

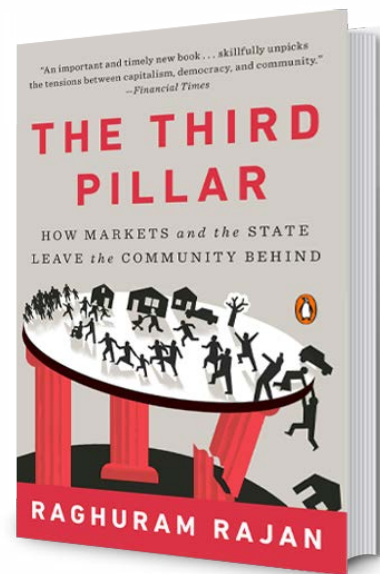
# Curing the Ills of Capitalism?



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In *The Third Pillar: How Markets and the State leave the Community Behind*, author Raghuram Rajan offers some suggestions as to how to correct some of the excesses of unfettered capitalism that have contributed to the move towards deglobalisation and populism we have seen following the Global Financial Crisis (GFC). He contends that simple economic growth is not enough, and his solutions center on empowering communities to help “balance out” the overwhelming enhanced powers of markets and central governments in society.

Rajan is an economist and Professor of Finance at the University of Chicago, and former Chief Economist and Director of Research at the International Monetary Fund. He is also the author of several books discussing the negative impacts of



capitalism, and this, his most recent effort, was shortlisted for the 2019 FT/McKinsey Business Book of the Year Award.

*The Third Pillar* offers readers some very interesting insights into the ancient development of communities and how and why their local influence has waxed and waned. In more recent times their political and economic powers have dimmed as global free trade and markets have come to dominate smaller, more

localised environments, and global and national solutions have been used to address complex problems (like poverty, inequality, etc.) – with varying results at a local level.

Now the powers of these three societal pillars – markets, the state and communities – have become too imbalanced in favour of the first two pillars, Rajan argues. The ills caused by free trade (like rising unemployment and poverty in less-competitive industries and among non-professional workers) and more powerful central governments (like lack of knowledge or misunderstanding of local issues) have become much more widespread. At the same time, inequality has flourished, and individual and corporate interests have been allowed to dominate the public interest.

Rather than correcting this imbalance by tearing down markets or the state, he says, it should be addressed by building up communities by giving them more power, in turn making them more relevant and helping them become a greater source of economic growth and improving

health, wealth and welfare. Stronger communities can help correct the overreach of central government regulation and corruption, and help promote democracy, among other benefits, the author believes.

Far from the idea of simply “buying local”, Rajan contends communities should have more power in economic and political decision-making, as well as in education and other key areas, within the broader guidelines of a national framework. Until recently, national government has engaged in a “one-size-fits-all” approach in which the major political parties have largely ignored the inequality and dislocations caused by the increasing power of global trade, competition and corporations; this has brought about the increasingly nationalist and populist sentiment we see now. Should communities have the renewed power to make decisions that can meaningfully improve people’s lives, this would help to forestall such sentiment and channel it in more progressive, positive ways. And importantly, minorities can thrive in such an environment, as long as this is not to the exclusion

or detriment of non-community members (something that can be held in check by government at a provincial, state or national level). This is a thought-provoking work that adds a new dimension to explanations for the macroeconomic, social and political developments we have seen since the GFC and contributes positive ideas towards helping correct some of the glaring imbalances that we see today. No doubt these solutions are debatable, but Rajan's ideas at least try to build up one of society's three pillars rather than destroying the other two. ■

*Lynn joined Prudential in June 2013 and has 25 years' experience writing about global economics and financial markets. She is responsible for overseeing Prudential's client magazine, media articles, client communications and digital content. Her qualifications include a Masters in Public Affairs from Princeton University, a graduate year at the Ecole National d'Administration in Paris and a BA in Economics (Honours, Magna cum laude) from Kalamazoo College, Michigan.*