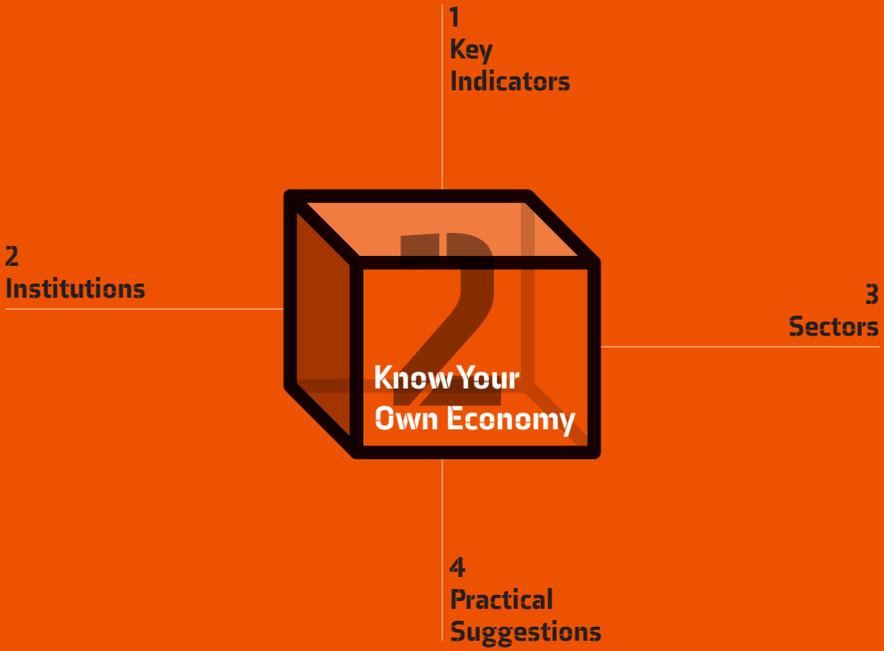# Building Block 2
Know Your Own Economy

The basic structure of the national economy, its most important institutions, its basic statistics, its economic class composition, its dominant economic sectors, and students' own economic position in the world.

1
Key
Indicators

2
Institutions

3
Sectors

Know Your
Own Economy

4
Practical
Suggestions

What

This second building block, *Know Your Own Economy*, introduces the structure and state of the economy today. Students should become familiar, even if only at a basic level, with the economy in which they live. The building block focuses on three fields of concrete knowledge: key indicators, institutions and sectors. For each of these, it suggests a more detailed overview of how to structure this knowledge in a manageable form.

Why

An economist who does not have basic knowledge of her own economy is an armchair academic. Given that more than 97% of all economics students do not continue into a PhD trajectory but rather work as professional economists, this is impractical. Gaining real-world knowledge is also highly motivating for students. This concrete knowledge allows them to see how the more abstract economic ideas they are learning can be appropriately applied to help them understand and solve these real-world problems. Finally, comparing abstract theory to an existing economy will also help students to be more reflective of the theory they are taught and become conscious of their position within the economy.

Contrast with current programmes

Current programmes focus on theoretical models and quantitative research methods, which allows students to develop certain analytical skills. We argue that, whilst very useful, this is not enough. An economics education should also teach students concrete knowledge and give them a practical understanding of existing economic institutions and sectors.

*"If economists wished to study the horse,
they wouldn't go and look at horses.
They'd sit in their studies and say to themselves,
'What would I do if I were a horse?'"*

Ronald Coase (1999, p. 1)

Most economics programmes contain at least some information about the real economy. This generally appears in the form of an example, illustrating a certain theory. For example, 'duopolies work so and so, here is an example about Boeing and Airbus'. This building block goes beyond that approach. We suggest making a factual overview of an actual economic system the core aim of at least one course. There are three main reasons why this is important.

The first reason is that focusing on a real-world case study motivates students. An excessive focus on mathematical models and other abstractions can demotivate students who came to learn about how the economy works. It may also discourage them from pursuing further studies or a career in economics, despite their curiosity and initial motivation to do so, because their education failed to demonstrate its value.

The second reason is that students need a mental image of the general structure and components and dynamics of the real economy in order to properly understand the urgency and application of the theoretical and methodological tools learned throughout the programme. While the type of knowledge we describe below might be assumed to be common knowledge, or easily gained from reading newspapers, this is often not the case. Media provide, as it were, the derivative of the economy. They tell us what changes, not what the whole system looks like. Students need a basic systemic overview first. If a small investment is made early on in the programme, it will create a positive feedback loop, making it increasingly easy and enjoyable for students to learn more on their own.

Third and finally, this type of concrete knowledge helps to guide students' critical thinking. A central skill for economists is to judge which theoretical ideas fit and can help us understand a specific case, 'choosing the right model'. Whether it is theory on inflation, competition, or international trade, students should have a basic factual overview of the world these models help to explain, in order for them to be able to judge the usefulness

of a certain theory. This building block provides students with basic knowledge of this kind, as well as the tools, familiarity, and confidence necessary to go out and acquire more of it.

It might seem that this eats into the time available for teaching theories and methods, and in the short run, this is true. However, the teaching of theories and methods is also greatly helped by connecting them to the actual economy and basic facts. An example is when we teach the IS-LM model in a macroeconomics 101 course. It is much more interesting for students to discuss how recent developments can be understood through this model, rather than just discussing it in abstract and applying it to imaginary textbook examples. This will activate the theories in their minds, helping them understand and retain the knowledge, rather than just pushing through the exam and forgetting it all again.

After this introduction, we discuss several categories of basic facts that any expert of an economy should be acquainted with. Secondly, we suggest various economic institutions that seem worthwhile spending some time on. Thirdly, we present sectors as a useful object of study, in order to get a better understanding of an economy. Finally, we explore how these various elements could be taught within a limited timeframe and in a sensible combination, offering some practical teaching tools as well.

Scope: Time & Geographical Scale

What are the temporal and geographic limits of 'your own economy'? Any answer to this question will be somewhat arbitrary. Still, this building block requires at least a working delineation, which this box provides.

In terms of a geographic scope, we generally suggest taking the national level as a point of departure for most of this material. Many – perhaps even most – key economic institutions are organised at that level. However, where aspects of economic systems are primarily organised at a local or a global level, that should be the point of departure.

It is also valuable to help students understand how the various geographical scales interact with each other through complex networks. In order to understand how the food provisioning of a small town works, one will likely end up analysing several global value chains that stretch far beyond the national borders. Hence, our proposal is, in sum: start at the national level, and make excursions to smaller and larger scales where this seems fitting.

In terms of the temporal scope, this building block focuses explicitly on the current state of the economy. The next building block, *Economic History*, looks into the past, whereas the final two building blocks of this book, *Problems & Proposals* and *Economics for a Better World*, are more future-oriented. As noted in the introduction, each of these building blocks is not necessarily a separate course: they can be fruitfully woven together, as the needs and circumstances of the programme require.

1   Key Indicators

Any expert should be familiar with the basic facts of their field. This also applies to economists: basic facts should be part of their training. When discussing such facts, it is important to help students understand how they are measured and constructed, and what applications and limitations they thus have. As different measurements are insightful for different problems, providing students information on various forms of basic economic data can help them interpret the presented 'facts' in any given discussion. Besides learning about key indicators, students should also develop a basic understanding of what things statistics generally leave out (for example by using material from the book *The Uncounted* by Cobham). This will allow them to develop a better understanding of the meaning and relevance of the indicators discussed below. It will also show students something of the power structures that are implicit in the type of statistics that we collectively choose to gather and the importance we assign to each of them.

So, what basic facts should be taught? We suggest six categories: Production, Finance, Wellbeing, Inequality, Nature & Resources, and Demography.

Production

This category covers the most typical economic statistics and national accounts, such as GDP, inflation, unemployment, exports and imports, and government income and expenditure. But there are many more statistics of interest, including levels of productivity, consumption, investment, profits and wages. To get a better understanding of how the labour market is organised, one could also take a look at the amounts of full-time versus part-time workers, permanent versus temporary contracts, and self-employed workers. Another interesting aspect to look at is the size of the informal economy and the amount of unpaid labour in an economy. In many countries, data on this can be fairly easily found in concise reports and datasets of national or international bureaux of statistics.

Finance

Since the global financial crisis of 2007-2008, it has become increasingly clear that financial metrics are not only interesting in themselves, but also crucial for the larger economy. Along with the aforementioned traditional statistics, it can thus be helpful to look at key financial data, such as household, corporate and public debt levels, gold, land and housing prices, sectoral financial balances, the money supply, and net and gross capital flows.

Wellbeing

While the aforementioned economic and financial statistics are important, there are increasingly strong arguments that we should pay more attention to the broader wellbeing of people, rather than solely their position in relation to the market. Most notably, GDP is often criticised for not being a satisfactory measure or proxy for economic success. As a result, new measurements have been developed to better capture this. One approach is to ask people how happy they are in order to capture their subjective well-being, or life-satisfaction (see for example the United Nations' World Happiness Reports). Another increasingly prominent approach is to create a broad dashboard of indicators capturing different aspects of human wellbeing, from the prevalence of crime and life expectancy, to leisure time, educational attainment and the level of social support (see for example the OECD Better Life Index).

Inequality

While all of the above statistics deal with aggregates, differences are just as important. Economic inequality, in income as well as in wealth, significantly shapes economic dynamics in a society. Inequality also materialises based on gender, ethnicity, education, age and in many countries, location. What different socio-economic classes could be distinguished, and what are the proportional sizes of the upper, middle and working classes? How many (children) live in poverty? In the UK, the Great British Class Survey provides a good starting point for such questions.

Information on financial inequality becomes increasingly relevant when coupled with information on its real world impacts. Discuss with students: in your society, what is for sale, besides the usual consumer goods? Quality education? Healthcare? Political influence? Physical safety? To what degree does economic purchasing power equal social or political power? In some countries, millionaires can buy all the goods they want, while quality of life and effective civil rights are still fairly equally distributed. In other countries, personal wealth can make the difference between life or death, between standing above the law or being crushed by the system.

Nature & Resources

This category is relevant for understanding both the physical requirements and the ecological implications of economic growth. Core data include levels of biodiversity, nitrogen and phosphorus loading, and water quality. Carbon footprint statistics provide a useful proxy for economic impacts on the environment. Furthermore, there is an increasing set of indicators which used to be mainly of environmental interest, but which are now gaining increasing economic relevance. For instance, the rapid degradation of the fertile soil layer on farmland worldwide is acutely relevant for the production of basic goods such as paper, clothing and nearly every type of food. Likewise, information on veins of mineable metals and other minerals, including their locations and remaining stocks, is becoming more and more important. Industrial Ecology programmes and journals provide useful data and analytical tools to engage with such questions. The Planetary Boundaries reports of the Stockholm Resilience Center form another good teaching tool, as do materials from the national ministry of the environment.

Demography

Finally, demography is a well-developed field that deals with statistics on the core of any society and economy: populations of human beings. Knowledge about this is foundational for understanding how groups of people organise economic life. Giving students a basic understanding of the following aspects can be particularly informative: population size, degree of urbanisation, migration, household structures, and the age structure of the population.

A more general point: all the aforementioned statistics only become meaningful when they are placed in context and compared. They may be compared across geographies: for example, between countries or regions, between sectors, or over time so that developments, changes and trends can be identified. They can be placed in context by comparing them to targets, such as the international climate goals. In addition, it is particularly useful to expose students to the different metrics and measurements used for these topics. For example, comparing wellbeing indicators and GDP or the different ways to measure inequality. Finally, these topics are also very well-suited to introducing different theoretical perspectives and the debates amongst them. See for example the topic *Money* in the chapter *Tool 1: Pragmatic Pluralism* for different perspectives on the role of debt and money in the economy.

We are well aware that this is a long list of basic knowledge. Please keep in mind that it is provided as inspiration, not as something that needs to be taught in full, nor as a comprehensive list. We suggest selecting from this

list only those statistics that seem most relevant to the particular focus of your programme. Another way to save time is the *pars pro toto* approach. That is: introduce a certain field of knowledge – say, *nature* – and then zoom in on only one or two datasets from that field. Students are then aware of the existence of the wider field, and know their way to factual overviews when they need them.

One may question, to conclude this section, is all this not common knowledge? While we might expect economics students (or professors) to know most of these things, we encourage you to hold a brief quiz in class or among colleagues to clear any doubt. The results may be quite surprising.

2   Institutions

Understanding how an actual economy functions, requires a basic overview of its most important institutions: public and private. In the below overview, we focus on the legal and official frameworks, main roles and activities of key organisations, how they work internally, how they interact with other organisations and how influential they are. In this section, it is worthwhile to also spend some time on the question of economic power structures: which groups within society are relatively powerful, and what mechanisms or structures form the basis of their power?

The public sector will have different forms in different countries, and materials from politics courses may be helpful to give a brief overview of how the various forms of government function in your own economy. Generally, important roles are played at the national level by ministries such as the Treasury/Finance, Economy/Commerce, Social Affairs, Infrastructure, Agriculture and Foreign Affairs. Subsequently there are different ways in which the country is divided and governed, for example at the state, province or city level. At all these levels there will be various public institutions such as the central bank and executive institutions such as the tax authorities.

Another important set of organisations are national policy institutes that influence and shape public policies and the discussions surrounding them. Every country has different policy institutions, ranging from governmental policy bureaux, such as *the Bureau for Economic Policy Analysis* in the Netherlands and *the Council of Economic Advisors* in the US, to private think tanks, such as *the New Economics Foundation* in the UK and *the Brookings Institute* in the US.

Other key non-state institutions are the so-called 'corporatist' institutions, such as labour unions and employers associations. Around them we find

various bodies which help these parties come to agreements, local, national and international such as *the Social Economic Council* in the Netherlands and *the European Economic and Social Committee* in the *European Union*. At the global level, *the World Trade Organisation*, *International Monetary Fund*, *Bank for International Settlements*, and *World Bank*, for example, play an important role.

Another important set of institutions close to, but separate from the state is the civil society, which includes consumer organisations and professional associations. In many countries of the global south, the (foreign) NGO sector similarly plays a key role.

The structure of the private sector is fundamentally influenced by the state through the legal frameworks it sets. Details of the tax system and corporate law are arguably too vast to be taught in economics courses; however, a basic overview of the various forms that private entities can take, such as the corporation, general partnerships and self-employment, and their legal rights and obligations, can help students to better understand the economic playing field. Besides these foundational legal aspects, it can be helpful to give a basic overview of how the state structures the economy through its social security system, regulatory system, research and innovation policy, the provisioning of healthcare and education, and the monetary policy by central banks.

We suggest keeping this overview rather basic and factual, leaving much of the deeper theoretical insights and implications to *Building Block 5: Economic Organisations & Mechanisms*, *Building Block 6: Political-Economic Systems* and *Building Block 8: Economic Theories*. Alternatively, those two building blocks can be integrated with this one in a longer or more advanced course. Nevertheless, the basics of such an overview are part of this early building block, as a minimal overview of at least (supra-) government agencies and legal and corporatist frameworks helps students to gain a fuller picture of what an actual economy looks like.

3 Sectors

Before embarking on a wide range of theoretical and methodological abstraction, as set out in the following building blocks, students might start with gaining a concrete image of at least one economic sector, as a tangible point of reference. This could be coupled with a broad grasp of the other sectors making up the economy as a whole. In this section, we take the energy sector as an example and provide several perspectives from which to analyse sectors: physical, institutional, technological, and (geo-)political and ethical.

The physical structure of a sector can provide a practical and tangible first analysis. For example, in the energy sector households and firms are connected to large networks of electricity and gas lines, which are fed by major power plants and mining sites inside and outside the country.

Subsequently, the institutional arrangement may be considered: both locally and internationally. For example, in the Netherlands, the network is state-run, and the supply companies are a few large private firms, albeit heavily regulated. There is also a growing sector of smaller non-profit, self-sufficient producers, such as local energy cooperatives. At the same time, the sector is embedded in global value chains. For energy, we find this in mining, extraction and refinement, which is mostly done by globally operating firms. This takes physical shape in drilling sites, connected by giant gas and oil sea vessels and a global network of large pipelines to refineries.

In turn, we can analyse the sector from a technological perspective: what are the main technologies used, and how (un-)evenly is this technological know-how distributed across the globe?

This naturally yields a final discussion of (geo-)political and ethical issues at play in the sector. For example, if gas is found in, say, Ivory Coast, it is likely that French, American, Dutch and British companies compete to dig it up, since these are at the technological forefront in that sector. Is that fair? For energy, other critical points are climate change and geopolitical conflicts, such as the tug-of-war between Russia and the EU around the supply of Russian gas.

With such concrete knowledge of various economic sectors, the more abstract theoretical models taught in the economics programme will both be much more interesting and useful to students. After all, it is the central mechanisms and structures of such economic sectors that these models are designed to capture and to summarise.

For inspiration on other sectors that could be covered, a useful overview is the International Standard Industrial Classification. One interesting exercise might be to divide students in groups among several of these sectors, let each group investigate its own sector, and then present their findings in class to each other.

4   Practical Suggestions

A well-known teaching technique that can be applied is to bring the material closer to the everyday experiences of students. This is especially useful for our discipline, as it is often deemed a very abstract field – unjustly so, in our eyes. For example, what does it mean to earn $20 a month compared to say $20.000? This is not merely a matter of learning some statistics, it is about developing an appropriate perception and sense of economic concepts (in this case a low versus high income) and how they impact people's lives.

An excellent tool for this is the Dollar Street: a highly graphical, beautifully designed comparison between levels of material welfare in countries worldwide, developed by the Gapminder Foundation. On this website, you can digitally visit the homes of families in sixty countries around the world with monthly incomes between $20 and $20.000 per month, to experience their standard of living and the astounding reality of contemporary globalisation. We would very much recommend having a look at this as it is one of the most tangible visualisations of economics out there.

A more straightforward statistical approach, but nevertheless also highly informative, would be to let students check where they, or their parents, fall within the national and global income and wealth distributions. As human beings, we all have the tendency to think of our own situation as normal and average. For most economics students, especially in the Western world, this will, however, not be the case. Doing such an exercise can thus give students a better understanding of their own position in the world and of how their economic experiences relate to those of others.

The same can be done for a personal ecological footprint, using an online footprint calculator. For a more involved exercise, students could be asked to map and compare their opportunities for future life and career, access to education, personal network, cultural and social capital, and so forth.

Besides reading and number-crunching, students could get in contact with actual people in the economy. This can be done by sending students to firms and organisations to talk to the people who work there, or asking non-academic experts or practitioners to give a guest lecture. Such interactions give students a much richer picture of the economy, as it allows for a transfer of practical, tacit and insider knowledge, which statistics are unable to capture.

In general, we suggest varying between focusing on in-depth knowledge about a particular institution or sector, and focusing on developing a rough

understanding and overview. The former allows for detailed knowledge on how actual processes work, while the latter gives one an understanding of how the bigger picture looks. Which sectors or institutions will be analysed is not of major importance. The main thing is that students learn how to analyse a metric, an institution or a sector, and acquire some points of entry.

To recap, this building block should be seen as a general invitation to pay considerable attention to how actual economic systems look in their concrete forms. We have suggested a couple of specific ways to go about it, just to make our suggestions more tangible and concrete. But we are under no illusions that these would be the only or even the best ways to teach such material. Our suggestions should rather function as inspiration to develop a program and a locally grounded approach to teaching economics students about the real world.

Teaching Materials

It is hard to suggest specific teaching material for this building block, as its contents will vary so much between different regions and countries. To give some idea of what kind of materials could be used to teach students about their own economy, we provide some example materials on the Dutch economy.

The following three books seem to be most useful when teaching students about the Dutch economy:

- *De Economie in Nederland: Theorie en Werkelijkheid [The Economy in the Netherlands: Theory and Reality]* by Hans Buunk, most recent edition from 2011. A highly informative and accessible introduction into the Dutch economy as well as basic economic concepts, covering topics such as Dutch capitalist history, market competition, finance, industrial and social policy, and labour relations.
- *Sociale Kaart van Nederland: Over Instituties en Organisaties [The Social Map of the Netherlands: About Institutions and Organizations]* by Jan W. Duyvendak, Carolien Bouw, Klarita Gërxhani, and Olav Velthuis, most recent edition from 2013. An unique and accessible overview of Dutch society that introduces students to its many different domains and how they are structured, from education, healthcare, and housing, to business, labour and social security.
- *Varieties of Capitalism and Business History: The Dutch Case* by Keetie E. Sluyterman, from 2015. This collection of essays explores the Dutch variety of capitalism and institutions, with special attention to its labour relations, corporate governance, inter-firm relations, knowledge infrastructure, and its famous corporatist consultative *'polder model'*.

Besides books, it can be useful for students to look up statistics and read reports on economic sectors and issues. Naturally, national statistical authorities are a good place to look for these, but economic ministries, central banks, and policy research institutions, can also be helpful for finding useful material. For the Netherlands, one could have a look at the websites of *Centraal Bureau voor de Statistiek [Central Agency for Statistics]*, *De Nederlandsche Bank [Dutch Central Bank]*, *Centraal Planbureau [Bureau for Economic Policy Analysis]*, *Planbureau voor de Leefomgeving [Netherlands Environmental Assessment Agency]*, *Sociaal en Cultureel Planbureau [Netherlands Institute for Social Research]*, and *Wetenschappelijke Raad voor het Regeringsbeleid [Scientific Council for Government Policy]*.

Furthermore, domestic journals can often be useful as they frequently do not only publish general academic work but also research describing particularities of the national economy and its issues. For the Netherlands, the following three journals have plenty of interesting and helpful material: *Economisch Statistische Berichten [Economic Statistical Messages]*, *MeJudice*, and *Tijdschrift voor Politieke Ekonomie [Journal for Political Economy]*.

Depending on the program, one could also look for more specialised material that does not cover the economy in general, but focuses on a specific element or aspect of it. In a master programme on public economics in the Netherlands, the following two books could, for example, be of use:

- *Overheidsfinanciën [Public finance]* by Flip de Kam, Wimar Bolhuis en Jasper Lukkezen, from 2021.
- *De rekenmeesters van de politiek [The math masters of politics]* by Wimar Bolhuis, from 2017.

Finally, one could also use more opinionated but still informative materials on the economy or an economic issue. For the Netherlands, the following recent books, and chapters from it, could, for example, serve this purpose:

- *Over de dijken [Over the dikes]* by Coen Teulings, from 2018.
- *Een land van kleine buffers [A country of small reserves]* by Dirk Bezemer, from 2020.
- *Fantoomgroei [Phantom growth]* by Sander Heijne en Hendrik Noten, from 2020.
- *Met ons gaat het nog altijd goed [We are still doing well]* by Peter Hein van Mulligen, 2020.
- *Ontspoord Kapitalisme [Derailed Capitalism]* by Bert de Vries, from 2020.

Visit the website for a wider range of teaching materials, to provide feedback, and to exchange ideas and ask support from colleagues worldwide.
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