

The Social Constructions of Money

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As Buchan (1998) so aptly puts it, money is incarnate desire; it is many things to many people. It has served to shape society through the advent of trade in ancient civilizations, or as the catalyst for military campaigns. The purpose of this paper is to examine the physical mechanisms that perpetuate society's reliance on money, and to uncover the social constructions that allow society to value money despite its various forms.

There is no all encompassing rule or set of standards governing the physical form of money. Certainly there are more established and accepted forms of money or currency that have been adopted by various nations, providing symbols of national identity. The most notable the US dollar, the most widely accepted and common benchmark for international currencies. Contrasted with the Indonesian rupiah, which holds little value in the international market, a value reflected in the country's relatively low international standing. Such differences are the result of a bigger system based on international trade and comparative advantage whose boundaries lie beyond the definition of this discussion.

An example provided by Salvatore (1993) refers to the use of cigarettes as money within the prison system. It is distinct from barter, as it is a singular form of currency that can be used for multiple transactions, rather than needing to identify a double coincidence of wants (Miller & Shade 1990). Hard currency is not the only form of money that society values. With only eight percent of the world's currency in the form of paper and coin (Warshall 1998), the question of society's valuation of ledgers and electronic records must be posed, examined, investigated.

The development of increasingly complex financial instruments and markets necessitated more complex models and structures, whereby electronic currency is brought into a relationship of equivalence. They enable society to value electronic currency despite its intangibility. The monetary structures and frameworks are so embedded as to ensure the utility of the concept of money alone. The complex financial system that has evolved is a consequence of the use of money, permitting increased specialization and further development

of the economy. Money has served to create an interdependent society through the functions it serves such as a medium of exchange, store of value, measure of value and standard of deferred payment. The medium of exchange guarantees that there will always be a coincidence of wants. People with something to sell will always accept money in exchange for it, and people who want to buy will always offer money in exchange. Money acts as a lubricant that smoothes the mechanism of exchange (Salvatore 1993).

A store of value is any commodity that can be held and exchanged later for some other commodity or service. Money does not deteriorate physically when kept, and a relatively large amount of value can be stored in a small volume. However, this is not always the case, as evidenced during periods of rapidly rising prices where money is an impoverished store of value. Salvatore (1993) believes it is essential for money to be a store of value, otherwise it would not be acceptable as a medium of exchange. The exchange of goods and services makes it necessary to have a unit with which to compare the relative value of commodities in the transaction. Money performs the important function of a measure of value, to the point where it is divisible enough to allow very slight comparisons between values.

In modern specialized economies many private transactions, and almost all business transactions, are conducted on a credit basis (Salvatore 1993). The standard of deferred payment is an agreed measure that enables contracts to be written for future receipts and payments. Inflation can lead to unpredictable changes in the value of money and this risk is reflected in the interest rates paid and received for such services. Certainly, assets other than money perform some of the functions discussed. But what makes money unique is that it is the only asset that provides all four functions, in particular the medium of exchange function (Miller *et al.* 1990).

These functions have provided an insight into the purpose of money as alluded to by O'Brien (1998), suggesting money is in fact an item of information governed by rules. However the information and rules as discussed above receive little consideration when society utilizes money, these qualities are

not so much ignored, as they are not considered. They are accepted as given. Possibly the only time such functions are questioned is for the provision of credit which is founded on faith according to Buchan (1998), not that the person necessarily has any money, but that they can get it.

Pringle (1998) believes money was in use as early as 2500 BC with the Mesopotamian civilizations', performing the same functions as those discussed above. The evolution of language and money are not separated by large periods of time and were driven by the same need for goods and services. The need to record ones possessions saw the development of early language from cuneiform to Akkadin (Pringle 1998). Whilst the link between these events may seem tenuous, the evolution of a common language and a simple form of trade enabled the widespread communication and exchange of ideas.

The most popular ideas of the time may have been religious, as this was the most predominant or entrenched social structure. Religious gatherings served to establish the most basic of economic systems, which promoted trade and fuelled desires as society was exposed to a variety of people and influences. Whether the forces in action can be labeled the market forces of demand and supply at this crude stage is debatable. The emerging system exhibits homeostatic qualities, encapsulating complex behavior through the input of time, energy, and various resources for the gratification of needs and wants.

An example of the increasing complexity of the system is the move to specialization as highlighted by Pringle (1998). This represents a crucial period in the evolution of the monetary system and the social constructions that we operate upon today. The need to develop a more efficient and effective form of exchange was not recognized until people were overwhelmed by the diversity of goods and prices (Pringle, 1998). This again required society to develop greater levels of understanding and transcend to a system resembling those in existence today.

Initial efforts to fulfill the functions of money saw the use of standard coins, where the value of the coin is equal to the value of the metal contained within. The Mesopotamians' adopted silver (Pringle 1998), for two important reasons that are consistent with conventional thinking on the use of money. The silver was able to provide both a store of value and a measure of value that had hampered traditional bartering systems. With civilization making the leap from a more altruistic community to the profit motivation of what could be termed early capitalism. Whilst appearing simple in hindsight, the move to this system of currency constituted an immense paradigm shift, one that has endured and been strengthened to the point where money matters prompt a unique reflexive response in each individual.

The move towards monetary valuation required an equally complex form of measurement. Davis (1998) believes money to be not only the first, but the most pervasive mathematization adopted by civilized society. This is supported further by Pringles' (1998) reference to the discovery of logarithms and

exponential values by Mesopotamian scribes, driven by the necessity to calculate compound interest. The ability to calculate values, and the divisibility of the currency itself allowed not only more accurate values to be ascribed to goods and services, but the provision of credit, interest and the accumulation of both debt and wealth, concepts integral to modern capital.

As trade grew in both frequency and value, demand saw the emergence of money that was not restricted by either time or distance, a common certified currency.

The discussion has so far served to illustrate the evolutionary functions of money as it operates to provide a duality of knowledge; knowledge of the system and knowledge in the system. The statement by Lamborn Wilson (1998) provides an insight into society's' perception of monetary value, 'Etherealises as sheer representation, money could become paper (text) backed by metal, then by imaginary metal, then by sheer imagination – pure textuality' (p. 41).

The notion that money derives its' value from society's' willingness to afford it such. In this sense it could be said that society has confused valuing money with the function of money to define value. Conversely, it could also be argued that without an appreciation of the extrinsic value of money, we could not value the material society we live in.

Many see the value of money as a path to success, status and freedom from work or debt. This according to Buchan (1998) is a result of possession nurturing self worth. Often the greatest personal value can be found in items of little material value to wider society. However, such personal values and demands will not necessarily arrive at a consensus value accepted by both society and the market. Whilst the price mechanism will act to reach equilibrium in theory, this cannot be relied upon to provide the optimal outcome for every individual value system or ranking.

Given this problem, we can look to the institutions that work to determine monetary value. The federal government, in cooperation with the Reserve Bank, seeks to provide both a stable economic and monetary system. This is pursued primarily through the manipulation of interest rates and taxes. Such measures are aimed at altering the costs or availability of money, which alters consumption. The extrinsic value is generally quite explicit in exchange rates and the relevant price levels and indicators. These institutions also perform the role of assessment and certification for society, both on a local and global level. Working to maintain confidence in the currency value and provide information for the efficient and effective operation of the monetary and economic system. Krugman (1998) makes reference to this point stating society, given the choice, will always prefer a currency backed by the government.

Whilst many people are aware of such activities, relatively few are equipped with a finer understanding of process and the consequences of any actions. There are instances where

formal mechanisms or market forces driven by society's demands have failed to provide an adequate value. The problem arises due to a divergence between individual and collective objectives. A similar scenario to the tragedy of the commons whereby the individual seeks to maximise their share of a common resource to the point of mutual exclusivity.

Existing measures have so far proven inadequate to the task of valuing the environment. Tietenberg (1996) makes reference to use and passive use values to determine the tangible or intangible value placed upon the environment by society, not just organizations. This presents a huge task. The effort required to ascertain individual values and the contingent variables would prove a deterrent in itself. Providing a value applicable to market operation or concepts will ensure both organizations and society incorporate the real cost of their activities. The latest efforts to overcome this problem are being undertaken by the CSIRO wildlife and ecology division (Murphy 1999), as recipients of a Sidney Myer Legacy Grant. The research focus is the value of services provided by the Australian environment as a contribution to efforts at sustainable development.

Certainly these services fail to appear in such measures of value as the GDP. Surely indicative of the shortcomings that exist in the extrinsic valuation methods of our economic and monetary systems, shortcomings only recognizable in hindsight. The paradigm is perpetuated by the social constructions it was built upon, and a lack of accountability and responsibility for the systems within which we operate. Krugman (1998) states the best monetary system is the one you don't notice, which is in fact part of the problem.

It may seem somewhat unrealistic to expect society to jeopardize the basis of its wealth and risk economic collapse by questioning the adequacy of its currency or value structures. For as Hively (1998) states, money works best when people perceive it to be safe and stable. Miller and Shade (1990) extend this concept, 'Money units do not need any intrinsic value of their own, but they must be considered valuable...' (p. 490).

The references suggest that monetary value is an illusion based on the collective imagination of society, backed only by the faith held in institutions.

This perception of monetary value is so embedded as to allow a smooth transition to electronic currency, or, as Davis (1998) refers to them, abstract, virtual or meta-moneys. Whilst there has been little resistance to such gradual change, the extent to which it replaces hard currency remains to be seen. Offering the advantages of even greater convenience and speed, greasing the wheels of commerce further (Krugman 1998), but not without problems of its own such as cyber-theft and the impending millennium.

As history has shown, despite its many incarnations the concept of money will persist, with the electronic economy resembling the Neolithic world economy prior to the invention

of money (Weatherford, 1998). Possibly evolving towards an economy that recognizes the fundamental value in all transactions is provided by people and resources (Glover & Hargraves 1998). ☺

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