Economic Systems & the Labor Market: Crash Course Sociology #29

Crash Course: Sociology
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A social institution that has one of the biggest impacts on society is the economy. And you might think of the economy in terms of numbers; unemployment numbers, GDP's, or whatever the Stock Market is doing today.

But while we often talk about it in numerical terms, the economy is really made of people. It's the social institution that organizes all production, consumption, and trade of goods in a society.

And there are lots of different ways in which stuff can be made, exchanged, and used. Think: capitalism or socialism. These economic systems and the economic revolutions that created them shape the way that people live their lives.

===== Intro (0:33) =====

Economies can vary a lot from one society to the next. But in any given economy, you can typically see production split into three sectors.

The Primary Sector extracts raw materials from natural environments. So workers like farmers or miners would fit well here.

The Secondary Sector takes raw materials and transforms them into manufactured goods. So someone in the Primary Sector may extract oil from the Earth, but someone in the Secondary Sector refines the petroleum into gasoline.

And then the Tertiary Sector is the part of the economy that involves services rather than goods. You know, doing things rather than making things.

But this system is actually pretty complicated. Or at least more sophisticated than the way things used to be for much of human history.

So how did we get from a world where people worked to produce just what they needed for their families to one with all these sectors that have to work together? To understand that, we need to back up a little. About 12,000 years.

The first big economic change was the Agrarian Revolution. When people first learned how to domesticate plants and animals, it ushered in a new agricultural economy that was much more productive than hunter-gatherer societies were.

Farming helps societies build surpluses, which mean that not everyone had to spend their time producing food. This, in turn, led to major developments like permanent settlements, trade networks, and population growth.

Now let's go to the Thought Bubble to discuss the second major economic revolution: the Industrial Revolution of the 1800s.

===== Thought Bubble (2:00) =====

With the rise of industry came new economic tools like steam engines, manufacturing, and mass production. Factories popped up, changing how work functioned.

Now, instead of working at home, where people worked for their family by making things from start to finish, they began working as waged laborers and becoming more specialized in their skills.

Overall, productivity went up and standards living rose and people had access to a wider variety of goods thanks to mass production. All good things!

But every economic revolution comes with economic casualties. The workers in the factories, who were mainly poor women and children, worked in dangerous conditions for low wages.

There's a reason that the industrialists of the 19th century were known as 'robber barons'. With more productivity came greater wealth, but also greater economic inequality.

So in the late 19th century, labor unions began to form. These organizations of workers sought to improve wages and working conditions through collective action, strikes, and negotiations.

Inspired by Marxist principles, labor unions are partly to thank for us now having things like minimum wage laws, reasonable working hours, and regulations to protect the safety of workers.

Thanks Thought Bubble!

===== NewSection (3:03) =====

So the Industrial Revolution was an incredibly big deal when it came to the changes that it brought to both economies and societies. And there's a third revolution that we should talk about too. One that's happening right now!

But before we get to that, we should pause and explore two competing economic models that sprung up around the time of the Industrial Revolution as economic capital became more and more important to the production of goods.

I'm pretty sure you've heard of them and possibly have strong opinions about them. They're capitalism and socialism.

Capitalism is a system in which all natural resources and means of production are privately owned. And it emphasizes profit-seeking and competition as the main drivers of efficiency.

If you own a business, you need to out-perform your competitors if you're going to succeed. So you're incentivised to be more efficient by improving the quality of your product and reducing your prices.

This is what economist Adam Smith, in the 1770s, called the Invisible Hand of the Market. The idea is that, if you just leave a capitalist economy alone, consumers will regulate things themselves by selecting goods and services that produce the best value.

But, in practice, an economy doesn't work very well if it's left completely on autopilot. There are lots of sectors where a hands-off approach can lead to what economists call Market Failures, where an unregulated market ends up allocating goods and services inefficiently.

A monopoly, for example, is a kind of Market Failure. When a company has no competition for customers, it can charge higher prices without worrying about losing customers. That, as economic allocations goes, is really inefficient, at least on the consumer end.

So in situations like these, a government might step in and force the company to break up into smaller companies to increase competition. Market Failures like this are why most countries, the United States included, are not purely capitalist societies.

For example, the US Federal and State Governments own and operate a number of businesses, like schools, the postal service, and the military. Governments also set minimum wages, create

workplace safety laws, and provide social support programs like unemployment benefits and food stamps.

Government plays an even larger role, however, in socialism. In a socialist system, the means of production are under collective ownership.

Socialism rejects capitalism's private property and hands-off approaches. Instead, here, property is owned by the government and allocated to all citizens, not just those with the money to afford it.

Socalism emphasizes collective goals, expecting everyone to work for the common good and placing a higher goal on meeting everyone's basic needs than on individual profit.

When Karl Marx first wrote about socialism, he viewed it as a stepping stone toward communism, a political and economic system in which all members of a society are socially equal.

But of course, in practice, this hasn't played out in the countries that have modeled their economies on socialism like Cuba and North Korea and China and the former USSR.

Why? Well, Marx hoped that as economic differences vanished in communist societies, the government would simply wither away and disappear. But that never happened. If anything, the opposite did.

Rather than freeing the proletariat from inequality, the massive power of the government in these states gave enormous wealth, power, and privilege to political elites, retrenching inequalities along political instead of strictly economic lines.

At the same time, capitalist countries economically outperform their socialist counterparts, contributing to the unrest that eventually led to the downfall of the USSR.

Before the fall of the Soviet Union, the average output in capitalist countries was about $13,500 per person. Which was almost three times that in the Soviet countries. But there are downside to capitalism too; namely greater income inequality.

A study of European capitalist countries and socialist countries in the 1970s found that the income ratio between the top 5% and the bottom 5% in capitalist countries was about 10 to 1, whereas in socialist countries it was 5 to 1.

We could fill whole episodes about the merits of each economic model. And, in fact, we did in Crash Course World History. There are many more questions we could answer about how societies build their economic systems.

But, in any case, those two models aren't the end of the story. Because we're living in the middle of the economic revolution that followed the Industrial Revolution. Ours is the time of the Information Revolution.

Technology has reduced the role of human labor and shifted it from a manufacturing based economy to one based on service work and the production of ideas rather than goods. And this has had a lot of residual effects on our economy.

Computers and other technologies are beginning to replace many jobs by making it easier to either automate them or send them offshore. And we've also seen a decline in union membership. Nowadays, most unions are for public sector jobs like teachers.

So what do jobs in a post-industrial society look like? Well, agricultural jobs, which once were a massive part of the American labor force have fallen drastically over the last century. While 40% of the labor force was involved in the agricultural sector in 1900, only about 2% of workers today work in farming.

Similarly, manufacturing jobs, which were the life blood of the US economy for much of the 20th century have also declined in the last 30 years.

So the US economy began with many workers serving in either the Primary or Secondary Economic Sectors, but now, much of the US economy is centered on the Tertiary Sector, or the Service Industry.

The Service Industry makes up 85% of jobs in the US. Including everything from administrative assistants to nurses to teachers to lawyers to everyone who made this Crash Course video for you.

Now, that's a really big and diverse group. That's because the Tertiary Sector, like all the economic sectors we've been discussing, is defined mainly by what it produces rather than what kinds of jobs it includes.

So sociologists have a way of distinguishing between types of jobs based more on the social status and compensation that come with them. There's the Primary Labor Market and the Secondary Labor Market.

The Primary Labor Market includes jobs that include lots of benefits to workers like high incomes, job security, health insurance, and retirement packages. These are white collar professions like doctors, accountants, or engineers.

Secondary Labor Market jobs provide fewer benefits and include lower-skilled jobs and lower-level service sector jobs. They tend to pay less, have more unpredictable schedules, and typically don't offer benefits like health insurance. They also tend to have less job security.

So what's next for capitalism or socialism? Well, no one knows what the next economic revolution is going to look like. But I can tell you that, nowadays, a key part of both our economic and political landscape is corporations.

Corporations are defined as organizations that exist as legal entities and have liabilities that are separate from its members. So they're their own thing.

And more and more these days, corporations are operating across national boundaries. Which means that the future of the US economy, and most countries economies, will play out on a global scale.

Today we discussed how economies can be broken down into the Primary, Secondary, and Tertiary Sectors. We discussed the three stages of economic revolution that brought us to the modern post-industrial era. And, in the middle there, we talked about two types of economic models: capitalism and socialism.

===== Outro (9:37) =====

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