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Working Paper 2017-04

July 3, 2017

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Working Paper Series
Faculty of Social and Economic Sciences
Karl-Franzens-University Graz
ISSN 2304-7658
sowi.uni-graz.at/forschung/working-paper-series/
sowi-wp@uni-graz.at
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Abstract

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Keywords: orthodox money theory, sociology of money, economic functions of money, social usage of money, life-circle-stage of children

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Acknowledgements: The project was supported by ‘Wissenschaft und Gesundheit: Amt der Steiermärkischen Landesregierung’

Words: 10700

1 Introduction
Institutions like language, law, and money always perform vital social, economic, and political functions. We incorporate these institutions into our existence on a daily basis without reflecting on the underlying effects they have on our lives. In some circumstances, institutions might have a positive influence on our actions, while on other occasions, we might find that institutions have a limiting influence on what we do. When it comes to money, the economic functions it possesses have been extensively studied. In fact, monetary and macroeconomic knowledge plays an important part when it comes to the performance of central banks or governments regarding their intervention into different parts of the economy. At the same time, however, the social part that money plays has yet to be explored in much more detail. The general question we raise – “Does money serve social purposes?” – challenges the knowledge taken for granted that money only performs economic functions.
This paper therefore provides empirical data indicating that money has to be understood as an economic, as well as a social institution with quite differing social functions.

In the first part, we briefly discuss the basic economic functions of money. In the second part, we argue that non-economic, sociological functions of money have to be taken into account to better understand the social implications of money. To investigate different forms of how money is used in everyday life and the social effects this usage has, can help move beyond an expert knowledge of monetary functions. We discuss four non-economic, social forms of money usage in everyday life: first, the *freedom-granting* characteristics of money are explored. We argue that there exists a social, material, temporal, and spatial dimension of how money makes users free. However, this latent potential of money has a socially unequal distribution. Secondly, *money is a status signal*. In this regard, money can stand for a whole variety of social categories like power, influence, prestige, success, status, knowledge, and so on. Again, an unequal distribution of the signaling function of money indicates an unequal distribution of the mentioned categories money symbolically stands for. Thirdly, there is a *community-building* function that money performs. In the context of the family, money is used in ways that strengthen (or weaken) the bonds between family members, thereby playing a crucial social role. Lastly, we discuss the usage of money to *regulate* or *discipline* behavior. From this perspective, labor market relations, for example, rest upon the implicit fact that money has to be earned and that employers are the ones who write paychecks. Subsequently, we turn towards the empirical part of the paper.

Following a method section where the empirical study is outlined, we present results indicating that in the everyday usage of money by children, economic as well as social functions of money can be found. We show the social and moral limits of the economic exchange function of money and put forward data that shows how children use money in its store-of-value function. At the same time, both forms of money usage differ depending on social background. After showing that not even the economic functions of money are stable within different social strata, we show data for the above-mentioned non-economic functions of money. Logistic regression models are used to calculate the influence of *social class*, and *migratory background* on the non-economic use of money. By this, we show how the community-building aspects of money are influenced by social variables. The symbolic function of money, contrary to our theoretical assumptions, shows to be relatively stable across social classes and in migratory backgrounds. The presented data indicates furthermore that the behavior-regulating function of money is influenced significantly by social class and
migratory background, at least when it comes to performance in sports. The life-circle-stage of children offers only very limited possibilities to explore the freedom-granting function of money. This aspect of our theoretical discussion must be left open for consideration in later research.

Hence, the basic economic functions of money are outlined in the second part, and the non-economic functions in the third part. Part four outlines the empirical study, part five the empirical findings, and part six discusses drawn conclusions.

2 Money and its basic economic functions

Standard economic theory distinguishes between three main functions of money: (1) *medium of exchange*, (2) *unit of account*, and (3) *store of value* (Mishkin 2010: 54ff.). These three economic functions of money are derived from the questions: What is money? Why and how did money come into existence? And why is there no practical alternative to it in modern societies?

2.1 Exchange function of money

The exchange function is at the core of classical money theory: this theory (Menger 1900; Mises 1924 [1912]; Hume 1987 [1752]; Smith 1976 [1776]) states that money came into existence because of the immense inefficiencies of barter. Barter economies rely on the double coincidence of wants by rational agents. Trade between two agents will only occur if one offers exactly what the other demands, and if they meet at the right time and right place. This form of exchange usually entails enormous economic transaction costs (Williamson 1981; Coase 1960), because two agents hardly ever meet with exactly matching needs and offers. Economic theory argues that transaction costs are reduced immensely if a universal ‘unit of value,’ a ‘*medium of exchange,*’ is introduced. According to classical money theory, the medium of exchange is not necessarily money in the form of coins or bills. Almost anything that is used to calculate prices and is generally accepted – can be money. In the view of mainstream economics, it is the transaction-cost-reducing characteristics of money that led rational agents to prefer money systems over barter. The trade-facilitating nature of money prompted David Hume (1987 [1752]: 41) to call it “the oil, which renders the motion of the wheel more smooth and easy,” and for Adam Smith (1976 [1776]: 293) it is “the great wheel of circulation […] a sort of waggon-way through the air.” In the classical understanding, money facilitates trade and is the equivalent of ‘all’ value.
From a sociological viewpoint, there are moral and institutional boundaries to the exchange function of money. In modern societies, money cannot buy everything. The boundary line is most prominent in cases where demands for certain goods exist, but at the same time their supply is prohibited by law (Beckert/Wehinger 2012). On the other hand, some black markets are illegal although the traded goods are not necessarily a moral issue, except for not being legal. At the same time, some activities, like slavery, organ trade, bribery, corruption, are both illegal and immoral.

2.2 Unit of account
Money is not only a medium of exchange, but also a unit of account. The following example illustrates the difference between these two functions of money: in ancient Mesopotamia, the unit of account – that is, the cognitive unit of calculating prices, costs, profits, losses, or debt – was the monthly consumption of barley. These 1.2 hectoliters of barley had an equivalence of 8 grams of silver, which was one silver shekel. The circulating money (medium of exchange) were silver coins; however, the unit of calculation (unit of account) was the monthly consumption portion of barley (Ingham 2004: 94). A more recent example: shortly after the introduction of the Euro, most people still calculated in the ‘old’ currency, but paid with Euro. Some economists have argued that the unit of account function and the medium exchange function relate to different things. While the medium of exchange function relates to the real money supply, the unit of account is in fact a theoretical concept, independent from the amount of money (see Friedman/Schwartz 1970). This is especially interesting for sociologists. The unit of account is a purely social construct, an idea about what should be used for calculation and how one unit should be defined. Once this is established in a society, it becomes an aspect of the economic cultural code of this society. Individuals constantly cognitively relate to it, without consciously recognizing it.

Later in the history of economic ideas, a third money function was added to the contemporary triad of economic functions of money: the value storage function.

2.3 Store of value
Keynes is attributed with being the ‘discoverer’ of the value storage function of money. Before Keynes, the idea that prevailed among economists was that no rational individual would store value in the form of money, seeing as other more profitable and interest-bearing alternatives exist: why should anybody hoard money if deposits pay interest? Keynes (1973 [1936]: 194f.) cited three main reasons for which people store value in the form of money: the
“transaction-motive,” the “precautionary-motive,” and the “speculative-motive.” Some money is needed for every day transactions, and we usually store it in the most liquid form – ‘transaction-money.’ For unforeseeable payments and advantageous investments, agents hold ‘precautionary-money.’ The hoarding of ‘speculative-money’ refers to the avoidance of losses from holding other assets. In times of growing expectations of deflation or rising interest rates on bonds (which decrease the bond value), it seems ‘rational’ to hoard money. Despite the theoretical question of whether it is rational to use money as a store of value or not, the store of value function is widely recognized within standard economic theory. Furthermore, it is an essential aspect of defining different money aggregates by central banks around the world, as different assets have varying potential of being a store of value.

Assuming rational agents, standard economic theory expects that interest rates and inflation expectations are the main factors influencing saving decisions: higher inflation causes agents to save less, while higher interest rates causes them to invest money elsewhere. While this may be the case for perfectly informed, rational individuals with a positive time preference, the present fact that people save ‘like no today’ even if the real interest rates are negative, puts strong empirical pressure on this theory. It is more than questionable whether interest rates or inflation are of prime importance for saving decisions. Simmel (2004 [1901]: 338f.) was very critical in his ‘Philosophy of Money’ of the presupposition that ‘ordinary people’ have a realistic understanding of inflation. In reality, Simmel argued, people have no idea about inflation at all.

The three economic functions of money and their relationships have a practical importance for monetary policy. The inflation targeting of central banks of all major monetary regions (Europe, U.S., Japan, and China) works, in essence, by setting interest rates. Interest rates themselves, however, work as a mediator with regard to different money aggregates. The central banks want to influence the amount of money in circulation. They follow the idea that the amount of money cannot be controlled directly. By setting interest rates, the amount of money can be influenced, and the amount of money has itself an effect on inflation (Woodford 2009). However, as this illustrates, economic money functions have a practical importance only at the macro-level of monetary policy. Even if individualistic assumptions about the “psychology” of money demand are made, the analytical framework of economics is applied by focusing on “the representative agent” (as shown above by the double coincidence of wants). From a sociological point of view, the question arises of whether different social groups might have a different handling of money (and therefore their money-
demand might differ). Furthermore, by shifting analysis form the macro to the micro level, we might ask if there are social functions of money. Bringing these two points together, a third area of interest concerns how social functions and the behavior of individuals associated with them change and vary across different social groups.

3 Social uses of money in everyday life – A heuristic framework

Firstly, we will demonstrate the sociological shortcomings in the orthodox understanding of the functioning of money, and suggest a heuristic framework that takes into account the non-economic usages of money in everyday social reality. Money can be used for different purposes. Its use can be driven by economic or non-economic motives. Paradoxically, this applies all the more to social orders that are marked by a high degree of commodification (Polanyi 1978) and in which a wide range of goods and services can be acquired in markets in exchange for money. Economic theory has described money in terms of its functions as a unit of account, medium of exchange, and a store of value. Orthodox theory has never really gone beyond considering these functions, themselves derived from the act of economic exchange. Such a classification is problematic for a number of reasons. For one, commercial banks create money for purposes of lending (fiat money) before it can be used in “real economy” as a medium of exchange. For another, the characterization of money as a mere “store of value” is not sufficiently precise. Money can only be “stored,” i.e., saved or hoarded, in the absence of high inflation. In times of high inflation, the promise of purchasing power that money represents – loses its credibility. In the event of hyperinflation, this promise literally evaporates. More importantly for a sociological approach, money is not always the same thing. In simple market relationships, money is utilized for consumption: in this case, money does little more than function as a simple link between market actors who desire to exchange goods. Money is transferable into “capital” and invested as profitably as possible. Marx forcefully described the process of accumulating capital (M-C-M’) by acquiring and utilizing labor power and means of production.

Most importantly for our contribution: economic theory ignores the fact that money is not limited to economic purposes alone. In order to shed light on the social dimension of money usage and link it to the issue of trust, there is other instructive research apart from Simmel (2004 [1901]) to be considered, namely Viviana Zelizer (1994). Drawing on Simiand (1934), Zelizer investigated various symbolic-cultural usages of money (multiple monies). Moreover, a sociological analysis of the use of money must consider Dodd’s argument that what money
is and what it is used for is determined only in the actual act of using it (Dodd 1994: 152; 2014: 269ff.). Money does not have a function prior to its actual use. It is assigned a “function” only in the social processes of using it. For this reason, theoretical knowledge of money produced by economic experts, such as the classification of the functions of money in economic theory, is by no means the only relevant social knowledge of money. Rather, this expert knowledge must be expanded by considering “lay knowledge,” i.e., people’s practical knowledge from continuously handling money in everyday life. The fact that the functions described in economics textbooks fail to provide a complete account of what goes on in the everyday handling of money will be substantiated shortly. Apart from the common economic functions of money, we suggest distinguishing between four additional non-economic forms of money use: the freedom-granting function, the signaling function, the community-building function, and the function of regulating behavior.

3.1 Freedom-granting function

Simmel (2004 [1901]: 285ff.) made a particularly powerful case for modern money as a vehicle of “individual freedom;” money creates countless opportunities for those who possess it and denies those who do not own it. The possession of money amounts to “empowerment” (cf. Dodd 1994) in that the owner has the choice to purchase something immediately or refrain from doing so (and save). This empowerment has a wide scope: according to Simmel, it is rooted in the nature of modern money as an “absolute means.” This means is absolute in terms of its social, material, temporal, and spatial usability: (a) in the social dimension, money can be used indifferently. A general characteristic of money is that it can be used for economic and non-economic purposes, regardless of whether the motives that are being pursued are of a value-rational, affectual, or traditional nature; (b) the universal usability of money also has a material dimension. Money symbolizes a promise of services for any desired purpose and – within the limits of one’s budget – represents a generalized opportunity to gain possession of anything offered on markets. Apart from the protected realm of non-marketable objects, such as human beings and organs, political offices, academic titles, or court verdicts, almost anything can be purchased at market prices (Carruthers/Ariovich 2004); (c) assuming low inflation, the access to unspecified objects granted by the possession of money is “stable in the temporal dimension” (Luhmann 1988: 253; author’s translation from German). In contrast to other tokens for services, such as train or airline tickets or season tickets for theaters or ballgames, money can be cashed in without being bound to any specific expiration date. Money owners can store their claims to services temporally in order to make
use of them at a later point in time. This provides social protection against the imponderabilities of the future (Ganßmann 2012: 106); (d) finally, the unique freedom-granting function of money also applies in the spatial dimension. Money is mobile and can be transferred from one continent to another in a split second. Investors can make investment decisions on any continent of their choosing, shift money to tax havens, or threaten to close a production site and move to a low-wage country.

Money expands the scope of exchange opportunities in the social, material, temporal, and spatial dimensions in an unprecedented manner. Yet the opportunities to utilize this “invisible potential” of money (Deutschmann 2011: 91) are extremely unequally distributed throughout society. The freedom to use money as desired depends on the amount of discretionary funds at one’s disposal, i.e., the amount that remains after subtracting all fixed costs and liabilities. This freedom grows with the amount of money in one’s possession.

3.2 Signaling function

People use money to signal a wide range of things: however, money’s signaling function is not sufficiently described in the standard classifications of the economic functions of money. In societies in which monetary transactions are the only way that objects of value of whatever kind can be acquired, money ownership as such – regardless of whether this money is spent or not – acts as a status symbol that signals the social position and aspirations of the owner. Conversely, not possessing money is a signal of social exclusion from indeterminate opportunities of ownership as outlined above. Simmel (2004 [1901]: 428ff.) already pointed out that status positions in feudalistic social orders depended on ownership or non-ownership of land. In modern capitalism, money as a generalized claim to property ownership has replaced land ownership as an indicator of status. The transition in the foundations of status from land to money ownership, Simmel argues, has led to the detachment of social status (“being”) from the ownership of tangible objects (“having”). In this line of reasoning, it is not so much actual ownership of an object that signifies social affiliation with a status group, but rather the sheer potential to purchase appropriable objects that money ownership represents.

The signaling function of money is also reflected in the symbolic meaning attributed to prices. A low price is a signal that anybody is able to purchase that good. A high price, by contrast, indicates that a good is a “luxury good,” and those who buy it belong to the moneyed classes, or at least aspire to this status. Prices thus not only contain economically quantifiable information about the amount of money that one must have to acquire certain goods. Prices at the same time communicate in a language comprehensible to all whether a buyer aspires to a
social status that is typically associated with the highly affluent classes. Just recently, Mikl-Horke (2014) has called to mind a contribution by Wieser (1924), a founder of the Austrian school of economics, on the “social stratification of prices,” which has clearly fallen into oblivion in contemporary economic sociology (cf. Beckert/Aspers 2011). According to Wieser, prices – whether of luxury goods or the mass-produced goods of daily consumption – invariably depend on household purchasing power and thus on the unequal distribution of income and wealth. Consequently, shifts in the structure of prices always involve changes in income stratification, which indicate ongoing processes of upward and downward social mobility. Beyond what Wieser had in mind, prices (of luxury goods) are of interest to sociology not only because they are indicators of the objective income situation of potential groups of buyers, but also because they are status signals and representations of status aspirations.

If a symbol is something that stands for something else, then what is money a symbol for? All sorts of different social categories come to mind here: power, influence, prestige, successes, status, knowledge, and others. Money is connected to one or another of these social categories. The possession and usage of money can stand as a symbol for all of them. The possession of money is a symbol in itself, independent of its final usage. Money, of course, can stand for the mere possibility of consumption. Here the amount of money is crucial. The higher the sum of money – the greater the possibilities. Consumption is in and of itself used as a certain symbol. Veblen (1899) emphasized how the “leisure class” can signal status through money consumption. The exclusiveness of possessing a great amount of money is in many cases a precondition for status-enhancing consumption. Uniquely distributed knowledge about the signaling effect of consumption is pivotal for symbolic consumption on several markets. Think, for example, of stock markets, where buyers are often excluded from ‘best’ stocks not because of stock prices, but because of limited knowledge on what the ‘best’ stocks are. Investing in the ‘right’ stocks functions as a symbol of being ‘in the know’ and being distinguished from the ones ‘not in the know.’ However, in most ‘status markets,’ prices distinguish between potential ‘consumers’ and ‘non-consumers.’ Money empowers the owner to participate in ‘price-led’ status markets. The ‘rich’ may or may not participate in status markets, depending on their preferences. The ‘poor’ are excluded independent of their preferences, by the social system of prices. Money possession functions as a symbol for status even if it is not used for status-signaling
consumption, because it provides the person with the possibility to consume status-enhancing products.

Money is a symbol of power and influence. As described above, money provides the owner with the possibility to influence the behavior of others. The possession of money is a symbol for the power to buy and use someone’s lifetime, to influence others by lending money to them (Graeber 2011), and to influence certain institutions, from football clubs to care organizations, by offering patronage. Hence, money symbolizes a person’s ability to influence other persons’ and institutions’ behavior.

In addition, money serves as a symbol of economic success. According to Neckel (2001), the legitimation for inequality has changed from ‘effort’ to ‘success.’ Wealth is nowadays not only legitimized by hard work, but by information asymmetry, risk-taking, luck etc. Since it is of secondary importance how one got rich, money is the symbol of economic success. The amount of money a person owns or earns says nothing about the way one got rich, but it does give a clear and fully comparable measure of economic success.

3.3 Community-building function

Money builds communities. The community-building function of money is another non-economic usage of money which standard economic money theories ignore. In market relationships, money is used as an instrumentally rational means of exchange and payment. At the same time, money is also used outside of the world of economic transactions, for instance, in communities outside the realm of markets. Zelizer (1994) has shown that the use of money in family, intergenerational, or gender relations – from children’s allowances and housekeeping money, through vacation money, to alimony, life insurances, and inheritances – is vested with a variety of different symbolic cultural meanings, all of which cannot be fully explained in terms of economic transactions alone (“special monies,” Zelizer 1989). Weber (1978: 356ff.) already distinguished between the household as a “unit of economic maintenance,” and the nature of interaction between its members, which he describes as “household communism.” This distinction is significant in matters relating to the use of money within communities. In the first case, which refers to a household’s outward relationships, money is used to provide the members of the household with everyday goods from markets. In the second case, pertaining to a household’s internal relationships, money serves as a generalized means of symbolically attesting to communal bonds based on a sense of solidarity: parents give their children money as a gift; they transfer a monthly sum to their children’s accounts to cover the rent to support them in pursuing their university education;
they bequeath money to their offspring, and so forth. As diverse as their motives may be, only in exceptional cases are these uses of money guided by a purely economic rationale. The purpose instead is to reinforce social cohesion among the family, emphasize the bonds between friends, or show one’s appreciation for the recipient of the gift.

Contrary to widespread belief, these examples testify to the fact that money has always been used for non-economic purposes. In such instances, money is not used primarily as a means of exchange and payment to pay bills or settle debt. Money is rather given. The act of giving money can be driven by a variety of motives: a gift must be reciprocated by the return of a gift (Mauss 2002), or the needy members of a community must be supported (on the normative order of the “domestic world,” cf. Boltanski/Thévenot 2006: 241ff.). A patron may want to provide financial support to a community of artists to enable them to pursue a unique idea in circumstances free of economic want, although its commercial success may seem unattainable from the outset (on “the inspired world,” ibid: 227ff.). Citizens pay membership fees to political parties and non-governmental organizations. They may donate money as a means of demonstrating community spirit and a sense of solidarity with equals or the like-minded. Wealthy citizens establish private foundations to promote the “common good” (Bishop/Green 2008; on “the civic world” Boltanski/Thévenot 2006: 251ff.).

And lastly, both private and public organizations offer prizes to symbolically acknowledge the “excellent performance” of select individuals. There exists a wide range of such awards: from prizes for the breeders of local carrier pigeon clubs, through innovation prizes awarded by national ministries and research awards given by specialized research communities, all the way to the Nobel Prize or the Academy Awards known as the Oscars (on “the world of fame,” see ibid.: 247). These examples could be applied to various other areas of life as well. Particularly competitions for such awards underline the above-described signaling function of money. With regard to the community-building function of money, another aspect needs to be highlighted. The common denominator in all these cases is that neither the giver nor the receiver of money harbors the expectation that the gift or donation must be reciprocated or compensated in the form of monetary payments sometime in the future. Money is given without expecting an equivalent quid pro quo. In communities, acts of giving money rest on different grounds of validity than those in market relations. This is not to say that giving money in community settings is necessarily always motivated by altruism. If money exchanges hands in communities without any legal claim on part of the giver to receive some equivalent compensation, this act of giving money can also enhance the prestige of the giver and strengthen his influence on future decisions, or it can demonstrate the dependence of
subordinates, or reinforce hierarchies of recognition. Referring to partner relationships, Ludwig-Mayerhofer et al. (2006) have shown that financial arrangements by which communities administer and distribute money serve to reproduce the distribution of social roles and social inequality. This points to another use of money, the sociological significance of which can hardly be overestimated.

3.4 The regulation of behavior
Since Parsons (1967), money in sociological theory has been described as a prototype of “symbolically generalized media of communication.” Those definitions have devoted too little attention to the opportunities of using money to regulate behavior: money is used as an instrument for influencing the behavior of social actors by means of paying or charging money. In this context, particular mention needs to be made of the fact that employing money to influence or regulate others’ behavior can be driven by motives of an instrumentally rational or value-rational nature. Of course, expectations of certain behavior can be disappointed, even though money has been offered or charged. Oftentimes the monetary induction of behavior ends once a provided service is paid for or a debt settled. However, paying or owing money can also create relationships of dependency. This is the case when an actor is permanently reliant on payments, for instance because the person lacks an alternative source of income or a loan cannot be repaid overnight. Typical instances of relationships of dependency that extend or are graduated over time are employment contracts and credit or installment loan agreements. In communities, regular monetary transfers can have a similar disciplining effect.

Money regulates the behavior of people. Take, for example, the “money-nexus,” the link between money and labor. Free labor work is one of the formative characteristics of modern societies. It is an “enforced” necessity, simply because there is no alternative to it. Even the various forms of social welfare, for example in case of unemployment, are seen as temporary and are bound to the economic integration into the labor market. In contrast to neoclassical economics, where the agent is seen as free to choose whatever portion he wishes between work and leisure (where time is considered to be a continuous variable), the consideration of money in the context of labor markets changes everything. The choice is not between leisure and work. The “choice” is between accepting a given and expected level of work for a corresponding wage, or not participating in the labor market at all. However, for most people there is actually no choice, because selling their time is the only legal possibility to get the ‘absolute means’ money. The ultimate question is not, to work or not to work, but rather to
own sufficient money or not (Ganßmann 2012). Ultimately, it is a decision about whether to be able to participate in all kinds of markets, to save wealth, to enjoy the freedom of choice, and to change the behavior people (even those unknown to us), or to be excluded from all that. The omnipresence of money and the various functions it serves makes it a ‘must have’ for everyone. For most people, the way to obtain money leads to the selling of one’s time on labor markets. In modern societies, free wage labor is therefore the strongest regulative institution. No state law affects and regulates daily life nearly as much as wage labor does. Hence, it is this ‘must have’ characteristic of money that forces us to sell big parts of our time on labor markets, and wage labor regulates societies much more than any harsh rule of an authoritarian system. Within the labor-demanding organization, money is used as a means of controlling the specific work-related behavior and actions of employees (Kraemer 2016: 19ff).

Firms’ and employers’ actions are also regulated by money. Consider financial markets in general or capital markets in particular. The bank or shareholders grant money to a firm in form of a loan or an equity investment. What the bank and the shareholder receive is the right to interest or profit payments and the right and possibility to regulate and influence the firm’s decisions and actions. As much as a firm uses money to regulate employees’ behavior, it is also itself regulated through money. In order to become the regulative institution, a firm itself becomes subordinated to the regulative power of money. Even a firm’s investors are not free from the regulative power of money: shareholders are typically big investment institutions held accountable to their investors. The same holds true for banks. Shareholders, depositors, and central banks use the regulative power of money to influence a bank’s behavior. Hence, within the whole economic circle of consumers, workers, producers, and investors, there is hardly any individual or organization whose behavior is not regulated by money.

4 Method

The usage of money is strongly influenced by conventions. Due to its habitual and routinized daily use, money and its functions are taken for granted by most adults. Money seems to be a quite trivial thing for the people who use it. However, from a sociological perspective it is one of the most complex institutions in modern societies. Money plays a role in a variety of social relations, but has quite different meanings, depending on the situation in which it is used. For example, in “buyer-seller” and “parent-child” relationships, money is used in both relational forms, but has quite different meanings. In the first instance, money stands for the value of a
certain good, regardless of meaning or the usage of the product bought. In the second relationship form, money may be used to express affection and love, however, at the same time it could also be used to sanction a certain kind of behaviour. The usage of money is a highly subjective task, while the possibilities it offers are far-ranging. People use money without reflecting on the whole range of social implications. Most likely, few grandparents would say that they use money to ‘buy their grandchildren’s love.’ Instead, money in the context of the grandchildren-grandparent relationship is a symbol for care, affection, and encouragement. While in the first case money is consciously used to achieve a rational goal (to gain the love of one’s grandchildren), in the second case money is unconsciously used to express family ties or solidarity. This example shows that the same behaviour might have very different implications and meanings, not all of which are socially accepted.

To overcome the social desirability bias and to be able to analyse the social usage of money in a social group that uses money in the same way as everyone else, while not having the same level of (reflected) knowledge regarding norms about money, our research focuses on children. The socialization process of children in primary schools brings the advantage of being able to analyse the hidden norms and practices about money that adults already have. The response of children allows certain insights into the money socialization of adults. We expect that children at primary-school age use money in school for the first time outside of their family home. The rather uncomplicated use of money by children offers therefore an opportunity to investigate the role money plays in relatively simple contexts. The context of the school offers a natural and safe environment for the children, while eliminating bias resulting from parental presence or the distractions of the home environment. In other words, we wanted to investigate the implicit routines and social functions of money by interviewing children in their ordinary school life.

The study drew heavily on a quantitative, standardized questionnaire with several open questions (7 open questions, 82 questions in total, with 8 filter questions). The questionnaire comprised questions on the following dimensions: sources of money, usage of money, money knowledge, and money socialization, complemented by socio-demographic and socioeconomic variables. Following Bourdieu (1986), we constructed an index consisting of economic capital, educational capital, and cultural capital, to indicate children’s socioeconomic background. The cultural capital of the household was operationalized by the estimated amount of books in the household, the playing of a musical instrument, and the visiting of cultural events (like theatre performances). The economic capital was
operationalized by two questions about the type of housing and the type of holiday the family usually goes on. In addition to economic and cultural capital, we asked for the parents’ professions (educational-capital) and employment status. With these three indicators, a social-class-index was formed. Additionally, other variables were asked about, such as age, gender, migration background, household size, and number and age of siblings.

The interviews were conducted in three elementary schools in an urban area in Austria (population of about 265,000 inhabitants). The schools were situated in sharply contrasting socio-economic districts. In total, 23 classes and 321 children between the ages of 7 and 10 participated. The interviews lasted between 15 and 25 minutes. The response rates of the three schools: 52%, 80% and 66%, differed substantially depending on the varying socio-economic background. Written consent of the parents was obtained at the beginning of the school year with help of the respective headmasters and the teaching staff. The supervising school authority authorized the survey. The interviewers asked all questions in children-friendly language and filled in the children’s answers. Additionally, visual illustrations were used for the questions about the amount of books in the household and the type of housing. A visual scale supplemented Likert-scale answers where the children could point to the suiting answer.

In the following part, we discuss the empirical results of the conducted study and link it to the theoretical arguments expanded above.

5 Empirical results

Hardly any textbook on money- and financial-economics omits to illustrate the fundamental economic functions of money. However, neither the outlined economic, nor the non-economic functions of money have been empirically investigated: testing demand and supply models for money are econometric evergreens (see Gibson 1972; Tobin 1969; Brunner/Meltzer 1964; Meltzer 1963; Friedman 1959), but the functions of money in different social contexts are still empirically untargeted. To our knowledge, no empirical study has been carried out investigating the economic and non-economic functions of money.

Entering an unmapped empirical field, our study has a distinct explorative character. Investigating children’s money usage and the functions money has to them, we expect to find out more about adults’ money socialization and how deeply rooted are different economic and non-economic money functions. Every economic and non-economic function was operationalized by several questions, with the exception of the ‘freedom-function’ of money. Highly restricted in their use of money, children have no experience and imagination of the
‘freedom’-amplifying character of money; already the developing process of the questionnaire demonstrated that children are unable to imagine the relation between freedom and money.

Focusing on the function money has in the daily life of children, the influence of social class and migratory background on the function and use of money was also investigated. Implicitly, it is assumed in most theoretical contributions that independent from social and economic influences money has the same functions for all people. Investigating the influence of social class and migratory background on children’s view on money and money use, we expect to find out more about the different meanings of money in various social groups.

5.1 The ‘economic functions’ of money

As maintained above, the ‘exchange function’ of money is the core function of mainstream economic money theory. Given the omnipresence of money in modern capitalist societies, we suggest that all adults use money in accordance with its ‘exchange function.’ Doubtless that money is less present in children’s life; however, unsurprisingly, all interviewed children were aware that money is used in most market exchanges; they all knew that a wide range of goods are purchasable with money.

It has been outlined that economic mainstream money theory overlooks and ignores the moral and legal boundaries of the ‘exchange function’ of money: children of the age between 7 and 10 are unable to distinguish between legal and moral boundaries, but are aware of and endorse certain boundaries of the ‘exchange function’ that money has. For three quarters of the interviewed children, it is immoral to buy good marks at school, it is also immoral to buy friendships and children. At the same time, for 62% of the children it is not reprehensible to pay for better medical care. According to the social status of the money recipients, for 72% of the interviewed children, paying money to a police officer in exchange for a favor is inadmissible; the same goes for 78% thinking the same about giving money to a teacher, and for 88% of them giving money to a referee.

Social class and migratory background influenced children’s conception of the moral boundaries of money: overall, children with a migratory background find corruption less immoral and less contemptuous: children with a migratory background find it significantly more permissible to bribe police officers and teachers. Possibly, the very migratory background plays a role, because corruption in most countries of children’s origin is widespread.

Just like migratory background, social class also has an impact on the indicated boundaries of the ‘exchange function’ of money: children from lower social classes found it significantly
less reprehensible to corrupt teachers, pay for good marks, friendship, and children. Against
the trend that lower social classes recognize the ‘exchange function’ of money as less
bounded, upper-class children consider paying for better health care less immoral.

For most children, money functions as a ‘store of value:’ 82% of them save at least parts of
their pocket money, while 85% save parts of occasional gifts. 83%, of all ‘savers’ store at
least parts of their money at home and around 40% own a savings book - which pays interest
on saved money. The rate of savings book owners is significantly higher among upper-class
children; hence, children from privileged families are much more likely to get in contact with
banks and financial markets. Most children save major parts of their pocket money: around
40% of the ‘savers’ save all of it, and another 40% save more than half of their pocket money.

Austrians are the self-declared ‘Sparweltmeisters’ (world champions of saving): saving
money for ‘the rainy days,’ the ‘offspring,’ or without any clear reason – is highly desired.
The big number of ‘savers’ and the big amounts they save suggest that children already learn
the lesson that only a saving man makes a good citizen. Only 40% of them save for concrete
consumption purposes, 25% save to get rich, and another 15% save because their parents want
them to. This somehow verifies the Keynesian critic of the neoclassical assumption that
people save for future consumption; Keynesian often emphasizes that saved money enhances
utility in itself, which is why people also save without clear future consumption desires.

A widely spread prejudice suggests that lower classes and migrants are less thrifty. The
prejudice cannot be verified according to migratory background, but in terms of class,
children from lower classes save significantly smaller parts of their pocket money than upper-
class children.

As maintained, mainstream economic money theory suggests that the ‘economic functions’ of
money depend heavily on money’s stability of value and interest payments on saved money:
for classical and neoclassical economists, money’s ‘exchange‘ and ‘accounting function’
presupposes the relative value stability of money. In addition, economists assume that the
function of money as a ‘store of value’ depends on interests rates on alternative investments
and on the expected amount of inflation. People store money if interest rates on alternative
investments are low and in case of expected deflation. As outlined above, Simmel doubts
‘ordinary people’s’ realistic understanding of inflation, and suggests that they have no idea of
inflation at all. To the question: “If someone hoards money at home, what can be bought with

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1 In Austria, savings books are very popular among ordinary people, while a very small minority holds stocks or
other financial products.
the same amount of money after one year? More, less, or the same?,” 47% answered that the purchasing power remains the same, 42% thought that more goods may be bought, while just 11% stated that less goods are purchasable after a year. In lower social classes, the deflationary view was even more widespread. Hence, just a very small minority of the interviewed children has a realistic view on the evolution of the value of money. In addition, only a minority of children believe that people deposit money in banks in order to get back more money, while more than 90% think that money is deposited for safety reasons.

Overall, children are aware of the fundamental economic functions of money and use money accordingly. As verified by most scientific contributions, children are quite aware of the boundaries of the ‘exchange function’ of money. For children, money is also ‘store of value,’ but they are, however, little aware of the usual inflation and interest payments by banks.

5.2 The role of money in community formation

As maintained, money builds communities. Money functions as a ‘community-building’ institution. Money influences different social processes, which are situated at different levels of society: ranging from the micro context of groups to the social structure of markets. Weber (1978: 40ff.) offers a suitable framework for the analysis of these different levels: it is the continuum between community formation (“Vergemeinschaftung”) and association (“Vergesellschaftung”) that constitutes the framework of analysis to study the influence of money. We assumed that children use money, predominately, in social contexts where money is used in its function of community formation (e.g. groups, neighborhoods, the school, the kindergarten, etc.).

The ‘community-formation function’ of money can be observed in different instances: among parents and their children (e.g. as pocket money), between relatives (e.g. as money gifts), or between schoolmates and friends (e.g. as credit money). The process of association happens instead in the field of markets (e. g. labor-, capital-, or consumer-markets). In other words, association through money can be oriented towards strangers, while community formation happens between friends, family members, colleagues, and so on. Children use money almost exclusively in its community-formation function, because they have only limited access to structured markets.
Children grow up in a social environment that provides them with numerous examples of how money serves as a community-forming factor: they learn from adults how to use money for community-formation and start using money by themselves in the same manner. Most children (86%) get money as a gift from relatives and friends; most common are money gifts
from grandparents (67%), parents (51%), and uncles or aunts (44%). Children learn at an early age that money is given as a gift on various occasions; birthdays, report-cards, religious celebrations. However, children are not only recipients of money gifts, but themselves give or lend money to friends and siblings: more than half of them have already given and/or lent money to someone. Around a third has already borrowed money and almost half has lent money to relatives and friends. Hence the ‘community-building function’ of money – money is used for community formation in close relations, between friends and relatives, to show affection, strengthen relations, celebrate together, and help each other, which is usually ignored by economic money theory and sociology of money, and is quite present, nevertheless, in children’s money world. The fact that almost all children experienced, in one way or another, the ‘community-building function’ of money, indicates our early socialization with ‘non-economic’ money functions.

As maintained above, we distinguish between community formation and associative relationship formation. We assume that children use money primarily in a community-forming way; however, we also tried to find out if they use money in relationships that involve a “generalized other” (Mead 1972 [1934]: 152ff.). If a child gives money to a street musician or a homeless person, as more than half for both have already done (street musician 34%, respectively homeless person 45%), the money gift creates a temporary social relationship. Is this kind of social relationship communal or associative in its nature? It seems the given example is a rare opportunity in the life of a child to experience a temporary widening of the circle of community towards a “generalized other” by using money as an instrument. In addition, we asked the hypothetic question of whether adults should donate to poor people even if they do not know them, and 58% of children answered with yes. Both examples suggest that children had already experienced the first insights into the association-formation function of money.

To understand how social class (Class), migratory background (Migration), and the amount of pocket money (Money) children receive weekly influence the probability that children have given money to friends and schoolmates (Gift), to have lent money (Lend), to have donated money to a stranger (Donation), and to be expecting adults to donate money to strangers (Adult Donation), we estimated several logistic regressions: Table 1 sums up the main estimation results.
Model 0 contains the bivariate correlation coefficients between the independent variables and the dependent variable. Model I and Model II are logistic regressions predicting the likelihood of the dependent variables Gift, Lend, Donation, and Adult Donation. Model I (Gift) suggests that children from lower social classes and with migratory backgrounds are more likely to give money to friends and schoolmates; while the effect of migration is highly significant, that of class is not. Model II indicates that the ‘wealth’ of children has no significant effect on the likelihood of using money as a gift. Model I (Lend) shows that higher classes are significantly more likely, and children with migratory background are less likely to have lent money; the impact of a migratory background is not significant. Again, Model II shows that the amount of pocket money has no significant impact on the probability of lending. Predicting the likelihood of having donated money to a stranger (Donation) shows that upper classes and children with a migratory background are significantly more likely to have donated money than children from lower social classes. The last, Model I, shows that upper classes are significantly more likely to expect from adults to donate money to strangers (Adult Donation) than lower classes, and that children with migratory backgrounds are less likely to expect people to donate money.

The empirical findings indicate that children are already confronted with the ‘community-building function’ of money. Most children already learn that money is used to establish and deepen close social relations within the family and between friends. Usually, children are the receivers of money, however, many use money themselves in close social relations. In addition, children use money in rudimentary ways for ‘associative relationship formation:’ many have donated money to street musician or homeless people. Testing the influence of social class and migratory background on the likelihood of having used money in a ‘community-’ and ‘associative relationship-forming’ way shows that class and migratory background have an impact on children’s use of money.
5.3 Money as a symbol

As maintained above, money symbolizes a wide range of different categories: power, influence, prestige, success, status, knowledge etc. However, children hardly use their own money as a symbol of anything else than their own ‘wealth.’ If at all, children use their money to symbolize their prestige and status more directly, meaning by talking about their wealth.

To get an idea about how primary school children talk about their financial situation and whether they signal their ‘wealth’ to others, we asked two questions: (1) "If you have a lot of money, do you tell your friends?” and: (2)”If you have little money, do you tell your friends?" Depending on the response, we asked: “Why do you/don’t you tell your friends if you are rich/poor?”

To question number 1, 72% of all interviewed children would keep back the ownership of a lot of money. The largest group, with around 30%, stated they would keep it to themselves for fear of being robbed. About 12% would not talk about it to avoid boasting. In contrast, nearly 11% would tell others about their wealth just for boasting. To question number 2, again 72% of the children would not tell their friends if they have little money. About 48 % would feel ashamed of their bad financial situation. Of those 28% who would confess a bad financial situation, 11% would tell friends out of honesty and 10% in hope of financial support from their friends. Hence, rather than signaling their ‘wealth,’ children seem to be implementing the widely-accepted Austrian attitude of ”Never talk about money.”

Implicitly, it is often assumed that people of lower social classes and migrants talk more openly about money and more frequently use money as a symbol for their success. To test those popular hypotheses concerning the relation between class, migration, and money as a symbol, we estimated two logistic regressions when talking about having a lot of (A lot of Money) and about having little (Little Money) as dependent, and social class and migratory background as independent variables.

### Table 2

<table>
<thead>
<tr>
<th>A lot of Money</th>
<th>Little Money</th>
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<tr>
<td></td>
<td>Model 0</td>
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<td>Class</td>
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<tr>
<td>Migration</td>
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<tr>
<td>R² Nagelk</td>
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</table>

The number in the box gives the β coefficients; **, * the significance of the result: ** p<0.01, * p<0.05;
Table 2 sums up the estimation results of the two logistic regressions: estimating the influence of social class and migratory background on talking about ‘wealth’ (Model I; A lot of Money) indicates that lower classes and children with migratory backgrounds are more likely to talk about having a lot of money; however, the impact of class and migration is relatively small and insignificant. The contrary holds for talking about having little money (Model I; Little Money): lower classes and children with migratory backgrounds are less likely to talk about having little money; again, the impact of class and migration is relatively small and insignificant. Overall, it may be summarized that, relatively independent of class and migratory background, children hardly ever talk about their financial situation.

Hence, against our expectations, children hardly use money as a symbol: usually, they avoid speaking about their ‘wealth’ or ‘poverty.’ The discretion when it comes to money may have cultural reasons: in Austria, talking about money and wealth is generally frowned upon.

5.4 Behavior-regulating money

Money is used in many social contexts to regulate and direct behavior. In particular, behavior is regulated by money in employer-employee and state-citizen relations: from both of these relations, children are excluded by law. However, we expect that children’s behavior is also regulated by money, as parents and relatives sanction and reward children’s behavior precisely with money. Most children receive pocket money, which may be reduced in case of bad behavior, or otherwise increased. Also, giving money to children as remuneration for desired efforts is not uncommon.

We asked children whether they received money for good academic performance, domestic work, house chores, sports performance, and staying out of fights and arguments. In addition, we asked whether their pocket money has ever been reduced or canceled because of misconduct at home or misbehavior at school. Most common is the rewarding of good academic performance (63 %), domestic work (46 %), and house chores (21%). A fifth of children get monetary rewards for sports performance and for staying out of fights and arguments (8%). One third’s pocket money has been reduced or canceled in the past: more often because of misconduct at home (27%) than for school misbehavior (10%). Only 9% stated that they have never been rewarded and sanctioned by money. Hence, more than 90% off all interviewed children got in contact with the ‘behavior-regulating function’ of money.

To get an idea about differences in the ‘behavior-regulating’ use of money along classes and migratory backgrounds, we estimated logarithmic regressions with rewarded for good marks...
in school (Marks), good sport performance (Sport) and the reduction of pocket money (Pocket Money), to bad behavior as dependent and social class and migratory background as independent variables.

Table 3

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<th>Marks</th>
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<th>Sport</th>
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<th>Pocket Money</th>
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<tr>
<td></td>
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<td>Model I</td>
<td>Model 0</td>
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<td>R² Nagelk.</td>
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The number in the box gives the β coefficients; **, * the significance of the result: ** p<0.01, * p<0.05;

Table 3 summarizes the results of the three logistic regressions. The results of Model I estimating the likelihood to receive money for good academic performance indicates that social class has almost no impact, but children with migratory background are less likely to be rewarded for good marks; however, the impact of migration is not significant. Model I (Sport) indicates that upper classes are less likely to receive money for good sport performance and children with migratory background are significantly more likely to be rewarded for success in sports. The last block shows how migratory background and social class influences the likelihood that bad behavior is sanctioned by pocket money restrictions. Model I (Pocket Money) indicates that upper classes are less likely to get pocket money restricted due to bad behavior, and children with migratory backgrounds are more likely to have pocket money restrictions; both influences are insignificant.

Overall, it can be observed that although economic and sociological contributions hardly take into consideration the fact that money functions as a behavior-regulating institution, almost all children experienced this behavior-regulating function of money. Even though children are excluded from relations where money is used most notoriously to regulate and direct behavior (the employer-employee and state-citizen relations), more than 90% of all interviewed children experienced their behavior being directed by money – as sanction and remuneration. In addition, it was estimated that social class and migratory background have an influence on the likelihood that children’s behavior will be sanctioned and remunerated and on how it is regulated in general.
6 Conclusion

From the economic and sociologic literature on money, we extracted seven main functions of money: the three recognized economic functions — medium of exchange, unit of account, and store of value — and four non-economic functions — the freedom-granting function, the signaling function, the community-building function, and the regulation of behavior.

Usually, the functions of money are reduced to the widely recognized economic function. We have shown that apart from the economic function, four main non-economic functions of money exist which highly determine the daily usage of money: the freedom-granting function of money stems from the characteristic of money as a social, material, temporal, and spatial absolute independent equivalent of value. Money is a signal: money is used to signal a wide range of social and economic categories: power, influence, prestige, success, status, and knowledge. Money has a community-building function: money is used in many community-building processes, in families, but also far beyond. In addition, money has the function of regulating behavior: from labor markets, to friendships and within families, money is used to discipline or regulate behavior.

Investigating children’s money use, we have found that most children aged between 7 and 10 are aware of most economic- and non-economic functions of money: all economic functions of money are quite present in children’s money use, but children also use money as a signal and to build communities, or they at least have an idea of the community-building function of money and their behavior is regulated by the use of money. Therefore, quite early in life children get socialized through the wide range of money functions. In addition, our study has found that children of different social classes and with migratory backgrounds use money differently.

7 References


