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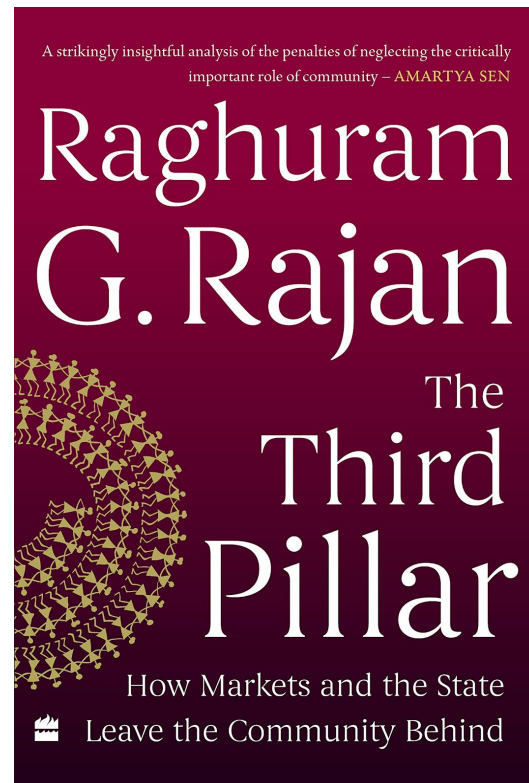
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The Third Pillar - Raghuram G Rajan

The Third Pillar - Raghuram G. Rajan

The election season has just concluded in India - some call it the 'Festival of Democracy' with around 900 million citizens exercising their right to vote. While most debates in the media seem to center around national security and how to tackle terrorism, the issue of rising unemployment in recent years has only been brought up occasionally. There are also concerns of rising populist nationalism, with the trend of growing distrust in the establishment and elite, visible across the world. A timely account of such worldwide trends, Raghuram G. Rajan's book 'The Third Pillar' attributes these seismic shifts to an imbalance in the three pillars of society - the



state, market, and community - and emphasises how a revival of community will bring back a sense of balance by keeping the state and market in check.

Overview

● Emergence of the Pillars

In the first section of the book, Rajan delves into the origins and establishment of each of the three pillars. For instance, the evolution of usury is traced from being frowned upon in the early Middle Ages, to being treated as a sin by the Church which aggressively prosecuted usurers, to eventually becoming an integral part of the market. Later parts of the Middle Ages saw the growth of the state and the market, as the feudal community weakened. Much later in the early 1900s, as the state became constitutionally limited through Parliament, markets flourished, sometimes to the detriment of the community. The fight for suffrage and extension of franchise brought the community back to power, restoring the lost balance. In this manner, Rajan highlights how some pillars tend to dominate the others over time, which brings about the need to rebalance them again.

● Recent Imbalance

After all the fruits of the second industrial revolution (which led to the miraculous progress across the world) had been reaped, economic growth stagnated again in the 1970s. Different countries dealt with it differently. While the European nations bet on integration, US and UK relied on heavy deregulation of markets and privatization, leading to an increase in competition. These decisions have had lasting consequences on the precarious balance between the pillars which we are still tackling today.

Rajan highlights how the pressure on the states to deliver the promises it made during the years of strong growth led to these decisions, and how these decisions combined with the emergence of the Third and Fourth Industrial Revolutions have led to a reemergence of populism. In this section, he also writes about the unexpected growth experienced by China and India.

- **Restoring the balance**

In the final section, Rajan argues that an appropriate distribution of power between the state and community can bring the latter back into the foray. This can be achieved by combining the resources and national reach of the state with the local information and engagement of the community. While Dani Rodrik argues that globalisation, democracy, and national sovereignty constitute a trilemma that are impossible to reconcile, and a country can have two but not three, Rajan acknowledges that most policies will have trade-offs and countries will have to find ways of muddling through.

Unintended Consequences

A recurring theme in the book, a great insight drawn from history, is how certain landmark events have unintended consequences in either creating imbalance or restoring balance across the pillars. Rajan describes a classic example early on, how the invention of gunpowder and cannons (which

could demolish the strongest fortifications at the time) created political consolidation in the middle ages, cementing early establishments of the state.

Learnings from History

History is an important teacher. Answers to many contemporary conundrums can be found through a careful consideration of historical trends. Rajan masterfully presents the history of interaction amongst the pillars highlighting certain events which challenged the status quo. For instance, the Populist and Progressive movements of the US show how a failing system can be revived without a revolution, through reform and a healthy dose of luck. The pushback against the system's natural drift towards cronyism, demonstrated by these movements could be an inspiration for several nations struggling with similar issues. Another interesting trend in history is the inevitable occurrence of a financial crisis after any technological revolution. As we move into the Fourth Industrial

Revolution, should we be wary of another impending crisis?

Genuine admiration of the USA

Reading through the history of radical changes in the way the world worked post the world wars reminds us of the greatness of the US, which indeed was and is a

force to be reckoned with. The following passage, written in the light of immigration and the emergence of open trade across nations, is a much needed reminder not just for the US, but the rest of the world, and for us to reflect on the possibilities we have.

“ *The postwar system could only have been set up by a country supremely confident of its capabilities, motivated by a genuine appreciation of the collective potential and possibilities if all countries come together. The United States was that country. The reality of the postwar system fell short of its aspirations, but its aspirations were truly inspirational.* ”

Disappointment for Indian readers

Highly focused on the events which have occurred and are occurring in the West, particularly the US, UK, and much of western Europe, it almost seems like the book is aimed at US readers - with India being covered in a chapter called “The Other Half of the World”. However, the theme is globally relevant and there are several learnings for any nation.

Rajan laments about how the weak private sector, which is neither independent nor competitive, coupled with an inefficient state which takes on too much with too few resources, has contributed to India not taking off like China. Freeing up markets, and improving state capacity and delivery of public services are seen to be the way forward.

Another interesting observation Rajan makes, is how in India,

instances where the independence of public watchdog institutions was restored were merely a matter of happenstance, with the right person in the right place, like a stubborn Chief Election Commissioner, or a Comptroller and Auditor General refusing to accept the status quo, and not a concerted decision by elite establishment to give up discretion and become better regulated.

However, there is little to no mention of the urgent need to improve outcomes in education and healthcare, and the importance of rule of law, as a function of the state.

Technology and Jobs

Rajan writes extensively about how the act of freeing markets, coupled

with the failure of the community and state, along with the emergence of the Information and Communications Technology (ICT) revolution has led to rising inequality - where both better-paid technical, managerial jobs and low-pay, low-skill occupations have seen a rise whereas middle wage jobs have fallen significantly. This increase in jobs at both ends of the spectrum with a decline in the middle is a consequence of the imbalanced rise of the market pillar. Rajan suggests how bringing the emphasis back to the community, by engaging in “inclusive localism” and sufficient decentralization in the state can tackle the jobs problem.

“ *The natural offset to an expansion in the market cannot be an expansion in the powers of the state, it has to be more of a strengthening of the community through local empowerment. The centripetal forces within the local community have to be enlisted to offset centrifugal forces of the global market.* ”

‘Populist Nationalists’ and Communities

Rajan also writes about the rising ‘populist nationalists’ across all nations with far too many people losing trust in establishments fuelled by a distaste for upper middle class elites. He focuses on how extreme nationalism coupled with rising immigration becomes attractive for those who begin to lose their sense of identity when their communities are in disarray. Further, young migrant populations who are yet to be integrated into solid new communities become especially gullible to antisocial influences in times of slow job growth. He talks of how the adoption of social safety net policies in Europe were facilitated by their homogenous population in contrast to the US, which is experiencing a weakening of community ties with growing immigration.

Substantial autonomy of communities, while respecting national laws and promoting integration instead of submission,

bringing back the notion of “constitutional patriotism”, as proposed by German philosopher Jurgen Habermas are some of the ways Rajan sees as the way forward. •

- Gayathri Meka