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Jeffrey Muldoon

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Recensions

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Jeffrey MULDOON
Associate Professor, School of Business, Emporia State University, Emporia, Kansas, USA

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The decline of modern society has been a topic of conversation and discussion over the last 70 years or so. Every so often, a public intellectual will publish some book decrying the decline of community and offering some prescription to fix it. Rajan Raghuram's book is another contribution to this genre, but unlike other works it is one of erudition and develops concrete proposals to address societal issues. Despite numerous limitations, it should be read by business professors. What is noteworthy is not the diagnosis or the recommendation but rather its authorship by a finance professor who recognizes the limitations of both the market and the government.

A strength of this book is its recognition that nationalists and populists are correct in some of their diagnoses. Unlike other elite intellectuals, Rajan writes with empathy and understanding. Although critical of Trump, Sanders and other populists, Rajan notes that these politicians have legitimate concerns and that we need to address inequality. However, he also notes that their nationalistic solutions are doomed to fail because their policies need to resonate with their followers, a precondition that makes their solutions an impossibility. Although he does not use the term rent-seeking, he notes that the "economic game" is rigged for some. As a solution, he suggests providing communities with more power and allowing for inclusive participation at the local level.

Rajan takes the reader for a long ride through history to explain how markets and national governments emerge and why communities disappear. Take welfare as an example. Poverty for Victorians was personal and localized. As the government got involved in welfare, it eliminated the personal aspect of the relationship and promoted large bureaucracies that distanced administrators from welfare users. A trade-off thus developed between an increase in funding and a decrease in judgement and also responsibility. Rajan thus wants to assign more power to local authorities, notably in educational policy.

Though worth a read, the book has real limitations. This is a sociology book written by a finance professor. While there are some real insights here, the finance perspective consistently trumps the sociological ones. For example, Rajan criticizes the college degree requirement of certain jobs. He is correct that much of this is signaling. But businesses do need college degrees to assess important job characteristics, such as intelligence and personality, because of the difficulty in assessing these traits directly. He also fails to recognize the social benefits of going to university. A college education not only allows people to signal their abilities but also provides them with lifelong social contacts and friends.

Surprisingly, Rajan has written a book on the interface between economy and society without ever citing or discussing the works of Mark Granovetter, an omission akin to writing a macroeconomics book without a reference to Keynes. Moreover, when he does cite various writers, he gets their arguments wrong or ignores their contributions. For example, he cites Daniel Bell but fails to note that Bell predicted and diagnosed the decline of community in his works from the 1970s. Instead, he focuses on Bell's comments on the Chinese Communist Party. Rajan also misstates key findings. For example, Charles Murray does not argue that residential sorting has occurred due to concerns over children; instead, he sees it as due to the academic sorting of individuals and the breakdown of communities. Murray notes that the average American's values and interests are different from those of the elite American's. Rajan even gets Milton Friedman's writings on corporate social responsibility wrong, ignoring that Friedman opposed greed and supported business ethics.

Rajan does not seem to understand what makes a community. He seems to assume that a group of people living together produces a community. It does not. He can explain, in great detail, how a community breaks down and the consequences, but he lacks the ability to explain how communities form. For example, religion only gets a few references throughout the book. Yet, in the United States and elsewhere, the church was a source of socialization. Furthermore, nationalism and regionalism provided a sense of belonging that brought strangers together. For example, even today, if people come from the same ethnic background, have gone to the same school or root for the same team, they share a common connection. But Rajan and other writers cannot get past the idea of equating local government with community. In doing so, he diminishes the insights of his work.

Because of these blind sides, his primary topic is education, but he completely fails to note that education is run by the state and for the state. A community must have a purpose other than a dictate from the state. This purpose allows communities to exist, but it comes at a cost—loss of control over the individual's freedom to act and a need for conformity. In the premodern world, if an individual broke a social norm within a community or family, he or she would suffer social ostracization. Many of the things we value or tolerate, such as sexual liberation, may disappear in a community setting. Furthermore, communities lack diversity. One of the findings of Robert Putnam was that diversity reduces trust in community. Attempts at diversity, such as affirmative action, only serve to create a sense of distrust. One reason why people dislike diversity is that people distrust those who are different. This is a common failing and one not easily eliminated. That is why I, and others, like markets; they are impersonal.

Rajan tries to be everything to everyone. There are trade-offs involved. If we desire community, we need to curtail government, maybe the market. If we want diversity, we probably will lose trust in the community or have to introduce incentives for assimilation. If we wish to empower local communities, we must be prepared to see some of them shut down women's sports or teach topics that violate liberal culture. Community empowerment could thus lead to conflict between communities.

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