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Book Review

The Third Pillar: How Markets and the State Leave the Community Behind. by Raghuram Rajan. New York: Penguin Press, 2019. 464 pp. ISBN: 9780525558316

Adam Smith's argument in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) is without a doubt still relevant today. His claim was that "by producing for the market and maximising his own profits, the manufacturer maximised the size of the public pie, and thus the wealth of the nation". Although he was obviously a free marketeer, this does not mean that Smith was a fan of the businessmen of his time. In fact, claimed that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." The first quotation tells us that Smith was pro-market but not pro-business, since in the second quotation, he was obviously against the big corporations' cartelising tendencies, probably for the same reason that economists are in favour of market supremacy and, even though they are pro-capitalism, they are not pro-capitalists.

Raghuram Rajan's work, *The Third Pillar: How Markets and the State Leave the Community Behind* (2019) carries the same pro-market spirit of Smith, without the pro-business spirit. Rajan admits that deregulating markets can create inequalities and that these can be exacerbated by new technologies, producing social stratification, a sign that the three pillars of society (the state, market and community) are imbalanced. That is his diagnosis of the prevalence of inequality and resentment today. His prognostic solution to this is inclusive localism, which he believes offers an alternative to rising populism. Prescriptions by champions of populism (either ethnic or class-based) are not only simple but devastating. Economic measures like tariffs to counteract the erosion of job security only shrink the domestic market. Revitalising society's sense of community by bolstering national identity along ethnic and class lines only disunites the already unstable nation.

Dividing the book into three parts, in Part 1, Rajan explains how, today, all developed liberal democracies share the same historical trajectory, centring his discussion on how the cultures of community, state and market gradually develop. In this part of the book, within four chapters, he discusses how the idea of liberty was initially understood as the right to property in a classical liberal democracy, by first developing and tolerating avarice, and then the natural need to counter the rise of the strong through a limited state before freeing the market and defending it. The vibrant market is what limits the tyrannical powers of the state, the first pillar, that helps create independent sources of power, providing checks and balances.

However, when unfettered markets become disorderly and act as a detriment to the communities that first buffered them, the state is pressured to regulate the market, as he details in Chapter 4, "The Community in the Balance". Smith, and other economists, did not want to see the so-called "robber barons" of late nineteenth-century America, figures such as John D. Rockefeller, abusing the freedoms of the market. Rockefeller was known for ruthlessly eliminating competitors to his oil refining business cartel. Only later through the suffrage movement were communities revitalised and the predatory market tamed by the power of the state.

In Part 2, which also comprises four chapters, Rajan explains how the rise of the market and technological changes relate to the rise of populism and discusses developments relating to this in China and India. Stagnation in the 1970s required a new paradigm, welfarism was under attack and the Anglo-American countries favoured markets at the expense of the state while the continental European reforms favoured the integrated state-market approach. Expectedly, the supply-side approach of Friedrich Hayek and Milton Friedman was in demand, therefore the University of Chicago founded by Rockefeller himself was in the limelight.

Rajan is aware that the new rise of the market created new problems when he discusses the pressure of promising the expansion of the public pie. This was then further aggravated by the information and communication technology (ICT) revolution. Meanwhile, on the other side of the world, China and India share the same problems despite having different historical trajectories. Rajan is not necessarily always on the same page with economists like Milton Friedman who argued that the only "social responsibility" of business was "to increase its profits". The idea is, if managers were to focus on maximising profits and the value of shareholders' shares, their companies would survive and contribute more to society in the long run. Such an idea neglects the importance of the welfare of workers and citizens at large.

The importance of community has long been observed before Rajan makes this argument. For instance, Mark Nerfin, in his work *Neither Prince nor Merchant* (1986) emphasised the role of citizens, anticipating the problems of community. However, this does not also mean that Rajan has departed from Friedman and Hayek in terms of supporting the free market, as he never blamed capitalism but only the capitalists, and he never saw the principle of liberal democracy as the potential culprit. It was just the routine of capitalism in a time when the three pillars are in imbalance.

Perhaps, within the five chapters of Part 3, non-economists would be more curious to know what Rajan's take is on the new balance of the three pillars. Focusing on the community pillar, he mentions inclusive localism, which he believes could offer an alternative to populism, hence to our economy. He suggests that allowing the engine of our economy to continue gathering pace and power by giving the community the power to decide their own economic and political fates is the key.

Obviously, social scientists who are non-economists can provide something more grounded on this subject, however when economists open their mouths on this subject, it is still worth listening. Under these five chapters, he wants us to optimise the tools we have developed through the information, communications and technology (ICT) revolution to empower the community and create a national framework that is free from discriminatory practices in terms of ethnicity and class. This applies especially on matters concerning economic opportunity, by breaking the gigantic walls that are protecting privileges and, instead, encouraging tiny walls to preserve the character of communities, including responsible internationalism and the reform of market-driven economic growth.

When he touched on the topic of schooling Rajan also mentions that ICT usage must be optimised. One way the state can facilitate social mobility is by making use of already existing digital technologies to create a new national curriculum of lectures, reading materials and assignments available to every child. While this book undoubtedly provides interesting accounts of the historical trajectory of liberal market democracy and a fascinating description of what we have become today, we cannot expect too much from what economists say about community; we can in fact predict what kind of market reform they propose. Nevertheless, his final thoughts in the Epilogue of the book are worthy of attention.

If I had to summarise the ideas in the book in one sentence, it would be that we must value the community to expand the pie, which is the only way society can go back to the equilibrium. He suggests two types of natural laws of the invisible hand. Besides the one on market space, he says that social values do also change. We used to glorify victorious warriors, and then turned to praising merchants and bankers. Today, we place successful entrepreneurs on a pedestal and tomorrow we may exalt community workers.

Some of us may want to know what our society will look like with a new form of competition between men and machines? Rajan's answer to this is that, not only does it lie in the future meaning of social value, but he is also somewhat optimistic that the world will simply regulate itself through the routines of capitalism just like the market, since, he argues, rebalancing the three pillars in the face of technological changes is the routine of capitalism.

It has been understood that the outcome from the past competition between men and machines in the 19th century produced a Dickensian nightmare, where laborers migrated to the city in the hopes of better living standards. However, working in factories has unfortunately led to the tragedy of exploitation and alienation. Moreover, we have also learned that the suffrage movement of the late-19th and early-20th centuries created pressures to tame the captains of industry, making the market more responsible and returning balance to society. Although Rajan is completely aware that the competition between men and machines across the globe has been fierce, he has little fear about the potential problems this might bring to future societies.

Interestingly, he is also aware that the ICT revolution has created a different kind of meritocracy, which he sees as a new aristocracy privileging heredity, thus discriminating against talent and hard work. He understands that since the machines will be owned by only a few and all the income will flow to these few, the competition generated by global markets together with the ICT revolution will, naturally, only favour large corporations and professionals benefitting from credentials and licenses. This leaves no room for those in the middle, let alone at the bottom. Hence, being born in a super-rich family naturally assures someone to stay rich.

However, Rajan interestingly does not see the potential of a Dickensian nightmare happening from the competition between men and machines. He argues that people will begin to value community, and it is only natural for society to appreciate, create, and cherish great art and beauty—to value goodness rather than just commercial success. Although he does not say anything specific about a social wage, regardless of what your contribution is to society, the fact that there is growth, according to him necessitates that everyone must be given remuneration (a surfer's paradise society). He points to the utopia of the pledge-giving culture of the top 1%, where new algorithmically based positive externality would materialize through the abundance of wealth at their disposal, of which the least advantaged would be able to benefit from. As mentioned earlier, according to him the world will regulate itself. Even climate change and associated problems like water scarcity will ultimately be solved by new technologies.

That said, his message in this book is rather simple, albeit important: If we keep our democracy strong and vigilant and the realm of the market and government separate, the three pillars would remain in balance. These things are what people in general should acknowledge, therefore this book should be read by people at all levels of society.

Makmor Tumin, PhD.
Associate Professor
Department of Public Administration
Faculty of Business and Economics
University of Malaya
50603 Kuala Lumpur
Email: makmor@um.edu.my