

## BOOK REVIEW

### *FINANCE BEHIND THE VEIL OF MONEY: AN ESSAY ON THE ECONOMICS OF CAPITAL, INTEREST, AND THE FINANCIAL MARKET*

EDUARD BRAUN  
LIBERTY.ME, 2014, XXIV + 342 PP.

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Based on his doctoral thesis directed by Jörg Guido Hülsmann (who also wrote the foreword to the book), German economist Eduard Braun's *Finance Behind the Veil of Money* aims to show how money affects our financial decisions. The reader will notice that Braun approaches this goal from a different angle of most Austrian-school economists. Instead of looking at how money and credit affect interest rates and propagate an Austrian business cycle, Braun focuses on the "subsistence fund." Largely jettisoned from modern Austrian business cycle theory, in a way *Finance Behind the Veil of Money* picks up where Richard Strigl left off with his *Capital and Production* (1934).

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In expounding an updated theory of the definition and role of the subsistence fund, Braun rewards the reader for the time dedicated to reading the book. This time is not insubstantial. At 342 pages, the book is neither concise nor easy reading. It is heavy, dense, technical and littered with citations. The publisher's exclusive use of endnotes makes the going tougher yet, as the reader constantly finds himself flipping pages to find out to whom Braun is attributing a concept, to what era the idea belongs or, indeed, since Braun uncovers the changing thoughts of several authors over their lifetimes, to what specific work of an author he is referring.

Adding to the difficulties are several chapters with only tangential relevance to the subject at hand. Two sections of chapter 17 discuss, for example, monetary systems that separate money's pricing and exchange roles (pp. 170–177). Chapter 19, dealing with the role of the financial market, seems to not contribute anything to his book than to bring the level down from an otherwise high standard by stating, at length, the obvious: that financial markets intermediate savings through loan and equity investments. Chapter 22, dealing with the German financial crisis of 1873, seems an unlikely addition to an otherwise theory-laden book. (One interesting yet inadequately explained tidbit in this chapter is that dividend yields on German shares rose throughout the boom [p. 242], i.e., at the same time as credit expansion was relatively lowering interest rates. Since the rise in dividend payout ratios runs against common sense and experience, it would be nice if Braun could more thoroughly explain this paradox.)

Most readers will no doubt find many passages in the book to be either confusing at best, or wrong at worst. For example, Braun takes on the whole doctrine of opportunity cost analysis claiming that it “creates costs where they do not exist—in decisions—and neglects costs when they actually arise—in action” (p. 33).

I don't see much neglect by economists of the use of opportunity costs in action. The corollary is that such costs must also affect our decisions. Ask any first-year economics student what the cost of Braun writing his book was and he will surely say “the value he would give to the next-best alternative on which he could have spent the time.” In other words, opportunity cost in action. For the sake of argument, let's assume Braun's next best use of his time was to practice playing piano. On what basis did he decide to

write the book and thus not practice piano? Opportunity cost, of course. Since the time commitment was the same and defined (let's assume) Braun's only two options, he pursued the one he valued more highly (or what is the same, had the lower opportunity cost).

Braun's chapters on the time-preference theory of interest will meet the most resistance. Indeed, they are the places where this reviewer found himself either lost or unable to agree with Braun's reasoning. Mostly the troubles crop up early as he lays the building blocks for his subsequent theory. Consider the following passage as a case in point.

*Everything one does* must be called consumption because, apparently, one *wants* to do it. Someone who saves an apple for next month does not *save* at all. Instead, he *consumes*. He prefers the Apple in his fruit bowl to the enjoyment of eating it right now. Hence, the decision whether to eat the apple is not a decision between a present good and a future good. It is rather a decision between a present good on the one hand—eating an apple—and a *combination* of a present good *and* a future good on the other. (p. 21)

In short, Braun does not believe that the “*value difference between present and future goods*” (p. 40) exists by necessity. For him, it is not a praxeological law. On the one hand, sure, if we want to start defining consumption as doing what one wants, then I have no quarrel with Braun's argument. On the other hand, there are good reasons to separate actions into productive and consumptive activities. Menger's imputation theory of value makes it clear that the value of higher-order (capital) goods can only derive from the value placed on the utility of lower-order, or consumers', goods (Menger, 1871, pp. 55–67). Braun makes much use of the value and general price level of consumers' goods later on, particularly in his look at the purchasing power of money in chapter 16. If every good is a consumer good, one wonders how these two chapters can be reconciled.

Braun states the traditional pure time-preference theory (PTPT) of interest as one comparing present goods with future goods. He criticizes Hulsmann's theory of interest on the same grounds, as “the term ‘future good’ [is] a synonym for the [term] ‘means’” (p. 51). Yet, while early Austrian-school economists, e.g., Menger and Böhm-Bawerk, focused on the intertemporal value spread between

the same quality and quantity of goods, later generations had a more nuanced approach.

By the time the pure time preference theory (PTPT) of interest reached its full elaboration by Fetter (1914), a work which is absent from Braun's otherwise very comprehensive reference list, it was clearly based on a comparison of satisfactions equal in all but their timing. To be sure, some of the earlier Austrian authors and especially Böhm-Bawerk focus on the intertemporal value spread between present and future goods that Braun attacks.<sup>1</sup> It is true to say that Fetter considered that the rate of interest could only be embodied through one specific good, i.e., money, since any capitalization of expected future values could only be imputed to the present by means of a common denominator (Fetter, 1915, p. 116). But the origin of time preference is reckoned by the intertemporal value spread of wants expressed in money terms. Nor is it true that Fetter's PTPT of interest is rooted in psychological factors, as Braun (p. 17) suggests. Indeed, Fetter was critical of Böhm-Bawerk's reliance on both psychological reasoning and physical differences of goods, instead of value differences (Fetter, 1914, p. 127fn2).

Yet, for all its difficulties, the reader is duly rewarded for trudging on.

Braun puts forward the idea that the only "*difference between saving and investing lies in the time dimension*" (p. 55). In this Braun makes a very important point. Savings are always in money terms (or rather, income terms). Therefore, savings are always unconsumed income. Investing is the act of converting this unconsumed income to a claim to a future good (i.e., not consuming it). Thus, savings can only have one dimension: a value dimension as per the value of the unconsumed goods.

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<sup>1</sup> Böhm-Bawerk attributes the preference for present over future goods as a tendency brought about by three complementary causes (Herbener, 2011, pp. 31–34). First, since any present good can be enjoyed by the owner until some future time, the value in the present must necessarily be greater than that of the future (Böhm-Bawerk, 1889, p. 266). Second, that "we systemically undervalue our future wants and also the means which serve to satisfy them" (p. 268). Finally, that "as a general rule," present goods are technologically preferable to future goods as concerns their ability to satisfy wants, and as a result must warrant a "higher marginal utility" than future goods (p. 273).

Investment is bidimensional: the value of the unconsumed consumers' goods, and the duration of their tie-up.

The somewhat smallish early quibbles and marginal contributions aside, the book gets really interesting in chapter 16 on "The Role of the Purchasing Power of Money in the Business Sphere." In this chapter, he draws heavily from Friedrich Weiser and Arthur Marget to show that the purchasing power of money in terms of producers' goods is not relevant to human action. Ultimately, Braun's argument is just an extension of Menger's imputation theory of value. Since all value derives from that places on consumers' goods, so too must money's.

The reader should trudge his way through this book for two reasons. First is the aforementioned explanation for why the purchasing power of money must be defined in terms of consumers' goods prices, not capital goods. (Though this is an ironic conclusion for Braun to make given his doubts in the early part of the book as to whether it is even possible to speak of anything other than consumers' goods. Perhaps he should restate his theory so that the purchasing power of money is only defined in terms of *goods'* prices, though this reviewer thinks this would be a step backwards.)

Second, and more importantly, Braun resurrects the subsistence fund doctrine. There is no doubt in this reviewer's mind that he is the foremost authority on this bygone relic of Austrian business cycle theory. This is unfortunate, not because I don't think Braun is up to the task, but because it is such an integral aspect of business cycle theory and completely neglected by modern writers. Braun takes the reader through the historical development of the concept, and gives a good overview of the difficulties that third and fourth generation Austrian-school economists encountered when trying to "sell" this aspect of their business cycle theory. While most sympathetic economists emphasize Hayek's "loss" to Keynes and the ensuing death knell of broad acceptance of Austrian business cycle theory as due to ideological factors, after reading Braun's book an equally defensible explanation arises. Hayek was unable to provide a satisfying real resource constraint in his business cycle theory. In part this was because of the difficulties in updating the subsistence fund concept to the modern financial economy. Braun doesn't quite get there, but he's definitely taken many steps in the right direction.

## REFERENCES

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