillment: Power and the Intellectuals,” *The Journal of Libertarian Studies*, Vol. 9, No. 1 (Winter 1989), 101-106.

<sup>41</sup> Salerno, “The Place of Mises’s *Human Action* in the Development of Modern Economic Thought,” 59-60.

<sup>42</sup> Paul Samuelson, *Foundations of Economic Analysis* (Cambridge, MA: Harvard University Press, 1947).

<sup>43</sup> Milton Friedman, “The Methodology of Positive Economics,” *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953). On these issues of method, see Salerno, “Introduction,” *Man, Economy, and State with Power and Market*, scholar’s edition (Auburn, AL: Mises Institute, 2009), xlii.

<sup>44</sup> Ludwig von Mises, *Human Action*, scholar’s edition (Auburn, AL: Mises Institute, 1998). Mises first published his *magnum opus* in 1940 as *Nationalökonomie*, but it had little influence because of the war. Near the end of the war, Mises began to write an English-language version of his earlier work, which became *Human Action*.

<sup>45</sup> Guido Hülsmann, *Mises, the Last Knight of Liberalism* (Auburn, AL: Mises Institute, 2007), 837-946.

economists back to the causal-realist tradition.<sup>46</sup> By the 1970s, however, it was clear that the economics profession had no use for old-fashioned treatises. *Man, Economy, and State*, however, sparked a revival of causal-realist economics among vocational economists.<sup>47</sup>

Rothbard's original plan was to write a textbook, condensing, simplifying, and presenting the edifice of thought developed by Mises in *Human Action* to students of economics. He soon realized that there were too many gaps and underdeveloped areas in Mises's *magnum opus* and thus, he wrote his own treatise instead.<sup>48</sup>

With the publication of *Foundations of Economics*, Shawn Ritenour now completes the original plan of Rothbard. He has condensed Rothbard's treatise of more than 1,000 pages into a textbook of half that length. Ritenour has accomplished the task deftly, maintaining proper breadth and depth over both microeconomic and macroeconomic topics for the novice student. One example is his excellent discussion of Keynesian economics. In just eleven pages, Ritenour faithfully outlines the essential contours of Keynes's model of the economy. He explains Keynes's asserted dichotomy between stable consumption and volatile investment and how, within the confines of his model, Keynes concluded that when people save more, standards of living decline, and that private investment generates the business cycle. It takes Ritenour merely five pages to explode the underlying fallacies and vindicate the orthodox views, painstakingly developed earlier in the book, that saving is the source of capital accumulation and economic progress and that private investment secures efficiency in selecting the various lines of capital expansion.

Moreover, Ritenour shows a master's hand in progressing from the fundamental principles laid out in the early chapters to the more advanced topics covered at the end. When introducing a more difficult area of discourse, he shows students the link back to fundamental principles. In introducing the analysis of the determination of the purchasing power of money, for example, Ritenour gives students a short overview of the ground already covered: the nature of money, how money originates in voluntary exchange, how people's preferences result in an array of money prices and how these prices determine production decisions.

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<sup>46</sup> Murray Rothbard, *Man, Economy, and State with Power and Market*, scholar's edition (Auburn, AL: Mises Institute, 2009). "In fact, in private correspondence dated February 1954," writes Joseph Salerno, "Rothbard expressed confidence that mainstream economist theorists could still be drawn back toward the causal-realist research program..." Joseph Salerno, "Introduction," in *Man, Economy, and State with Power and Market*, xlv.

<sup>47</sup> On economics as a vocation, see Joseph Salerno, "Economics as a Vocation," *The Free Market*, Vol. 23, No. 1 (January 2005), 1-3.

<sup>48</sup> On the extensions of Mises's work that Rothbard makes in *Man, Economy, and State*, see Joseph Salerno, "Introduction," xxiv-xxvii.

There is no other book like *Foundations of Economics*. Among the current Austrian books aimed at the novice student of economics, it's more extensive than either David Gordon's excellent *Introduction to Economic Reasoning* or Henry Hazlitt's classic *Economics in One Lesson* and more systematic than Gene Callahan's *Economics for Real People*.<sup>49</sup> Among the current Christian books aimed at the novice, it more fully embraces the existence of causal-realistic laws of economics and more extensively develops the system of economic laws than either Tom Rose's *Economics: Principles and Policy from a Christian Perspective* and *Economics: The American Economy from a Christian Perspective*, or Gary North's *Introduction to Christian Economics*.<sup>50</sup> *Foundations of Economics* surpasses the older textbooks in the causal-realist tradition, because Ritenour stands on the shoulders of Mises and Rothbard.<sup>51</sup> And even the better current secular textbooks, like Paul Heyne, et al, *The Economic Way of Thinking* and Armen Alchian and William Allen, *University Economics* (or its condensed version, *Exchange and Production*), fail to measure up to *Foundations of Economics* because they are not in the causal-realist tradition.<sup>52</sup>

Although designed to be used as a textbook, *Foundations of Economics* avoids the major pitfalls of the genre. Economics textbooks tend to be written like encyclopedias. Each topic is explained as a self-contained unit. This pedagogy veils the interconnectedness of economic propositions from students. The causal-realist method of step-by-step logical development of economic propositions opens the way for students to see the unity of economic theory. In *Foundations of Economics*, Ritenour demonstrates how the fundamental principles of action, such as valuing, choosing, and economizing form the foundation of the explanations of the array of prices, patterns of resource use, incomes, and capital investment and how these elements of the economy relate to each other. His approach pays the greatest dividends in integrating microeconomics and macroeconomics. In neoclassical economics, the disconnection between microeconomics and macroeconomics is especially

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<sup>49</sup> David Gordon, *An Introduction to Economic Reasoning* (Auburn, AL: Mises Institute, 2000); Henry Hazlitt, *Economics in One Lesson* (Auburn, AL: Mises Institute, 2008); Gene Callahan, *Economics for Real People*, second edition (Auburn, AL: Mises Institute, 2004).

<sup>50</sup> Tom Rose, *Economics: Principles and Policy from a Christian Perspective* (Mercer, PA: American Enterprise Publications, 1986); idem, *Economics: The American Economy from a Christian Perspective* (Mercer, PA: American Enterprise Publications, 1985); Gary North, *Introduction to Christian Economics* (Craig Press, 1979).

<sup>51</sup> In addition to the nineteenth-century books mentioned above, the causal-realist works from the twentieth-century include Frank Fetter, *Principles of Economics* (New York: Century Company, 1910); Phillip Wicksteed, *The Common Sense of Political Economy* (London: MacMillan, 1910); and Herbert Davenport, *The Economics of Enterprise* (New York: MacMillan, 1914).

<sup>52</sup> Paul Heyne, et al, *The Economic Way of Thinking*, twelfth edition (Upper Saddle River, NJ: Prentice Hall, 2009); Armen Alchian and William Allen, *University Economics*, third edition (Belmont, CA: Wadsworth Publishing, 1972); idem, *Exchange and Production* (Belmont, CA: Wadsworth Publishing, 1983).

acute. Microeconomics occupies the familiar ground of consumer choices, prices, business profits and losses, resource allocation, and income distribution. Macroeconomics constitutes a world apart in which the principles of the micro world have been banished and economic phenomena are determined by strange interlopers like aggregate demand, a putty-clay capital stock, and animal spirits. But with the causal-realist method, Ritenour is able to weave seamlessly the explanations of macro-activity, economic progress and business cycles, together with the micro-activity of prices, economic calculation, and the capital structure.

Another problem with economics textbooks is their modal style. Granted, the technical aspects of economic theory, details of the marginal product of labor or intricacies of the elasticity of demand, aren't exactly fields ripe for reaping sparkling prose. Ritenour enlivens these technical topics through winsome examples. Taking his cue from Rothbard, he writes lucidly and engagingly, and his love of economic truth shines through from beginning to end.

Perhaps the most egregious problem with economics textbooks is their unscientific treatment of public policy. Most authors are unwilling or unable to present a well-thought-out system of ethics, let alone a rigorous analysis of how economics relates to ethics. Secular, neoclassical economists often implicitly consider efficiency a moral imperative. Hence, any "market failure" to achieve it is sufficient justification for state intervention to correct the market. Moreover, the modeling technique of neoclassical economists is of little use in revealing either actual failures of the market to achieve efficiency in the world as it is or what the actual effects of a particular policy in its given real-world circumstances are. And, since a model can be constructed to show almost anything one wants to claim to be a market failure is a market failure (in the model) or that almost any policy one favors will correct the market failure it's designed to correct (in the model), this technique is particularly vacuous in policy studies. Christian, neoclassical economists tend to parrot the method of their secular counterparts in policy work but replace efficiency with what they consider to be a Christian ethical ideal. Neoclassical economists also have a tendency, thankfully less pronounced than it once was, to treat the state as a *deus ex machina* that can miraculously secure the results they claim are moral imperatives concerning material wealth. These views fail to come to grips with the Christian concept of natural law. If God has decreed economic laws that govern social interactions through the working of human nature, then state intervention will have baneful effects on the social order. In this view, economics informs ethical claims about policies by showing what the actual effects of the policies are. Armed with such knowledge, economists can offer wise counsel on policy questions. When politicians adopt policies that disregard or intentionally violate economic laws, they impair the social order. It's a telling commentary on the degree of state intervention in the economy, that

Ritenour devotes nearly half of *Foundations of Economics* to policy questions, from micro topics such as monopoly, labor unions, and price controls to macro topics including monetary inflation and credit expansion, interference with market adjustments during recessions, to taxing and spending. Having developed a system of economics laws, Ritenour is able to demonstrate the malign effects on the natural social order of the litany of state interventions.

It would be jarring to a Christian's sense of morality if submission to God's natural laws in the social order conflicted with conformity to His stated principles of justice in society. Ritenour shows the harmony of God's laws in these different realms. *Laissez-faire* is both an implication of God's economic laws and an imperative of the rules of private property He ordains. By closing off state intervention as a means to attain certain outcomes in society that He commands Christians strive to attain, God has given these tasks to other social institutions. The family, not the state, has the responsibility to raise children, provide goods for its members, and care for its elderly members. The church, not the state, is to provide for the needy in society. Christians can form voluntary associations to provide the things that God has not given over to other social institutions.<sup>53</sup> Moreover, *laissez-faire* frees people from the depredations of state coercion to develop and improve the division of labor and thereby, fulfill the creation mandate given by God to mankind to be fruitful and multiply, and fill the earth and subdue it.

*Foundations of Economics* stands in the august tradition of economic thought. Economics began in the High Middle Ages as a science of causal-realist laws about society built within a Christian framework and used in analyses of the ethics of commercial and political activity. In the nineteenth century, many economists were carried away by the errors of the British Classical School, which proved to be a dead end, and wasted their efforts. In similar fashion, the twentieth century has seen the efforts of many economists who have followed the Neoclassical School come to nothing.<sup>54</sup> Yet, throughout the long history of economic thought, there have always been champions of the causal-realist view. Their numbers are swelling as dissatisfaction with the neoclassical approach grows. Perhaps we are on the cusp of another revolution in economic thought in which the causal-realist tradition will have opportunity as it did nearly 140 years ago to assert itself as the mainstream. For those who seek to study God's natural social order, *Foundations of Economics*

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<sup>53</sup> For a discussion of the "sphere sovereignty" variation of this view, see Abraham Kuyper, *Lectures on Calvinism* (Grand Rapids, MI: Eerdmans, 1953).

<sup>54</sup> For an assessment of the fruits of neoclassical economics, see the series of articles "What Went Wrong with Economics," 11-12; "The Other-Worldly Philosophers," 65-67; and "Efficiency and Beyond," 68-69; in *The Economist*, July 18, 2009. Paul Krugman, a leading Keynesian economist, claims that much of the past thirty years of macroeconomics was "spectacularly useless at best, and positively harmful at worst." Quoted in "What Went Wrong with Economics," 11.

is now the gold standard of introductory treatments of economics in the causal-realist tradition.

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Holmes, David L. *The Faiths of the Founding Fathers*. New York: Oxford University Press, 2006. 240 pp., hardcover, \$20.00.

Review by Samuel C. Smith

Evangelical Christians believe that salvation is an individual affair. Growing up in the Bible Belt, I more than once heard ministers say that “God has no grandchildren.” I learned from my earliest days that getting to heaven did not depend on my parents’ faith, joining the church, or being an American. It depended rather on individual appropriation of the death, burial, and resurrection of Jesus Christ. My belief in the personal nature of salvation explains in part my interest in *The Faiths of the Founding Fathers* by David L. Holmes.

The monolithic treatment of religion is a recurring problem in the study of American history. Some scholars plunge headlong in their quest to prove a godless America, running roughshod over evidence to the contrary. Conversely, Christian writers sometimes go to the other extreme arguing for an all-orthodox America. Holmes seeks to avoid both by steering a middle course. Instead of presenting a one-size-fits-all American faith or non-faith, he argues that the early Republic’s religious character was as varied as its people, albeit with a deep underlying respect for Christianity.

The strengths of this work are many. *The Faiths of the Founding Fathers* is well written, readable, and concise. Its accessible nature makes it an excellent book for undergraduates. Dealing with what can sometimes be a hotly debated topic, Holmes is fair and irenic. He disagrees with conclusions on both sides, especially with Christian right interpretations. But in his presentation he is never disagreeable or belittling, displaying a kind of gentlemanly scholarship that all can emulate.