WAS CARL MENGER JEWISH?

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Carl Menger, arguably the greatest economists who ever lived, the founding father of Austrian Economics – a branch of the science of economics based on a conservative organic theory of the evolution of money – (as opposed to the reactionary and socialist-etatist theory) was born on February 23, 1840 in Nowy Sacz (Neu Sandez), a town in the Province of Galicia of what was to become in 1867 the Austrian Hungarian Dual Monarchy.

This province had a large concentration of Jewish population and served as the spring-board of Jewish migration to other parts of the Austrian-Hungarian Empire, hence, to the rest of Europe and, later, to the Americas.

This fact was considered as *prima facie* evidence that Carl Menger and his Austrian School of Economics had Jewish origins, both by philo-Semitic as well as anti-Semitic circles – depending the parochial interests of those particular circles involved.

In this paper we shall examine this claim in the light of the personal auto-biographical notes of Carl Menger that after his death were put into the family archives by his son Karl Menger, apparently with the intention of writing his father biography later (that never happened).

Ultimately, the family archives were deposited in the Library of Duke University by Eva L. Menger, Karl's daughter after the death of her father. By now the personal papers of both the father Carl and the son Karl are in the public domain and can be consulted on the campus of Duke University in Durham, N.C.

In 1889 the German-language conservative newspaper *Österrechischer Volksfreund* complained about the "Judaization of the University of Vienna" and referred to Carl Menger and his brother Anton Menger, both professors and one-time rectors, as Jews.

Anton and Carl responded that they were not Jewish and that there were no Jews in their family. In fact, they were born into a devout Roman Catholic family. It is known that Carl Menger's maternal grandfather Jozef Geržabek who owned an estate around Maniowy in Poland had built a church dedicated to St. Nicholaus there in which both he and his wife Therese were buried. Moreover, Anton and Carl attended a gymnasium run by the R. C. Church in Teschen (Cieszyn).

Their denial, however, failed to convince the German conservatives who asserted that the behavior and the views of both professors betrayed either real or adopted Jewish traits, and the allegation that they were Jewish was repeated elsewhere, e.g., in the newspaper *Das Vaterland.*

Later Carl Menger became the target of anti-Semitic attacks over his role in establishing the gold standard in the Austro-Hungarian Empire as a member of the Austrian Currency Commission.

The specific charge was that in promoting the gold standard Menger was working for "the Jewish *haute finance*" – just as the pro-gold (Republican) party in the United States was – opposed by the "silverites" under the leadership of William Jennings Brian (of "the crime of 1871" fame, whose plank to re-establish bimetallism in the United States was soundly defeated in the presidential election of 1896.)

During the deliberations of the Austrian Currency Commission Carl Menger correctly maintained that the gold standard was the only monetary regime that would neither favor debtors at the expense of the creditors, nor would it harm them in favor of the creditors. Menger's argument to support the thesis of the even-handedness of the gold standard bears repeating.

It rests on his theory of marketability of goods. A good *A* is said to be more marketable than another *B* if the bid/asked spread increased more slowly as ever larger quantities were dumped on the markets of *A* than the case would be on the markets for *B*. Thus losses incurred while trading in and out of *A* were smaller than those incurred in trading in and out of *B*. In this metric the most marketable good turns out to be gold and the second most marketable, silver. This is why the yardstick measuring value ought to be ideally made of gold. That done, the losses of both creditors and debtors would be minimized in case their contracts were rewritten in consequence of a monetary reform changing the standard of value from silver to gold.

If the less marketable monetary metal were selected as the standard of value in preference to gold, then there would be a flight out of silver into gold motivated by the desire to avoid or minimize losses. That

would allow debtors to get out of debt on the cheap by tendering the less valuable monetary metal in paying down their debt. On the other hand, creditors would make large loans in terms of the less marketable monetary metal hoping to make unearned capital gains to be derived from the flight out of silver into gold at the expense of the debtors.

The problem of choosing the material out of which the yardstick measuring value ought to be made is fully analogous to that of measurig length. For that purpose a platinum rod was chosen because it reacts to changes in temperature least. Likewise, the value of a gold coin reacts to violent changes in market conditions least.

Conclusive evidence never turned up supporting the charges of a conspiracy between the U.S. Treasury and Congress. However, the claim stands that in demonetizing silver the Constitution had been manipulated. For one thing, the proper guidelines prescribing how the Constitution ought to be amended were ignored. The very fact that an important change in the Constitution was involved that affected all creditors and debtors was obfuscated. To say the least, this has made the manner in which silver was dropped as the monetary standard disingenuous.

The gold standard is the only monetary system that is free of bias in favoring either debtors or creditors. It was on this basis that Menger supported the its establishment in Austria-Hungary. The charge that he was an agent of 'Jewish haute finance' is absurd.

Menger's pivotal idea was that of marketability of goods, as measured by the spread between the asked and bid price. The spread is a function of quantity. The more of a good is traded, the wider will the spread necessarily be. Sellers will raise their asked price as they worry that they may not be able to replenish their stocks after they have filled all the buy orders. Buyers will lower their bid price as they worry that they may not be able to reduce their stocks after they have bought all

that was offered. Clearly, the bid/asked spread is an increasing function of the quantity traded. Therefore the marketability of a good is increasing as ever larger quantities are traded in the markets.

Tradable goods are ranked by their marketability as it decreases together with an increase of quantity traded. The most marketable goods are the monetary metals gold and silver. In any exchange (barter) they are sought after as sellers want to exchange their surpluses for those of others. They "park" their purchasing power until they find the good that suits their purposes best. This is Carl Menger's famous explanation for the origin of money and the emergence of the monetary economy overtaking barter. As can be seen, the decisive property here is 'marketability in the large'.

A consequence of gold's greater marketability is the fact that the spread between the gold export and import points under a gold standard is narrower than that between the silver export and import points under a silver standard. The narrower spread "makes the gold standard tick" as it makes the stabilization of foreign exchange rates possible. Should the spread widen, speculators were ready to arbitrage it away.

This is tantamount to saying that the cost of transporting the unit of value as represented by gold is lower than that as represented by silver. In other words, the efficiency of transporting value in *space* is optimized only under the gold standard.

Later on when we discuss the duality of Menger's concept of "Absatzfähigkeit" as it splits into marketability in the 'large' and that in the 'small', we shall pose the dual question: how to optimize the efficiency of transporting value in *time*. The answer takes us to the

theory of hoarding on which, in turn, the theory of interest rests. Thus Menger's ideas lead directly to the theory of interest. No credit has been given to him for this feat. The consensus is that Menger simply had offered no theory of interest of his own. Of course, this is mistaken. Implicit in Menger's *opus* is the nexus between gold and interest and everything needed for developing a comprehensive theory of interest in an embryonic form.

The nexus between gold and interest has been studied recently by NASOE, the New Austrian School of Economics. Interest cannot be explained without understanding gold, as gold hoarding and dishoarding are the residual forms of converting income into wealth and wealth into income. Interest exists not as a consequence of a mythical innate time preference of human beings (it is easy to provide counter-examples of instances when they do not prefer present goods to identical future goods). It exists as a consequence of their inescapable need to convert income into wealth and wealth into income.

Were secular and canonical authorities set upon stamping out interest (as advocated by J.M. Keynes in the twentieth century, and attempted by the Federal Reserve Board of the U.S. in the first decades of the twenty-first), individuals would fall back on the 'atavistic' method of hoarding the good that is most hoardable in the small, namely, gold, thus creating deflation.

Milton Friedman developed a theory in trying to prove that the bimetallic monetary system was superior to the gold standard by introducing the concept of "bimetallic arbitrage points" (analogous to the gold export and import points). However, his construction is

erroneous as it ignores the fact that under bimetallic guidelines discharging debt must be performed in silver or gold *at the option of the creditor,* the bank, rather than at the option of the debtor. In comparison with Menger's genius, Friedman appears as a hopeless bungler who was blinded by the fetish of the Quantity Theory of Money

In 1946 the University of Chicago invited Friedman to join its faculty to teach economics. This he did but his avowed conservatism and opposition to Keynesianism was not genuine. Instead, he stepped into Keynes' shoes to give the gold standard the *coup de grâce*. When president Nixon reneged on the international obligation of the U. S. government to pay its debt in gold in 1971, an urgent need arose to put the default in a favorable light. Friedman was happy to be of service. He came up with a false (not to say inane) theory of the adjustment mechanism of foreign exchange rates according to which equilibrium can be restored in the export-import trade of countries through the "sliding devaluation of currencies", a.k.a. the "regime of floating foreign exchange rates" – damned be the gold standard! As justification he offered the preposterous argument (still very much in the vogue) that if the *agio* of the valuta of a country falls, then this encourages exports and discourages imports and, vice versa if it rises. According to Friedman, through sliding devaluation the equilibrium in a country's foreign trade accounts can be reestablished automatically and painlessly while the shame formerly attached to devaluations is eliminated. Vice is turned in virtue!

It is easy to see that Friedman's theory is preposterous. It sidesteps the problem that the devaluation of the national currency, sliding or not,

grievously undermines the purchasing power of the producers. Namely, it tends to make the ingredients that go into exports more expensive. In praising the virtues of a 'soft valuta' Friedman paints a fool's paradise. But the hard fact is that if the soft valuta helps the export industry, this is true only as long the stockpiles of those ingredients last. No sooner than they are exhausted those ingredients will have to be imported *at the new unafavorable exchange rate*. This will inevitably lead to an increase in the price of the export items of the devaluing country. Devaluation always and everywhere undermines competitiveness. It renders the devaluing country's terms of trade inferior. The truism may be remembered that no champion can increase his competitiveness through self-mutilation. Devaluation of the national currency is self-mutilation by another name.

As the subsequent decades convincingly proved, Friedman's false theory did not deliver. The American trade deficit *vis-a-vis* Japan did not disappear. Rather, it assumed gargantuan proportions, causing the demise of whole American export industries that had been prosperous under the regime of fixed foreign rates made possible only by the gold standard. A painful side-effect of Friedman's policy of sliding devaluation of the dollar was the wholesale export of well-paid American jobs.

Friedman was the grave-digger of the international gold standard. Yet he who sows wind reaps the whirlwind − as the world now does. It is in the form of a perpetual crisis of the foreign exchange markets and of trade wars that grew out of the mindless destruction of the gold standard − following Friedman's script.

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It has also been alleged that Carl Menger's domestic partner Mina (Hermine Andermann), the mother of his only child Karl Menger born in 1902 was Jewish. This claim is also false by the testimony of Karl. The record shows that Karl was born out of wedlock. It also shows that Emperor Franz Josef declared him legitimate *per restrictum principis*.

Another circumstance that makes the claim that Carl Menger was Jewish absurd is the fact in 1875 he was appointed as the tutor to Crown Prince Rudolf after a rigorous vetting. The Prince was also first in line of succession to become the Holy Roman Emperor upon the death of his father. It would have been a scandal of the first magnitude if it had turned out that the Holy Roman Emperor as a youth was coached by a Jew.

In the light of the available evidence it is abundantly clear that Carl Menger was not Jewish, and those who allege to the contrary have a hidden agenda. The Austrian School of Economics and its theory of money, including the case for the gold standard are free of any Jewish influence.

The charge that Menger clandestinely worked for "the Jewish *haute finance*", just as the pro-gold (Republican) party in the United States was, opposed by the "silverites" under the leadership of William Jennings Brian, the populist Democratic presidential candidate (of "the Crime of 1871" fame), whose plank to re-establish bimetallism in the United States was soundly defeated in the presidential election of 1896

by the Republican candidate William McKinley whose plank pledged to anchor the dollar to a gold standard (that did indeed happen in 1900), is patently false. And so also is the charge that thie gold standard served the interest of Jewish financiers as opposed to the well-understood interest of the country and its people at large.

In more detail the silverites charged that the Constitutional silver standard of the United States was deliberately sabotaged by a conspiracy between the U.S. Treasury and the Congress. They pointed out that in the Bill that was to become the Coinage Act of 1871 and was drafted by the Treasury (to which W. J. Brian was referring as "the Crime of 1871"), the Constitutional standard silver dollar was unceremoniously dropped from the list of coins that were authorized to be struck in unlimited amount without seigniorage charges on the account of any party tendering the right quantity and quality of silver at the U.S. Mint. This omission was tantamount to the clandestine demonetization of silver in violation of the U. S. Constitution. Indeed, none of the standard silver dollars minted thereafter were struck on private account. They were all struck on Treasury account. So was the right of the people to free and unlimited coinage of silver in the United States taken away in 1871 by a stroke of the pen, without any proper public debate.

Curiously, simultaneous demonetization of silver by Germany also took place at the same time, although it is not clear whether this was orchestrated or not. Ostensibly, silver demonetization by the newly peomulgated Reich was the result the Prussian victory against France after the peace treaty was signed at Versailles and an unprecedented sum in reparation was exacted in gold coin by Prussia from the French.

Furthermore, it was accompanied by the dumping of silver in the international markets reflecting the wish of the newly established German Reich to join the exclusive club of countries on the gold coin standard. The circulating silver coins of the several German principaities have become superfluous and were destined to be melted and sold. By 1932 the price of silver in terms of gold went into a tailspin and reached 25 cents per ounce, or less than one fifth of the Mint price prevailing prior to 1871. So one may plausibly argue that silver demonetization was the work of market forces.

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However, the truth of the matter is that the gold standardard is the only monetary regime that would favor neither debtors nor creditors. As we have seen, Menger's argument to support the thesis of the even-handedness of the gold standard rests on his theory of marketability of goods as we now briefly recapitulate.

The most marketable goods did, by the very nature of things, become the monetary metals, namely, first gold and, second, silver. Although Menger did not live long enough to work out in full details the dual nature of marketability (he died in 1921 at the age of 81), we have compelling reasons to believe that he would have done so had he lived longer.

In particular, he would have added the theory of marketability in the small (or the *theory of hoardability*) to his theory of marketability in the

large (or the *theory of liquidity*). As we know, the latter has turned out to be the theory of value; the former is destined to become the foundation of the theory of interest after the problem of interest has been correctly reformulated as the problem of converting *wealth* into *income* and *vice versa* (as opposed to vicious formulation of the problem as that of exchanging present value to future value and *vice versa*). With the correct formulation it becomes at once clear that the merit of the gold standard is not that it stabilizes *prices* (that is neither possible nor desirable) but that it stablilzes *interest rates* (that is both possible and desirable).

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Be that as it may, silver demonetization world-wide was a *fait accompli* by 1900 when the U.S. Gold Standard Act was enacted. The argument that it was the result of a conspiracy cannot lightly be dismissed. An unintended beneficial consequence was an even-handed monetary regime that did not favor creditors at the expense of the debtors or *vice versa*.

In the light of this argument we must pass the verdict that the deliberate and malicious destruction of the gold coin standard by F. D. Roosevelt immediately after his inauguration in March 1933 (in an obvious violation of his 1932 campaign pledges, not to speak of the violation of the U.S. Constitution which clearly mandates a metallic monetary system to the exclusion of fiat currency.)

Not only did the U.S. government destroy the domestic gold coin standard in 1935 (in that year the U.S. Supreme Court endorsed Roosevelt’s monetary regime that reneged on its domestic gold obligations and made the possession of and trade in gold a crime. Worse still, it also destroyed the international gold standard on August 15, 1971 when it defaulted on its international gold obligations as well (this time under a Republican president).

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It has been suggested that the latter default was linked to the heavy commitment of the U.S. government to support the belligerent policies of the Israeli government through unilateral transfers of taxpayer-money which would have been impossible under a gold standard.

Therefore the question is not whether Carl Menger was Jewish or not. It is: What would he think of the present fiat money system inflicted upon American taxpayers by dishonest politicians cheered along by dishonest academicians, designed to make unilateral money transfers to Israel and other countries possible?”

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In this presidential election year the subject of the rehabilitation of the gold standard should be an issue. Regrettably, it isn't. Not one of the

candidates has so far initiated a public debate on correlation between the unconstitutional regime of fiat money and the prevailing deflation, fast morphing into depression that manifests itself in the form of vanishing world trade. Instead, economists in the mainstream are actively promoting az anti-gold ethos in parroting Keynes who stated, wrongly, that the gold standard is "contractionist" and deflation-prone. While it is true that gold hoarding becomes widespread whenever the rate of interest is supressed by the government and its agency the central bank, none of that will happen if the gold standard is allowed to function properly in stabilizing interest rates. It is not that the gold standard is contractionist, but that governments are bent on suppressing the rate of interest.

A most horrendous depression threatens the world economy and the only way to avert the disaster is the return to the Constitutional monetary regime, that is to say, to a metallic monetary system which does not allow the government and the Fed to issue obligations which they are neither willing nor able to honor at maturity.

The irredeemable dollar has led the world into temptation to construct a Babelian tower of debt. It resulted in an invisible destruction of capital through making the interest-rate structure decline. It also gave the world the insane ZIRP (zero interest rate policy of the Fed) rendering all pension plans and insurance policies empty promises, thus pauperizing pensioners and nullifying endowments that fund our great private universities and charitable institutions.

Reference:

The life of Carl Menger: New Insights into the Biography of the Father of Austrian Economics, by Reinhard Schumacher and Scott Scheall (e-mail: scott.scheall@asu.edu), Preliminary Draft, 2015.

May 1, 2016.