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Simmel and Weber on Money, Exchange, and Structural Differentiation

Introduction

A publication devoted to the work of Georg Simmel is long overdue; and the use of "Newsletter" format is especially welcome because it allows scholars to present reports on "work in progress" without all of the ritual puffery of a "full blown" article. At least this is my justification for presenting some ideas that are part of a much larger in-progress work on macrodynamics (Turner, n.d.; 1990a).

One of the chapters in this larger work is on markets which, to state the matter loosely, are differentiation-producing machines. In approaching this complex topic, I went back to Georg Simmel and Max Weber who offer an important set of conceptual leads on the differentiating effects of market processes.

While Simmel and Weber took their Kantian legacy in very different directions--Weber to ideal types and typologizing on historical processes; Simmel to formal sociology and concern with generic forms of human association--the end products of their respective approaches are not as different as they might appear on the surface. This conclusion is especially evident in their respective analyses of money, exchange, and social differentiation. Moreover, there is a more direct connection between Simmel and Weber, since *Philosophie des Geldes* was the first book Weber read after his breakdown (Levine, 1972: 155). And, although Weber was to later criticize Simmel's ontology and epistemology, there is no doubt that Weber was influenced by Simmel's *The Philosophy of Money* ([1907] 1978) and *Psychology of Money* (1899).

My interests in their ideas on exchange, money, and differentiation are not historical, however. As one who defines himself as an unrepentant positivist (in an academic milieu of "relativists", "post-positivists" and "post-modernist" terms), there is only one reason to examine the ideas of historical figures: to see if there are abstract models and laws about generic and universal processes in their work.

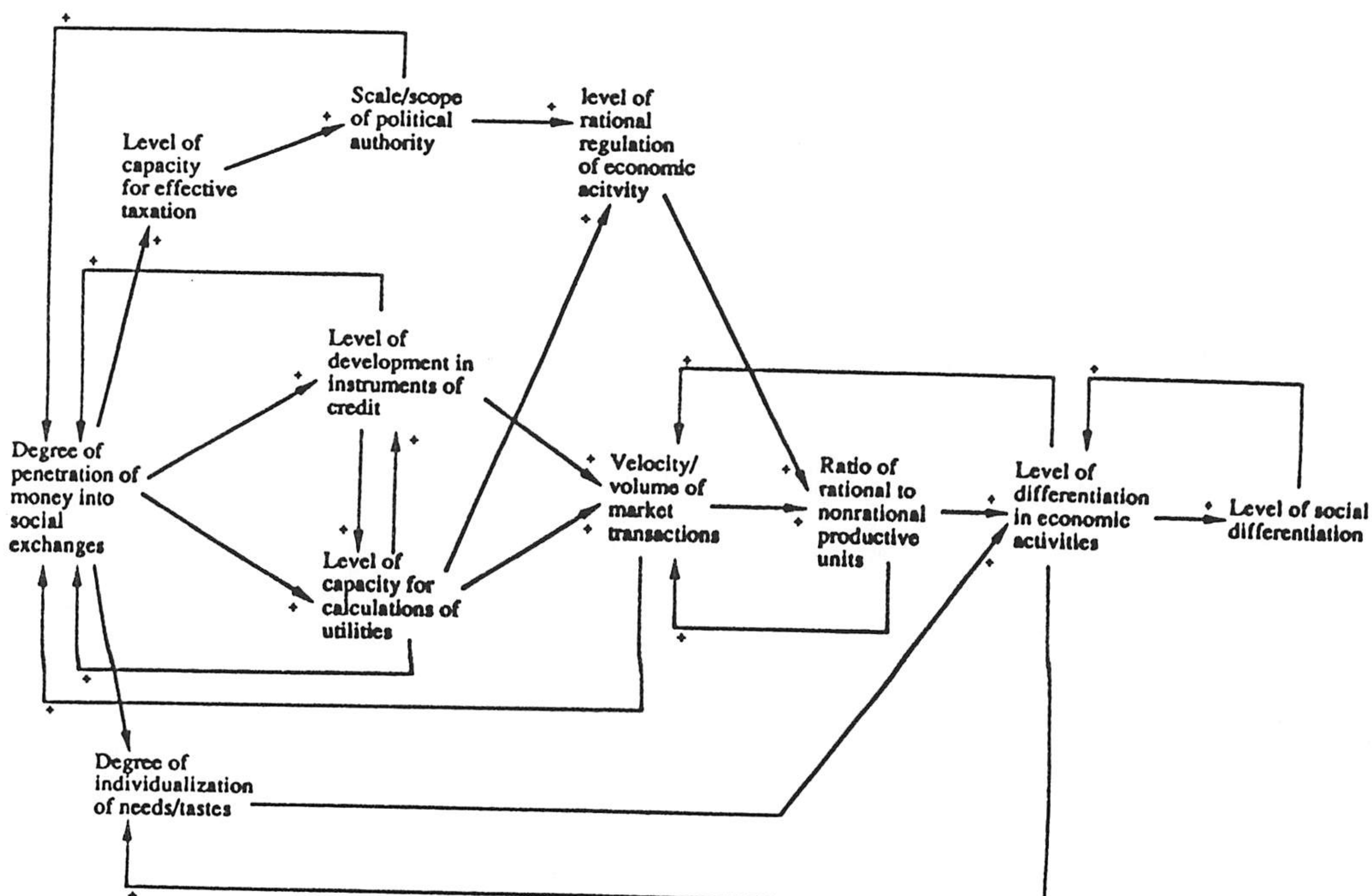
What, then, do Simmel and Weber have to offer modern sociological theory in the area of exchange and differentiation? The general answer is their recognition that the use of money as a medium of exchange accelerates the process of social differentiation, while altering the basis of social integration. There are, of course, significant differences in their respective analyses, but these differences complement rather than contradict each other. Let me begin pursuing this theme with a quick review of Weber's ideas.

Weber on Sociological Categories of Economic Action

Weber's chapter in *Economy and Society* ([1922] 1968) on "the sociological categories of economic action" is, on the surface, a rather turgid set of definitions, distinctions, and categories. Yet, as I have come to appreciate in recent years, it is not difficult to extract and abstract dynamic models from Weber's work, once all of the terminological and typological dust has been sifted through. Let me outline at a more abstract level than Weber's terminology what I see as the key contributions in this chapter.

For Weber, the ratio of money to nonmonied media of exchange is the critical causal force behind the transformation of markets and patterns of social organization. For money allows the development of credit mechanisms, while facilitating the precise quantitative calculation of utilities. These changes, in turn, accelerate (1) the scale and scope of political organization (because money calculations streamline and rationalize tax collection and, hence, the capacity to support the state) which then leads to efforts at rational as opposed to nonrational regulation of productive units, (2) the volume and velocity of exchanges in markets which also cause an increase in the ratio of rational (profit-making) to nonrational (tradition, status-oriented) productive units, and (3) the individualization of needs which increases the diversity of demand in markets. All of these three outcomes of money are interrelated, and after a certain threshold, their mutually self-escalating effects on each other are irreversible. Moreover, these forces are a change-producing juggernaut which accelerates the differentiation of productive units, markets, individuals, and social categories. In Figure 1, I have delineated these processes in a simple dynamic model (for a more detailed model, see Turner, n.d.).

Figure 1: Weber on markets, money and exchange



At first blush, it is hard to imagine Weber viewing the world in the manner presented in Figure 1. But in fact, if one is willing to extract and abstract the most generic ideas from Weber's somewhat meandering prose, this is what Weber says. For Weber tends to think in terms of causal processes, including direct, indirect, and reverse causal chains. I have added signs to the arrows that are consistent with Weber's analysis. What is immediately evident is that the signs are all positive, underscoring the conclusion that once money penetrates social exchanges at some threshold level, forces promoting social differentiation (and, for Weber, rationalization) are difficult to stop, especially because of the positive feedback loops (or, more accurately, reverse causal chains) in the model. Let me stop here for the present, and turn to Simmel's approach which is the main topic of this "news" (perhaps "yesterday's news") item.

Simmel's Sociology of Money

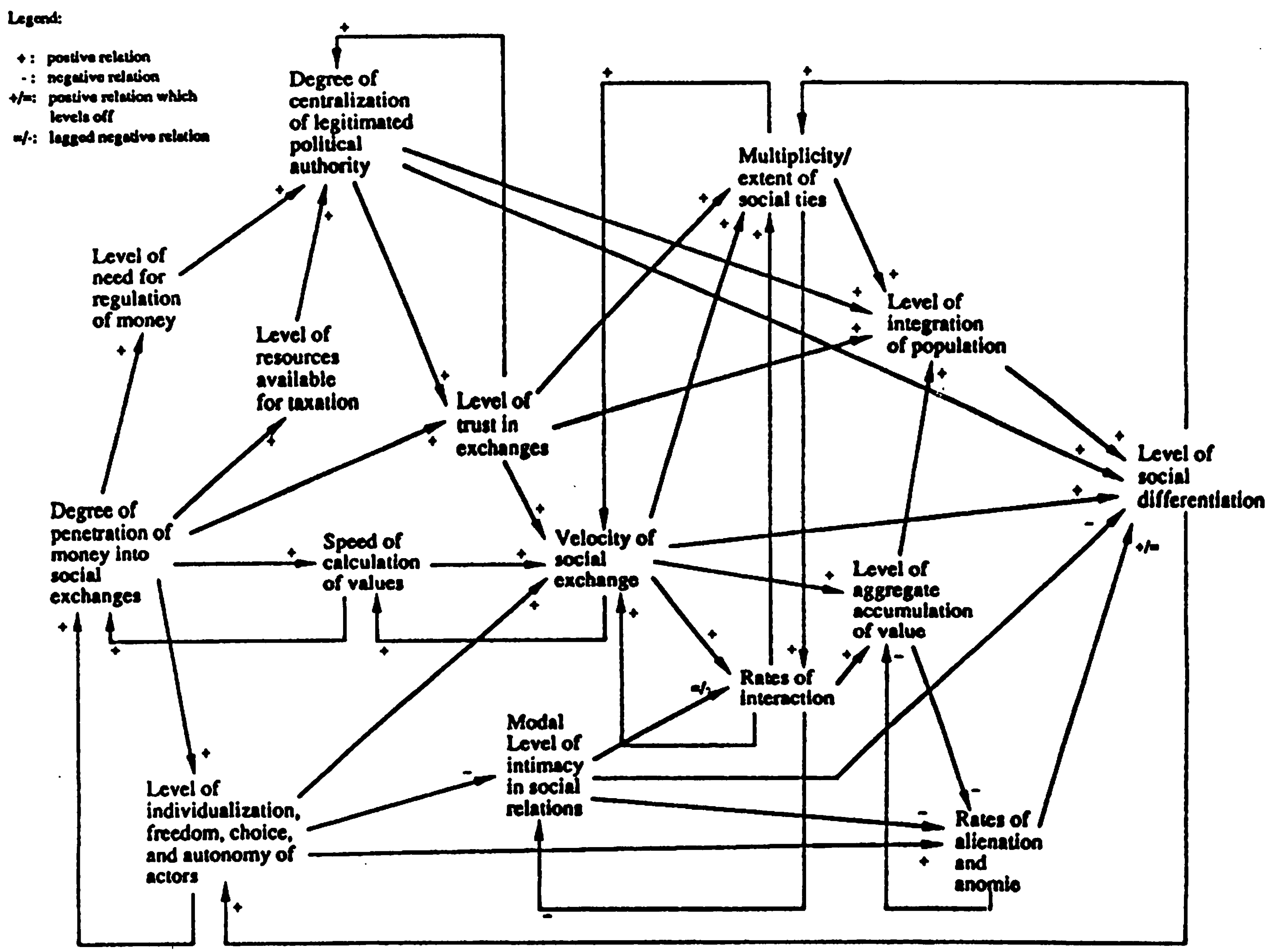
I have offered a more detailed account of Simmel's *The Philosophy of Money* elsewhere (Turner, 1991: 195-6, 299-302; Turner, Beeghley, and Powers, 1989); here, I want to focus on Simmel's conceptualization of exchange, money, and differentiation. Simmel's analysis of money compliments Weber's by providing more detail on how the introduction of money alters the nature of exchange and, in turn, the nature of social relations. In contrast, Weber's account provides more insight into the transformations of structures (i.e., the state, productive units, and organizations) connected to market processes. Together, their analyses present a robust picture of a key dynamo behind social differentiation.

Simmel offered in *The Philosophy of Money* the first sociological exchange theory, one that still has relevance (Turner, 1991: 195-6), but he does not present a detailed or compelling portrayal of market processes (this might be expected in light of his concern as forms of "sociation"). Thus, the thrust of his sociological analysis of money is on the consequences of monied exchanges on the form of social relations and, somewhat indirectly, on social structure. Indeed, there is an implicit functionalism in much of his analysis because he tends to stress the consequences of monied exchanges for the integration of differentiated populations; and in so doing, he offers a supplement to Durkheim's ([1893] 1947) macrostructural theory of integration (see also Turner, 1990b; 1984; 1981) as well as a corrective to Weber's rather pessimistic view of rationalization. This said, let us turn to Simmel's argument.

As with other sociological theorists of his time, Simmel was concerned with the question of the individual's attachment to groups in the face of growing rationalization, differentiation, and "objectification" of the social universe. Thus, as more impersonal standards of discourse and media of exchange--intellect, logic, law, and money--are inserted into social relations, there is an increase in personal freedom and autonomy at the expense of the more emotional and enduring attachments provided by tradition, religion, custom, strong bonds, and habit. Increasingly money encourages rational calculations, devoid of the same level of emotion and attachment provided by cohesive groups, long-standing traditions, and sacred beliefs. Yet, as if to offer the counter-argument to Weber's "iron cage" metaphor and to Durkheim's obsessive concern with anomie, Simmel also emphasizes the positive functions of money, for both the individual and social structure--a line of argument that perhaps placed Simmel's own marginal academic status in a more positive light (Coser, 1978).

In Figure 2, I have modelled Simmel's ideas in a manner corresponding to the presentation of Weber's in Figure 1. Like Weber, Simmel sees the penetration of money into social exchanges as increasing the level of potential resources available for taxation by a centralized political authority, but Simmel says more: the widespread use of money generates pressures for its regulation in order to preserve its worth and value which, in turn, further encourages the expansion of regulatory authority (Simmel, [1907] 1978: 171-84).

Figure 2: Simmel on markets, money and exchange



Furthermore, the very existence of money, coupled with its regulation, generates a new basis for trust in social systems: the expectation that the receipt of money can be used at its stated value in future exchanges (Simmel, [1907] 1978: 177-78). Such implicit trust reinforces individual commitment to a social system and constitutes an important legitimating mechanism for political authority. Other integrating processes revolve around the multiplicity (Simmel, [1907] 1978: 307) and extensiveness (Simmel, [1907] 1978: 180-86) of ties that result from the increased velocity of exchanges--an early version, I think, of Granovetter's (1973) famous "strength of weak ties" argument. For as ties can cover more network space and criss-cross among groupings, a powerful integrative force is set into motion, especially when trust in the worth of money can be sustained. Moreover, high velocity exchanges make possible high rates of interaction; and hence, such high velocity exchanges promote integration by enabling contacts with diverse others and by facilitating repeated interactions (Simmel, [1907] 1978: 292). And finally, high velocity exchanges allow for the accumulation of value because if individuals exchange resources they must (in Simmel's eye) be receiving value and if they can increase the number of exchanges they must be accumulating ever more value; and as a consequence, the more value that is accumulated, the more committed to a society individuals become.

At the level of the individual, Simmel like Weber sees money as causing individualization, giving people more freedom, autonomy, and options. In turn, such individualization increases the velocity of exchanges which then increases rates of interaction, multiplicity and extent of ties, and accumulation of value (Simmel, [1907] 1978: 307-27). Yet, at the same time, individualization lessens the emotional quality and intimacy of attachments (Simmel, [1907] 1978: 454) which denies individuals a major source of accumulated value, while increasing the distance between self and the objects of self-expression which are too easily bought, sold, and discarded (Simmel, [1907] 1978: 297). Moreover, individualization promotes alienation by virtue of fragmenting interactions (Simmel, [1907] 1978: 454) and anomie by lifting constraints and barriers on perceptions about what can be acquired (with just more money).

As the model in Figure 2 argues, these forces which are unleased with the widespread use of impersonal media of exchange (money being the most extreme case) create some countervailing pressures on integration. On the one hand, centralized political authority as it protects the worth of money and engenders trust, multiple and extensive ties as they create bridges, and high rates of interaction as they promote the accumulation of value all work to integrate members of a population. This integration may not be as cohesive and consensual in systems using non-neutral media of exchange, but it is nonetheless integration and probably of a more flexible variety. On the other hand, such integration is compromised by high levels of neutrality, alienation, and anomie as they work to lower the accumulation of value (hence the negative arrows in the model).

In turn, these countervailing integrative and disintegrative forces promote differentiation, a line of argument which reverses the usual "differentiation-to-integration" position of Durkheim ([1893] 1947) and Spencer ([1874-96] 1898; see also Turner, 1984; 1985). In essence, what Simmel argues is this: (1) differentiation is possible only with prior integration; and (2) inherent in the differentiation engendered by money and high velocity exchanges are integrative tendencies--multiple ties, high rates of interaction, accumulated value, political authority, and trust. While there are disintegrative forces also at work, these still operate to promote further differentiation without destroying the basis of integration that facilitates differentiation. Thus, while individualization, loss of intimacy, alienation, and anomie may lower integration, they also work via the causal arrows across the bottom of the model to encourage differentiation by freeing people from constraints and, thereby, giving them the opportunity to (even when alienated) be different from each other. Indeed, in Simmel's approach they operate as a centrifugal force, but unlike Durkheim's or Marx's views on the disintegration caused by, respectively, anomie and alienation, there are also powerful centripetal forces that are produced by the same conditions that initiate the disintegrative forces delineated in the individualization, alienation, and anomie paths in the model. The overall effect, I believe, is to produce a highly dynamic and robust model of social differentiation on human populations--a model which, in some respects, is superior to Spencer's and Durkheim's and which, without doubt, is better than either Marx's or Weber's.

A Final Note on Simmel and Weber

Weber failed to see what his model of money, exchange, and markets implied: a loosening of social control. Instead, he saw rationalization as creating a "cage" of rational-legal authority. Although there is an undercurrent of Weberian pessimism in much of his work, Simmel clearly was more correct in his prognosis: an increase in personal freedom, options, and choices; an increase in the number and length of social ties; an increase in the rates of interaction; an increase in the sources of extrinsic value; and an increase in the rates of alienation and anomie.

Weber may have read *The Philosophy of Money* and perhaps been influenced by it, but apparently this reading did not force the recognition that differentiation, especially when fueled by money and high velocity markets, is more liberating than constraining. If there are bars on the iron cage of rational-legal authority, they are widely separated and easily transversed. Indeed, I would go so far as to assert that too much sociological analysis emphasizes the constraints of modernity, while evidencing a collectivist ideological bias that is critical of market-based systems. I think that Simmel's approach gets us out of this trap and lets us see a basic empirical fact: high velocity/volume market systems in modern societies are liberating, especially compared to the structure of agrarian and horticultural societies. Humans gravitate toward market dominated systems not only out of necessity but also out of *preference*, because humans are *not* innately collectivists; rather, they are far more individualistic than most theorists recognize or admit (at least to the extent that we are willing to look at our distant primate cousins as an indicator of our biological tendencies; see Maryanski and Turner, 1992, for elaboration of this point). Market systems allow more autonomy than all non-market systems except hunting/gathering bands; and this is why people prefer them over kin-based horticultural systems, coercive agrarian systems, or state-controlled economies. Neither Weber nor Simmel fully saw this point, but Simmel's analysis comes close; and it is for this reason that his assessment of the consequences of money is relevant not only to theoretical sociology but also to general intellectual discourse on modernity. In fact, I would go so far to say that sociology should cease allowing Weber's pessimistic and inaccurate framing of the central problematic of modernity--constraint by rational-legal authority--to intrude into our analysis of social systems. We would do much better to continue our revival of Simmel.

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