

## **SUFFICIENT AFFLUENCE/SUSTAINABLE ECONOMY: ECONOMICS FOR EVERYONE (PART THREE)**

By John F. Sase, Ph.D.

*“No, you can’t always get what you want / But, if you try sometime, you just might find / You get what you need.”*

--Sir Michael Phillip (Mick) Jagger, English Singer and Economist, Lyric from the Single “You Can’t Always Get What You Want” by the Rolling Stones (Decca/London, 1969)

Since last month’s column, much has happened, both in America and in Detroit: At the Federal level, the Volker Act has been passed. It restores parts of the Glass-Steagall Act, which separated commercial and investment banking. Detroiters elected Mike Duggan as the new mayor, U.S. District Judge Gerald E. Rosen gave the go-ahead for Detroit to enter into Chapter 9 Federal Bankruptcy Protection, and city-union employees filed an appeal within fifteen minutes. Notably, Detroit has more than 100,000 creditors; in order to resolve their issues, a large amount of economic data-management and analysis may be required. Also, paintings continue to hang on the walls of the Detroit Institute of Arts, but for how long? We are in the midst of an *Abbey-Road* style craze of “Detroit is dead! Detroit is the Walrus!” (Many of us recall hearing the rumor that “Paul McCartney is dead” on the radio show that was hosted by Detroit-DJ Russ Gibb on 12 October 1969.)

In last month’s column, we started to lay out the basics of rebuilding the economy of Detroit. This approach includes everyone in the metropolitan area. We began by addressing the need to accentuate the positive while eliminating the negative. We did this in order to confront and to restrain the archetypal demons within ourselves that block our efforts to achieve renewed economic prosperity. Rather than wallowing in the muck that is the belief that “Detroit is dead,” we are starting an extended sub-series on the relevant basics of Economics—Economics for everyone. Hopefully, this series will help the public at large to get on the same page of thinking as well as provide a primer for attorneys to share with their staffs and possibly with jurors in cases involving economic issues. Ultimately, we hope that this primer will help to redirect the negative energy that is being focused on Detroit by educating our audience on how the principles of Economics really work, we hope to foster a spirit of positivity regarding the City of Detroit.

The basis for understanding Economics lies in looking at our needs and wants, our requirements and desires. Consequently, we must understand what we need as well as what we want, then separate the two sets from one another. Finally, we must prioritize the elements of each group in respect to themselves and to ones in the other group. The more important of these two sets of aspirations is our needs and their degree of priority in our lives. As an exercise, we can visualize our hierarchy of needs as a pyramid. American psychologist Abraham Maslow has provided us with a construction that works well. From base to peak, his thoughts on the matter include the following strata: physiological needs for breathing, eating and drinking, sex, sleep, physical stability, and excretion; security needs, including safety of body and property,

employment, resources, morality, family, and health; social needs for love and belonging through friendship, family, and physical intimacy; esteem needs for self, including confidence, achievement, and respect of and by others; and self-actualization needs through spontaneity, creativity, problem-solving, lack of prejudice, and acceptance of known facts (“A Theory of Human Motivation,” *Psychological Review*, 1943, vol. 50, no. 4, pp. 370-396).

With this visualization, our base survival needs are at the bottom and our high needs of mind and spirit are at the top of the pyramid. Before descending to the base, we must ask whether we should concentrate first on the attainment of our base needs before ascending to our transcendent needs. However, when we visualize our needs in this pyramidal manner, we may exaggerate the importance placed on and the time devoted to the development of the largely materialistic wide base of the pyramid while foregoing the opportunity of ever reaching our highest needs at the narrow peak.

The nineteenth-century industrialist Andrew Carnegie stresses that the highest and most important forms of wealth satisfy those needs that nurture our peace of mind. The wealthiest individual in nineteenth-century America, Carnegie puts financial security in twelfth place out of twelve. This statement does not diminish the importance of our basic needs. Rather, it underscores the point that simultaneous fulfillment of our highest needs empowers us to address our basic needs better. Therefore, from top to bottom, Carnegie’s list includes maintenance of a positive mental attitude, sound physical health, harmony in human relations, freedom from fear, hope for future achievement, the capacity for applied faith, willingness to share our blessings with others, engagement in a labor of love, open-mindedness on all subjects toward all people, complete self-discipline, wisdom with which to understand people, and, lastly, financial security.

Should we fulfill our needs from our highest aspirations downward by way of vocation, from the middle through the development of a career, or from the bottom by engaging in the most fundamental of jobs needed for physical survival? This fragmentation in our choice of approaches has resulted from the specialization of work skills in our modern society. A generalist of the Pre-Industrial Age might suggest that we develop the ability to meet all levels of our needs simultaneously, with attention to our abilities and our most pressing needs of the moment. Furthermore, by taking this approach, we strive to understand, categorize, and prioritize our needs in respect to one another as well as to our desires that we identify as wants.

Whatever we accept as the optimum number, amount, and sequence of our needs to be met, this suggested path toward balanced fulfillment leads us to our goals. How? Through the economic process of orchestrating resources to gain the substance that satisfies our requirements and desires at both an individual and a community level. To take a spin from our opening quote, we should need what we want and want what we need in order to find fulfillment in life.

The process of economic attainment begins at point zero—the origin. This is an ancient concept that means everything and nothing. To illustrate, let us draw a circle with a

pencil. As we complete this line onto itself, we find that the space inside appears to contain nothing. However, with the completion of the circular line, we discover that we have drawn a symbol that has no beginning and no end. This circle reflects the concepts of endless space (infinity) and endless time (eternity). However we may define them, all spirit and nature comes from and exists within infinity/eternity. Therefore, this entity must be devoid of scarcity. The principle of scarcity forms the basic condition for all of Economics. Within infinity/eternity, finite space/time exists. As it is bounded, scarcity must exist in nature within the finite. The limitations of scarcity give meaning to economic thought.

The word “Economics” has come down to us from ancient Greek. It is a term that suggests the necessity to manage all of resources due to their limited availability within finite space/time. For example, the scarcity of farmland in Germany in respect to its population led to the invasion of neighboring countries in 1939. This is scarcity by place. Alternately, the development of the electric light bulb has allowed skilled-trade production that requires keen eyesight to take place at any hour, day or night. This follows many millennia during which production was limited to the hours from dawn to dusk. This is scarcity by time.

We use the term “Resources” to describe what we may choose to use in the attainment of whatever is good for satisfying our requirements and desires. Resources include everything in space/time that comes from within (human) as well as beyond ourselves (non-human). Human resources include all that emanates from our humanity: spirit, physical selves, the skills that we develop, the knowledge and wisdom that we acquire, the life experience that we hold within, and our ability to interact with others and the rest of nature. Non-human resources develop from the remainder of nature around us. Within this realm, non-human resources exist in their innate form and through our interaction with nature to transform them into substances and useful tools that we can use to meet our needs and wants directly. In addition, we may form other materials and tools in order to produce that which will be good for ourselves and others in the near or distant future.

The next step requires the organization of our available resources in order to direct them toward fulfilling our needs and wants. By way of analogy, this step resembles sorting laundry into separate baskets by light/dark and by fabrics or arranging the instruments of an orchestra into sections of strings, horns, woodwinds, and percussion. In this step, let us begin with ourselves. In short, we have accumulated skills and knowledge that enhance our productivity and the scarcity of our time. The value of our labor-time that we offer to others and its worth to ourselves reflects the quantity and quality of our talents honed through experience. Alternately, the value that our work holds for others is based upon their needs and wants.

Two major routes exist through which we can direct our human resources. The first route is to exchange our time for physical items or human assistance that we hope will meet our needs. However, the larger and more complex that a community grows, the more difficult that it becomes to make exchanges that coincide with our own immediate requirements. One form of recourse demands that we accept items for possible trade with a third party

in order to obtain the objects or services that we desire. The other form requires the acceptance of something of substance, appreciated widely and maintaining its value, or taking written script, which is backed by a substance of value or accepted universally on the basis of faith. Throughout the ages, forms of currency have included objects such as beads, precious crystals and metals, and notes imprinted on animal hide, clay, or paper. Whatever this currency, the payment for a fixed amount of labor-time exchanged has become known in English as “Wages” (from the old north European words “wagier” and “weddian”—to pledge and “guage”—to gage or measure).

The alternate way to engage our human resources requires us to place our labor-time at risk, to allocate, to combine, and otherwise to manage it as well as the labor-time of others, elements of nature as either material or a place to work, various useful tools found in nature or that we have built previously, and improvements developed by the human mind that we apply to such tools. When we place our own time at risk, we stand among available human and non-human resources, select them, orchestrate them, and direct them to work together with one another in order to make or to do something. To describe this action, the French pair two words: “Entre,” which means to stand among other people or things and “Preneur,” which means to take someone or something. Together, these words form “Entrepreneur,” the business term most commonly used for human resources placed at risk in this manner.

When we act as an entrepreneur, we relinquish any guaranteed wage for our labor-time invested. If we succeed, we profit. If not, we lose. This gamble of entrepreneurship involves taking a calculable risk. In taking a greater risk than another person takes by accepting a guaranteed wage for their labor-time, an entrepreneur hopes to receive a reward that is greater than the guaranteed wage foregone. This return for taking a risk can come as a combination of extrinsic (outward, such as money) and intrinsic (inner, such as satisfaction) rewards. The term “Profit” comes from the Indo-European roots “pro” (forward) and “facere” (make) and the Latin “profectus” (to make progress).

Complementing the two forms of human resources, labor and entrepreneurship, the three major divisions of non-human resources and their payments have taken on the terms “Land” for rent, “Capital” for interest, and “Technology” for a royalty (since Technology often is referred to as “Intellectual Property,” it has retained the name of payment assigned by royal decree in the Middle Ages).

The elements of nature posing as either a source of materials or as a place to work may be referred to as land, water, and sky; earth, sea, and air; the planet core; natural resources; raw materials; and other terms. However, in the history of economic thought, the most common approach groups all of nature under the overarching term Land.

We group useful tools that we find in nature or have developed from the abundance of nature under the term Capital (from the Indo-European root “Kaput,” meaning head or money laid out). Some economists consider money as transitory capital because monetary currencies serve as useful tools for trade. Money transfers easily, serves as a commonly understood measure of value, and provides a form of storage that retains value over time.

Throughout the articles in this series, we will focus on what we describe as physical capital as well. This form of capital includes useful tools such as hammers, saws, fifty-ton hydraulic presses, and laptop computers, to name but a few.

In respect to capital, the improvements that we make to it have formed the most recent category of non-human resources—Technology. If we consider two of the inventions that have changed the world and how we work most dramatically, we can appreciate the technological improvements that derived from their development. The first invention—the wheel--has made its mark slowly across the millennia. The second example—the electric light--has glowed for little more than a century. The wheel led to the advancement of trade, allowing humankind to move freight and passengers over long distances with relative ease. The electric light has emerged as the most recent game-changer; it has effectively doubled the workable day to twenty-four hours.

In the developmental centuries of the social philosophy and social science of Economics, practitioners have considered only three of the five resources discussed—Land, Labor, and Capital. The interplay exists between Labor and Land, Labor and Capital, and Land and Capital, usually with all three relationships occurring simultaneously. For example, a woodsman might take his axe into the forest to gather wood, a carpenter may use the tools of a workshop to shape lumber into furniture, a farmer might apply his/her plow to the land to raise crops, or a fisher may cast a net into the sea to catch fish.

However, with industrialization and globalization, society has changed rapidly and has become highly complex. By expanding the field of resources to five factors, the number of interplays increases exponentially from three to ten. Drawing from a popular analogy, a basketball team may increase from three players in a pick-up game to the National Basketball Association (NBA) minimum of five on the court (the number of team members needed in play to avoid forfeiture and an automatic win to the opposing team). The larger the number of possible combinations, the richer is the variety of strategies and plays. As we delineate resources into a greater number of factors, the greater the quantity and variety of goods we can produce.

To conclude, we move full circle back to our goal of satisfying our needs and wants. In order to meet our requirements and desires, we must develop the variety, quantity, and quality of goods and services that we can produce. These possibilities range from products that we both need and enjoy, including goods that are readily available in nature, such as apples plucked from a tree, to highly processed goods, such as automobiles. Furthermore, what we produce includes services performed for others, from a simple task such as holding open a door for someone to a complex endeavor such as surgery on the human brain.

More formally, all of us have needs and wants that we seek to satisfy. In order to do this, we tend to separate, define, and prioritize these needs and wants. In the process of satisfying them, we are in infinity/eternity. Therefore, we start with both everything and nothing. However, we live in finite space/time. Since space/time has boundaries, scarcity exists. Therefore, all resources, human and non-human, are scarce. In order to orchestrate

and to use these resources, we divide them into logical subgroups that we call “Factors”—resources that we divide and allocate to use for production. We split human resources into labor and entrepreneurship and non-human resources into land, capital, and technology. We use these factors in various combinations to produce physical goods and services in order to satisfy our needs and wants. In future columns, we will “take the floss to the mill”: we will discuss such economic concepts as Marketplaces, Profit and Loss, and Cost Control and will apply them to the economic dilemma that is Detroit.

As we approach the end of the year, we hope that our audience of attorneys and other professionals enjoy their holidays and have a healthy and prosperous 2014. We appreciate the opportunity to have written articles for the *Legal News* for nearly fifteen years. We look forward to many more years of association with this publication and its audience.

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