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Book Review: The Third Pillar: How Markets and the State Leave the Community Behind

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Ranjan, Raghuram (2019). *The Three Pillars: How Markets and the State Leave the Community Behind*. New York: Penguin.

Overview

The Third Pillar, by Raghuram Rajan, creates a rich, illuminating portrayal of the ups and downs societies go through by looking at the common institutions they create (governments, marketplaces, communities). Using many of the social sciences (political science, economics, sociology, etc.) Mr. Rajan brings clarity and logic to what are commonly perceived as arbitrary events that impact groups of people. His specialty is economics but he uses the insights, theories, and research of the other social sciences to give a multi-dimensional understanding of past societies in flux. These understandings are then applied to current times with suggestions for how we might improve our neighborhood, state, country, and the world. Mr. Rajan's book provides an intricate understanding of how human societies work and demystifies the complexities of progressive and regressive societies.

The book is a wonderful example of how the social sciences can be used to make intelligible, the historical march of human progress. Mr. Rajan uses three man-made social systems he calls pillars. They are: a) the state (politics), b) the market (economics), and c) the community (sociology with a bit of psychology). The role of each pillar and its strength compared to the other two pillars is constantly in flux within all societies. The mission of the book is to help the reader become aware of how the relationship among the pillars changes and the choices people make to regain balance.

I found the book enlightening. Historical events I perceived as random or mind-bogglingly complex became logical and predictable. The use of historical examples, told with colorful detail, made Mr. Rajan's insights and his application of social theories meaningful to today's world. His message is one of hope; we are not hostages to a random series of events, and we need not be pawns in some leader's devious masterplan. We can, with thoughtful analysis, make informed steps towards a better tomorrow.

Structure

The book is well crafted. The plan for the book is laid out at the beginning and followed reliably to the end. Each of the three sections has a purpose: Section I is an explanation of how each pillar came to be, Section II highlights the historical underpinnings of today's imbalance among the pillars, and Section III identifies ways we can respond to the current imbalance among the pillars. Within each section themes are identified by chapter with intriguing examples and commentary used to give life to his pillar-model. Within chapters, pertinent questions and ideas are raised with responses methodically organized within subheadings. The author's opinions are periodically expressed; it becomes clear that Mr. Rajan is an advocate

of making small steps to remedy current problems, with each step made towards a more equitable, democratic, inclusive, and free-market world.

The Three Pillars

Societies are complex and their leaders may seem manipulative or irresponsible as they address or ignore issues of their people. Mr. Rajan uses his three pillars (the community, state, and marketplace) to highlight how a change in one pillar impacts the other two. The balanced use of these pillars helps a society prosper and grow, an imbalance leads to a floundering or failed society. The first section of the book is Rajan's explanation of how each pillar was created. In these historically rich descriptions he shows the breadth of his understanding of what makes a society tick and how each of the pillars (social institutions) started crude and unorganized, then over time matured into powerful social constructs (behemoths and leviathans). The second section described numerous examples of what happened when an imbalance of the pillars occurred. His use of actual events and the application of the three pillars simultaneously, gave random events a logical structure and unveiled a process of pillar growth or deterioration. The third section introduced hope, hope that individuals who understand the pillars can meaningfully respond to an imbalance; specifically, the current domination of the marketplace over the state and community. He is quick to say that to correct an imbalance among the pillars one should not attempt to bring down the dominate pillar but instead build up the weaker pillars.

The Community Pillar

Mr. Rajan opens the book with a definition of community followed by fascinating stories of how relationships are built in different cultures. The community, being the pillar Rajan believes has been most diminished in the past centuries, is highlighted as a fragile and vulnerable social institution. He uses sociological concepts to stress the inherent and often untapped power of the community. The "proximate community" are those individuals we commonly see and interact with in our daily activities. Rajan believes close-knit communities create a form of self-control and mutual empathy which stabilizes the other two pillars – the marketplace and the government. Conflicts, he believes, are best resolved interpersonally – within the community. To this end he created the term "inclusive localism" to which he includes all the good things that can happen when people know and trust their neighbors. He adds however, that communities can also be restricting such as when parochial thinking and peer pressure hold back new or progressive ideas.

The Marketplace Pillar

Mr. Rajan introduced the marketplace (economics) with a captivating story about the changed perception, over the past millennia, of usury (the charging of interest for borrowed money) and the sin of avarice or greed. Usury was a despised social activity in the days of the medieval Catholic Church, but became an accepted

tool used to expand markets as international trade grew. Today there is wide-spread dependence on the interest earned on invested money in our personal money management. Thus, the initial awkwardness of charging interest to those community members borrowing in a time of need, a perceived rude and insensitive practice, has been modified through time and has increased the power of the marketplace, to the point where personal gain made using interest is commonly accepted – including by the Catholic Church. Rajan developed several other themes to give credence to his belief that the marketplace has zoomed ahead of the development of the community and government. First, the common use of barter or personal favors as a way to exchange goods and services in a small community has been overridden by the use of money, loans, and contracts as more dependable marketplace tools when rural life expanded into nation-states. Second, the rise of tradesman’s guilds and business monopolies have trespassed on the simple life of the village. Third, the market has intruded into the workings of government, in an insidious manner, in the form of lobbying and cronyism. And fourth, he showed how competition, a major component of capitalism, has been manipulated, encouraged or constrained, as trade and political power moved from the church to the feudal lords and then to the people (via the creation of constitutions).

Mr. Rajan sees the free-market as important, a critical and natural phenomenon to be tampered with only with great caution. He advocates for corporate behavior to focus on value-maximization and not just profit; such a focus on the merit of the product to the consumer diminishes the chances that corporate behavior will be selfish, benefiting only the business owner and shareholders. Since the pillars affect each other, he cites with mixed interest, the use of government policies intended to manipulate and control the marketplace using regulations, tariffs, and taxes.

The State Pillar

Mr. Rajan develops the governmental pillar (called the “state” in political science) starting when the Catholic Church controlled much of Europe, followed by feudal states and the reign of monarchs, to today’s nation-states. He explains the growth of the government pillar in multiple ways. I found captivating his stories of how events like the Black-Death epidemic in Europe and the advanced use of Chinese gunpowder noticeably altered the political scene in Europe. The rules of governing have also changed in the past millennium as monarchs were forced to yield power to the people and democracy became a popular form of governing. The state has been used to address marketplace abuses and confront the effects of the industrial revolutions. Controlling the movement of people (immigrants) and creating safety nets (income, jobs, health care, etc.) for people not succeeding in the communities have been common tasks of the state. A challenge for the new democratic state has been attending to the common good while addressing the possibility of malingerers or free-loaders. During times when weak governments

coexisted with strong businesses, distrust was created in the masses (the community). This distrust has led to populist nationalism and the rise of populist leaders – a topic Rajan addresses at multiple points in the book.

In addition to the three pillars, it is one of Mr. Rajan's premises that revolutions in the marketplace (i.e. a major change in the production of goods) notoriously disrupted society and created an imbalance among the pillars. He identifies four industrial revolutions, each followed an advance in technology: the invention of: 1) the steam engine, 2) the internal combustion engine and wireless communication, 3) computers, and 4) what he calls our current industrial revolution, the Information and Communication Technology Revolution (ICT)). He uses the ICT as both the instigator of the current pillar imbalance, and suggests how this tool could be used to bring back balance in the pillars.

As a public-school educator, I found interesting Mr. Rajan's inclusion of schools in his narrative, first as a tool to address society's imbalance problems and second as a source of pillar imbalance. He described schools as a common instrument used to retool a population during a marketplace revolution, to upgrade the skills of individuals so they can meaningfully contribute in the new production process. However, schooling and the diplomas and credentials they authorize, are perceived by Rajan as a problem because these formal certificates control entrance to the job market and are controlled by a profession or a regional university. The marketplace power of an academic degree, used as a requirement for a specific level of job, is seen as removing power and control from the local community, further weakening this pillar. Schooling was also brought up in discussions of the political pillar, as a possible tool for addressing the irrational forces of populist nationalism and their opportunistic leaders.

Uses of the book:

Mr. Rajan has a vision of what an ideal world looks like (free-markets, democratic, and inclusive localism). The many examples he includes show how his theories and premises work together, across cultures and time periods. His language is cautionary and not discourteous; he never puts down an individual or philosophy. His historical portrayals of events use hindsight and data often not available to the participants. He is primarily trying to show his three pillars as useful tools to scrutinize societal change. Yet, beyond just explaining history, he also adds his opinion regarding the kind of change he considers best. He is not a revolutionary looking to overthrow existing processes and practices and replace them with his own. Instead Mr. Rajan sees individuals, groups, and societies as being in control of their own future. Goals and processes to be used may not be crystal clear – but he accepts muddling through, taking small steps towards balancing the pillars. The book, especially Section III, provides a game plan, the rationale, and the historical backup for choices individuals and groups ought to make towards this idealized, more controlled world order.

Author:

Mr. Rajan has significant experience in finance and policy development at the national (India) and international (International Monetary Fund (IMF)) levels. He is currently a professor of Finance at the University of Chicago's Booth School of Business. His experiences at the upper levels of finance show as he makes sense of huge swings in the affairs of nations. Well beyond the grasp of common people's awareness of social forces, Mr. Rajan sees, understands, and explains what actually happened. It can be scary to see the dots connected, as the unknown becomes known. But his vision of an inclusive world with caring and knowledgeable people at the core provides a ray of hope for our future if we choose to act on this new-found understanding.

Conclusions

I will highlight three conclusions I made from the book. First, in the political pillar Mr. Rajan is clear, national populist leaders are created by the times in which they live. Populist leaders rise when the market is perceived as rigged in favor of the rich and the state is seen as weak and in cahoots with business leaders. He is also clear that populist leaders do not contribute to a healthy society. In such situations it is incumbent on the state to give power back to the communities where they can break the cronyism that exists between the state and the marketplace.

Second, Mr. Rajan believes the marketplace is best when left unfettered, as long as it remains competitive. The free-market is a natural force but when tampered with (regulated) by the state, it commonly goes awry. However, he believes that it is necessary for the state to prevent large corporations from getting too large and making it difficult if not impossible for new-comers to enter the market. Such a reduction in (or elimination of) competition can easily happen when the state is asked by big business to create protective rings around their industry – using tools like tariffs, long-term patents, and tax breaks. Encouraging markets to become local and small prevents the dominance of a few with their illicit connections to legislators and enforcers.

A third conclusion is that communities are currently the fertile ground for democratic principles. Communities can address, indirectly and with more discretion, the complaints of inappropriate behavior by state and corporate players. Mr. Rajan has faith in the humanity of humans – ideally marketplace and state affairs can be handled by the local community. He does have concern that immigrants (any outsider) may not be accepted by a closed community. But he weaves many hopeful thoughts that such barriers can and will be broken down. He is an advocate of technology and electronic communication but still holds special hope for the human connection that is obtained by being physically close to your neighbor. These community connections are personal and have a natural way of restraining human behavior (unlike the impersonal and 'business' connections that have flourished of late).

Critique

Mr. Rajan has a vision of what the world should look like – how the pillars ought to be balanced. It is a utopian vision and one I came to share. He wants stronger communities – filled with people who know each other and who are able to put subtle pressure on each other to maintain a sense of order and respect. He wants a marketplace free of state and monopolistic influence. And he wants democracy as the organizing power of the people; an ideal that will always be a work-in-progress, thriving best in the neighborhoods and small communities.

I enjoyed reading his histories of specific nations, cultures, and peoples who rose or sank based on their alignment of the three pillars. He showed great breadth of knowledge and proposed a vigorous combination of theories of human behavior as he exposed the forces of the market, state, and community that influenced past events.

Although his understanding of societies is complex the organization of the book was superb, providing countless examples and creating concrete insight into this complexity. The development of ideas and themes was predictable and meaningful. His examples were clear and pertinent.

I found one awkward spot in Mr. Rajan's thinking – the privileged role of corporations in society. He believes the marketplace is healthy when it is free to experiment, with multiple competitive forces; one in which established producers meaningfully compete with the new entrepreneur's ideas for greater efficiency. He believes the open marketplace is a natural force that is difficult to tweak without showing a bias (state regulations). The problem I have with his ideal marketplace is, he sees corporations as businesses only, to be focused on efficiency and the consumer's wants and needs. He specifically states that corporations should not have a conscience and should not be expected to include concerns beyond efficiency (thus no social awareness, nor the likes of such topics as climate change, or recycling/Zero to Landfill). I find this "business is business" focus disturbing. I believe there is an ethics to good business practices and these should not be put aside to focus solely on efficiency. Communities and government rely on the marketplace to be fair. If the marketplace is to be a meaningful pillar and if governmental regulation is frowned upon then those involved in the market need to have guiding principles that promote ethical behavior. A free-market need not be a brawl; competition need not be winning at all costs. Being socially aware and practicing self-control ought to be a requisite part of any "business" deal. Indirectly, I believe, Mr. Rajan believes the marketplace, through the consumer, will impose its own values on corporate behavior and these ethical issues will be addressed - eventually.

Mr. Rajan's book is a meaningful explanation of today's busy and emotion laden world. He methodically develops an insight to human behavior and applies it to historical and then current situations to help the reader make sense of the big

picture of human affairs. While developing this insight he makes it clear how the system ought to work – so we are left with both a well-defined understanding of the problem and a useful game plan for what to do next.