

Chapter 1 – SOCIAL STUDIES: What’s This Thing We Call Money?

"Everybody needs money. That's why they call it *money*."

--Danny DeVito's character, Mickey Bergman, in David Mamet's film, *Heist*.

Welcome to *The School of Money*. Okay, it's more of a book than a school, but with a little imagination you can easily pretend you're back in school. Listen. There's the sound of a thousand feet clambering down the hall. Remember your locker combination? I hope so.

Now, hold that picture in your mind and you'll quickly see that each chapter you read in *The School of Money* is like a different class. For example, this chapter has the feel of a Social Studies class. There's also Chemistry, Math, Biology, Gym and English-type chapters, just like in a normal school.

Unlike a normal school, however, in *The School of Money*, money is always the focus, regardless of what type of class/chapter you find yourself in. An entire curriculum focused on money might seem a little narrow at first, but as you'll see, money is a wide subject that touches virtually every area of our lives. Yes, we're all familiar with money, but when you stop to think about it, the concept of money is so vast, it can quickly appear impossible to wrap your mind around. But that's not about to stop us from trying.

And the perfect place to begin is with the question posed by this chapter's title: *What's this thing we call money?* Seems like a simple enough question, and you might be able to give a simple technical answer. But if money is so simple to understand, then why do more than 1.5 million Americans claim bankruptcy each year? Maybe money is more difficult to understand than we thought.

The quote above is a perfect example of how money can appear simple, yet be difficult to understand at the same time. But that's the way things often play out in a Social Studies class – you start off thinking you have a handle on something only to discover it slipping away as you take a closer look. What do you think the quote means? It appears that the speaker knows what *he* means when he says, "Everybody needs money. That's why they call it *money*," but are you sure you know what he means?

The “Soft” Side of Money

In Social Studies class, we often explore the “soft” side of subjects, while classes such as Chemistry, Math and Biology view things from more of a “hard” perspective. Call it being touchy-feely or possibly theoretical, but it's no different in *The School of Money*, where you might find our “soft” Social Studies examination of money makes it challenging to come up with a clear understanding of its true nature. However, by examining “soft” subjects like money from many different angles, we can slowly build up a clearer picture of what we're dealing with. That many-angled approach is exactly how we'll be starting our exploration of the subject of money, by looking at money as:

- an idea,
- pure potential,
- time,

- and speed.

And then, armed with your newfound money knowledge, we'll finish our first Social Studies class by diving into our first Money Issue: *Are you aware of what you think about money?* So put on your thinking caps and let's begin.

Money is an Idea

Since when is money an idea? Since always. And a rather abstract idea, too.

Think about it from a Social Studies perspective. Begin by picturing yourself living in a village society without money. People still work. People still have belongings. There's just no concept of money.

It might sound like an easier life, but sooner or later you'll naturally have something that somebody else would like to have. It might be a material thing such as food, a skill such as identifying medicinal herbs and plants, or a social thing such as companionship. It's also natural that eventually somebody else in this moneyless society will have something that you would like to have.

Your Thing of Value – An Herb

Imagine your thing of value is a rare herb that has amazing healing properties – but only within one hour of being picked. You've been in the desert for days searching for the herb, and losing more pounds every day. You're hungry. You're thirsty. And just when you're about to give up the search, you find the herb.

You rush into the village with your newly picked herb. Word spreads quickly about your find, and in no time you have a line of people wanting your thing of value. You look each of them over, and your eyes suddenly notice a plump woman with a basket full of several freshly baked loaves of bread and a bucket of cool water. At that point, it doesn't take a great stretch of the imagination for you (or the woman) to think of trading what you have for what you want. Call it bartering or swapping or whatever you want, you're simply exchanging one thing of value for another thing of value. Nothing complex there. So you trade the herb for a loaf of bread and a flask of water, and both you and the woman go away happy.

Repeating the Process of Trade ...or Trying To, Anyway

In time, however, your bread and water are gone, and your hunger is back. So you head back into the desert, find another herb, and return to the village to repeat the trading process. Except this time, the lineup of interested customers is only one person long – a crusty old man with a skinny goat tied up to one side. You weren't really in the market for a goat (one of those loaves of bread was what you had in mind), but there are no other customers in line. So you size up the goat and determine it would make a half-decent stew. Only the old man insists the goat is worth far more than one little herb. You're not convinced, but then it's not like you're comparing apples with apples, so who's to say for sure if one thing's worth more than the other. Of course, you could simply give him two or three herbs to make up the perceived difference, but you only have one herb right now. With a flick of his hand, the man and the goat trudge off, leaving you alone with your herb – and your hunger.

No problem. You'll simply mingle with the other villagers. Someone will undoubtedly be interested in your herb. Except time is running out. It's already been forty-five minutes since you picked your leafy little treasure, and you'll recall its healing properties are only good for one hour after being plucked. So you scurry here and you scurry there. But you simply cannot find a customer in time, and your thing of value is suddenly worthless. All your hard work was for nothing. You throw the herb into the dirt, and then slowly slump down next to it, hungry, thirsty and tired.

Improving the Process of Trade

You stare at the wilted herb, your thing of value, trying to figure out how this whole trading process could be improved. Your thoughts include:

- How could you make the herb's value last longer?
- How could you get everyone else to agree on how much one herb is worth?
- Could you have traded the herb for the goat (something you ultimately didn't want), and then traded the goat for the bread (something you ultimately did want)?
- Even if you'd had two herbs to trade for the goat, the old man wouldn't have needed two herbs, since the amazing healing properties of the first herb would probably have been enough.

At this point, the woman with the bread and water walks by, but you're so deep in thought you don't even notice. Improving this whole trading process is far more complex than you thought it would be. Still, you decide to regroup your thoughts and see if you can get a glimpse of what's required to prevent the wilting-herb-expensive-goat-empty-stomach scenario from repeating itself. So far, you've determined that maybe what you need is:

- something of value that holds its value over time (unlike your wilting herb)
- something of value that everyone agrees on how much it's worth (unlike herbs and goats)
- something of value you could use as a go-between to get from what you have to the thing you ultimately want (like using the goat to get from having an herb to having bread)
- something of value that everybody can use more of all the time (unlike your cure-all herb)

You obviously need "something" to bring your village society into the world of modern trade. But what? And suddenly, you're hit with an idea. A rather abstract idea, but an idea nonetheless. The idea of money!

Selling Your Idea

Full of excitement, you call a village meeting. That night, every person in the village gathers around a blazing bonfire (with the exception of the old man, who stayed home to enjoy a half-decent stew). Curious whispers flit from one side of the crowd to the other. Your throat is dry. Your palms are sweaty. Will you remember your argument? But the crowd is growing restless now, so you begin:

"Fellow villagers, as you're all aware, from time to time I provide healing herbs in exchange for items of value you possess." Nods of agreement and appreciation spur you on. "But sometimes the trading process doesn't work smoothly." More nods. They've had potential trades fall apart too. Now they're really listening as you claim you've found a solution to such trading inadequacies. And with every eye gazing at you through the flickering orange firelight, you proclaim the answer is money!

"Money?" the old man asks as he saunters up to the fire, licking his fingers. "What's money?"

"Yeah. What's money?" another asks. Then another. And another, their eyes already starting to glaze over.

There's no turning back now, so you tell them money is something you use to trade with, except it doesn't really have any value of its own.

"Who would want to trade with something that doesn't have any value?" a voice asks to your right.

You explain that money does have value, but not "real" value. That only confuses them more. From the corner of your eye, you see the old man laughing at the sight of sweat beading on your forehead. You start again, this time saying money has whatever value the village decides it has.

"So it's make-believe value?" the plump bread woman asks. "What kind of value is that?" All eyes turn to you for the answer. But you don't have one. At least not one you can put into words. And with that, the meeting is over as the crowd disperses into the night, mumbling as they go. You drop your head and turn to leave as well, until...

“Tell them about the goat,” a voice calls out behind you. You turn along with everyone else to see the old man calmly picking his teeth next to the fire. “Tell them about the goat,” he repeats, this time looking right into your eyes, the corner of his mouth pulled into a crafty grin. And in that moment, you realize he understands! And if just one other person understands your idea of money, then you can start a whole new economy. An economy based on the idea of:

- something of value that holds its value over time (money)
- something of value that everyone agrees on how much it’s worth (money)
- something of value you could use as a go-between to get from what you have to the thing you ultimately want (like using money to get from having an herb to having bread)
- something of value that everybody can use more of all the time (money)

This is Just the Beginning

Here’s where we’ll leave our imaginary village society behind and return to our Social Studies class. Hopefully at this point you have a better understanding of how money is an idea. As for it being an abstract idea, you might not think it’s that hard a concept to grasp. But keep in mind that you live in a society where money is used everywhere. In such a money-influenced environment, even children have a basic understanding of money by the time they drop a handful of sweaty coins on a convenience store counter to make their first chocolate bar purchase.

Plus, there’s more to the concept of money than the list above covers. Just consider some of the decisions you and the villagers would have been faced with to get the new economy going. For instance:

- What will you use for money (and will a likeness of your face be on it)?
- What money denominations will you use (e.g., penny, dime, quarter, dollar, ten dollars)?
- How many dollars will it take to buy one herb? One loaf of bread? One goat?
- If you want to trade with another village but they have a different form of money, how will you determine a fair exchange rate (how many of your dollars will it take to buy one of their dollars, or vice versa)?
- Who will make all these decisions and how will you enforce them?
- And many, many more decisions

Point of Interest

Long ago, the money in many societies did have “real” value. For example, at one time, Roman coins were actually made of gold, and thus were “worth their weight in gold.”

In contrast, using money without “real” value, as we do today, means our money is virtually worthless without the idea of money behind it. Yes, you can use a dollar bill to write a note on or to start a fire (heaven forbid!). In such examples though, a dollar bill is of no more value than any scrap of paper 2.61 inches wide by 6.14 inches long.

Yes, money is an idea. And a rather abstract idea, too. But one of the great things about this abstractness is that it gives money an awful lot of potential, as we’ll see next.

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