

THE THIRD PILLAR ▶ RAGHURAM RAJAN



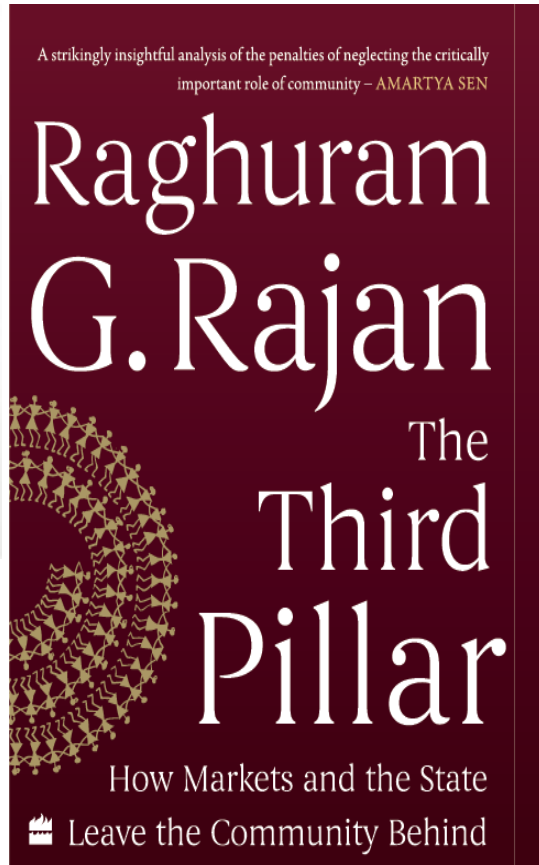
RAGHURAM RAJAN  
BESTSELLING AUTHOR OF FAULT LINES



THE THIRD  
PILLAR

HOW MARKETS AND  
THE STATE LEAVE THE  
COMMUNITY BEHIND

RAGHURAM  
RAJAN



# What the book is about

- Standard view of capitalism:
  - Free competitive markets
  - Government to enforce contracts and property rights
- Neglects the third pillar
  - The community
  - Both directly, and through democracy, it makes capitalism work for the many
  - The many support capitalism
- The post-war balance between the pillars -- liberal market democracies in industrial countries.
- What is perturbing the balance today.

# The three pillars supporting society



- Markets
  - Goods markets, labor market, capital markets, firms
  - Productivity and choice
  
- The state
  - Executive, judiciary, legislature
  - Security, justice
  - Pre-market support (capabilities)
  - Post-market support (safety net)
  
- The community
  - Proximate – neighborhood, village, municipality
    - Includes local government and institutions like schools



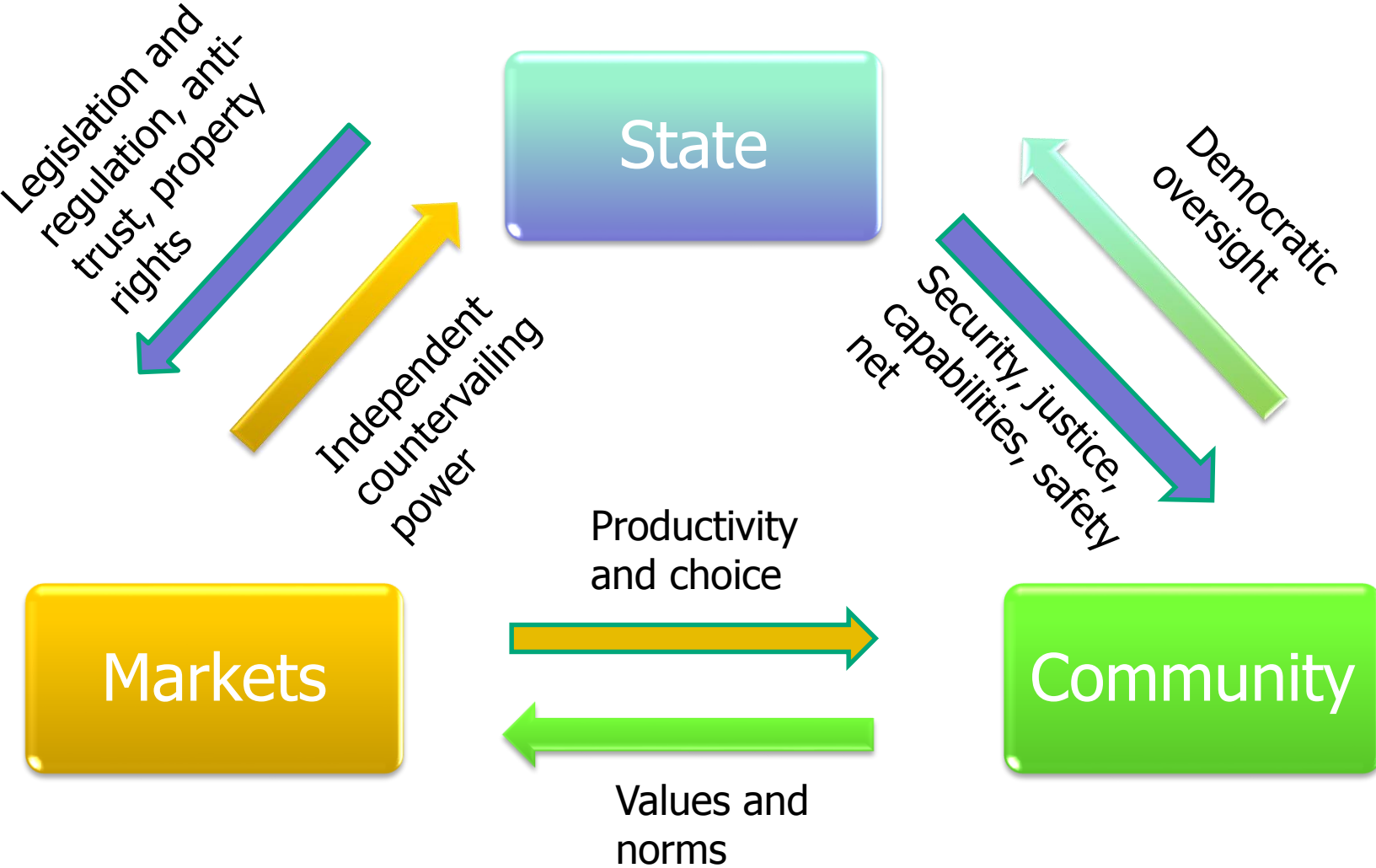
# Why community today?

- The community still has a role
  - Identity and values
  - Security, justice, capabilities, safety net
  - Relationships not contracts – filling holes
  - Political organization
- The need for community means we constantly find new ways of building solidarity as old ways erode.
  - Schools as a way of building social engagement

# Why community today?

- Why local community? Why not virtual communities?
  - Trust
  - Opt-in and opt-out in virtual: lite engagement
  - Virtual helps local – Netville
  - The future – the problem of loneliness

# The three pillars and the balance in liberal market democracies



# Causes of imbalances?

- Disruption of a previous balance

- Great calamity

- The Black Death
- The Great Depressions (1873-93, 1929-39)

- Technological change

- The various industrial revolutions including the Information and Communications Technology (ICT) Revolution



# The ICT Revolution has changed markets

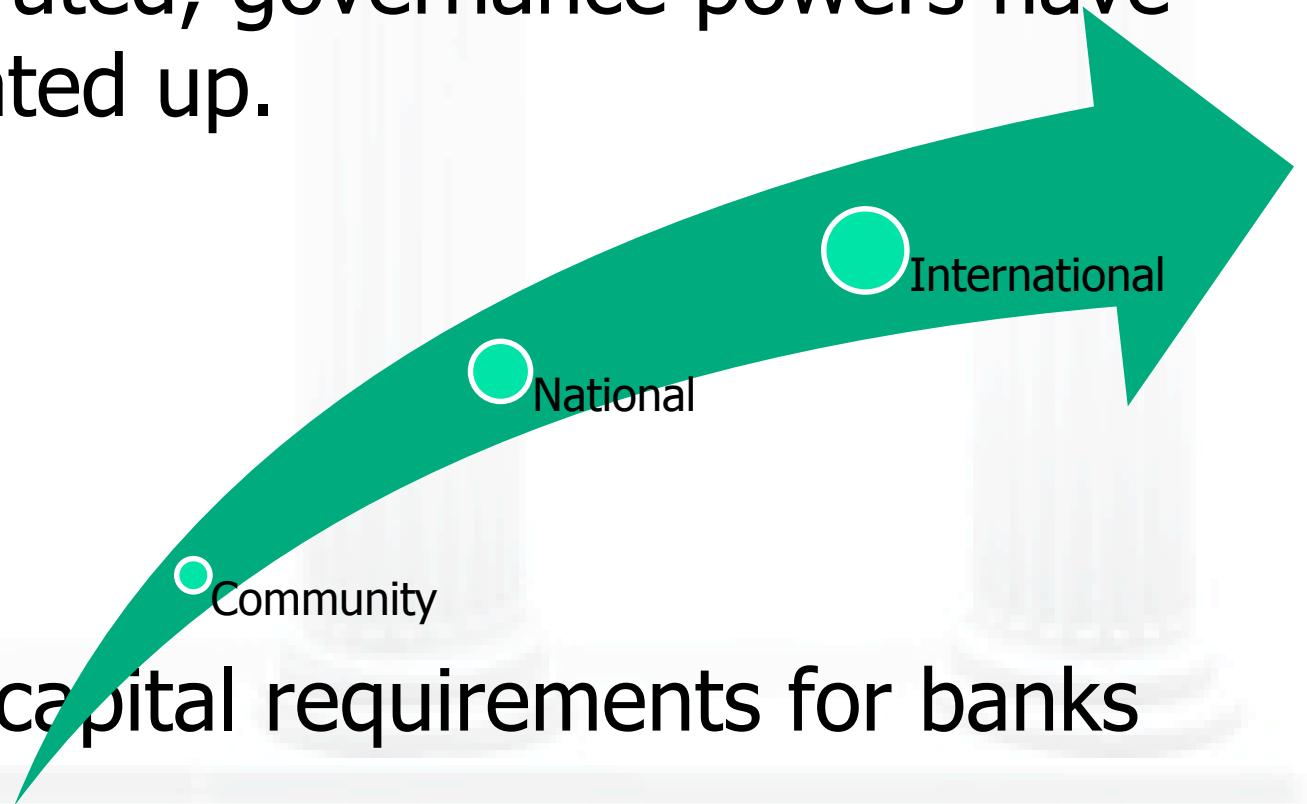
- Facilitated trade – global supply chains
  - Hit manufacturing hubs in industrial countries
- Domination of industries by superstar firms
- Superstar professions





# The ICT Revolution has changed the state

- As markets have become more integrated, governance powers have migrated up.



- E.g., capital requirements for banks

# The ICT Revolution has disrupted the community

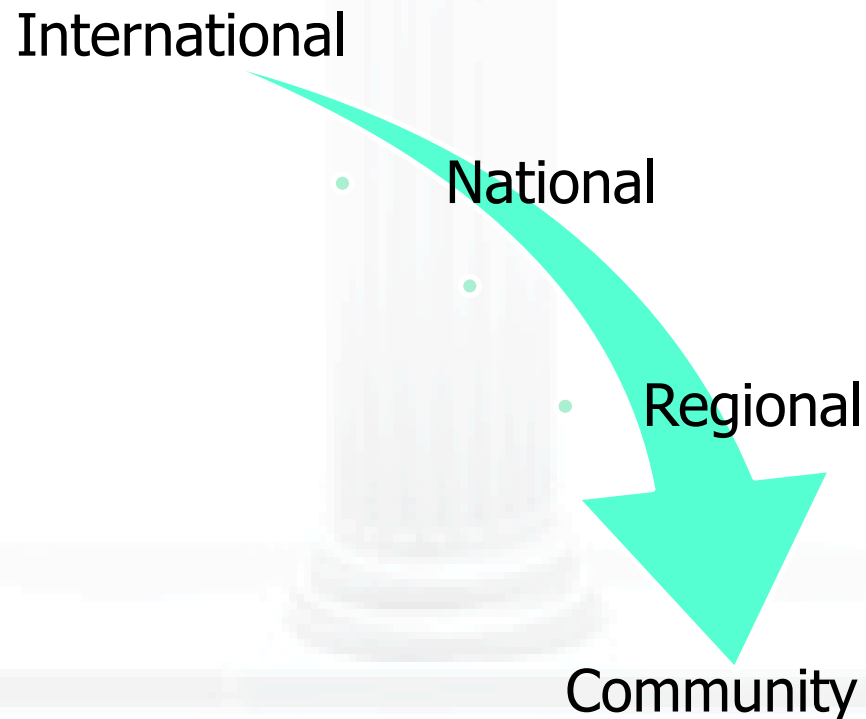
- Trade has hollowed out small one-industry towns and moved activity to mega-cities
- Technological change has increased the returns to capabilities
  - Importance of good schooling, college premium
  - Where do you get the best schooling?
    - Early childhood matters – family, community
    - More prepared classmates, better your child's school experience
    - Secession of the successful => go live where the successful live
- Disintegration of the mixed community

# The wrong trends

- Widespread anger: Populist upheaval
- How do current political trends position us for a future of
  - Technological change and the changing nature of work
  - Population ageing and high unfunded entitlements
  - The growth of the rest
  - Global problems like climate change
- Very poorly!
  - Populist nationalism just takes us closer to autarky, war, and climate devastation

# Elements of a new balance

- Push power back to the extent possible.



# Elements of a plan contd.

Responsible sovereignty



Civic nationalism and  
open national markets



Inclusive localism



# A community prepared for the society of tomorrow: *inclusive localism*

## ■ Localism

- Community leadership; keeping and developing good people
- Local powers to foster engagement – e.g., school curricula, safety net
- Engagement – both direct and virtual: Pilsen and crime, See-Click-Fix
- Infrastructure – virtual and physical connectivity
- Funding -- decentralize

# A community prepared for the society of tomorrow: *inclusive localism*

- Inclusive -- the state and markets should keep the walls around communities low
  - Discourage exclusionary neighborhood residential zoning
  - Contradiction? No. Trade-off? Yes.
- Technology can help with new solutions.
  - Monitoring local officials from top and bottom
  - Teaching students at different levels

“The owner was the village, and the village had a mind; it could say no to sacrilege. But in the affairs of the nation there was no owner, the laws of the village became powerless.”

From *A Man of the People* by Chinua Achebe

**Thank you**