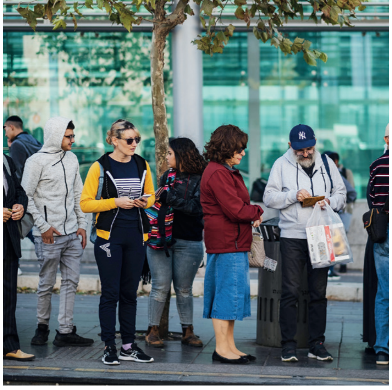

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The Third Pillar: a New Way of Thinking Development

In a world where new forms of inequalities are rising, where the economic and political pillars are weakened, the community and the social relations are the third pillar we need. Take care of their own economies only and design strong policies of stimulus are not enough for countries to take the path of recovery. Creating work and the possibilities of local growth, the effective implementation of the principle of subsidiarity and the cooperation between developed, developing and emerging countries are crucial drivers of development. We need to embrace technology to make it possible.

The rising of new inequalities

There are deep problems emerging in the world. They have been emerging for the last 20 to 30 years. One of the most important is inequality, both within and across countries. There are far too many people who can take advantage of the opportunities the capitalist system offers. Before the financial crisis, one of the attempts to ameliorate inequality when people didn't have jobs was to give them more access to credit. Some of the housing boom, especially housing targeted at low-income segments of society, was in many ways part of the answer. Even if people's income didn't grow, their wealth did through housing assets, so that they could borrow. In fact, looking at consumption inequality in industrial countries, certainly in the United States, it did not go up as much as income inequality did. Of course, the gap was being bridged by the financial sector through easy lending.

However, this could not go on forever and it came to an end with the global financial crisis. Since then we have discovered there are many kinds of inequality. It is not just the traditional inequality across society between different sorts of class segments. There is also, in industrial countries, a profound inequality of place, partly exacerbated by technological developments, that make it much more valuable to be in a mega city like New York or San Francisco and not in a small town far away. In turn, the inequality of place has translated into a serious inequality of opportunity. Places that have lost their main manufacturer, partly as a result of trade, have been swept by hopelessness. Here the schools deteriorate and the use of drug and alcohol is abused. These are the deaths of despair that have been so clearly documented by Angus Deaton and Anne Case. The worry is that this phenomenon is changing the politics of industrial countries significantly, but in the process it is also changing the politics of many emerging markets.

The third pillar: the role of the community and the principle of subsidiarity

We really have to focus a lot more on what I call the community. Of course, many people think of communities in very different ways, but let us consider what most people think of as a community: a place where people come together to create local institutions such as good schools, a safe and secure environment for kids to grow up and so on. We have really to pay attention to the community, the third pillar, if we want people to participate in the other two communities: the market economy (the economic side) and the government (the political side). One of the big fragilities in the world today is that people's communities have broken down. They simply are not able to participate in the other two pillars in an effective way. We get the kind of fractures and frictions that we see across the industrial world, which is also breaking up the integrated world that helped us to come where we are from where we were post the World War II.

The emphasis on social relations is very important. To some extent we have put a lot of emphasis on the primacy of the market on economic relationships. However, as we become more developed and we meet economic needs, we find that social needs are left aside. There is a pandemic of loneliness that is hitting many industrial countries, as people get older, and we need to think about what we need to do there.

There is also something very important to note about the spread of markets across the world. The general sense is that markets and governments are opposed to each other (this was the view in the 20th century) and we had all these movements with one emphasizing markets, the other emphasizing the governments. The reality is that they are symbiotic. Where there are stronger and integrated markets, there is a push for having stronger integrated government. With worldwide markets, there is an impetus to have worldwide government and not have a democratic bar having much say either at the local level or at the national level. It gets elevated really high. Thus, what we need to consider as we go forward is whether is that the way we really want to go. Do corporations need a sort of boundary-less world in order to operate or can they operate really well with very minimal loss of efficiency, with a world with reasonable boundaries where people have the democratic right to in a sense set up their rules and regulations?

It is useful to appeal to a Catholic principle called the principle of subsidiarity, which states not to elevate rules beyond the level that powers need to be exercised at. Push the paws down to the lowest level at which they can be exercised efficiently. To think about what rules should govern primary schools, why does it have to be determined at the national level? A local community can figure out what it ought to teach its youngest kids. Clearly, if we want to make rules on climate change, we need to discuss at the global level because it affects all of us, but it should have the consensus right down to the bottom. If climate change rules are discussed at the top and then transmitted down to the bottom as orders from some smoky room where they were decided in Paris, a reaction occurs. If people are not part of this rulemaking, they will not obey the rules that are set up. This is what happens in France with the carbon or gasoline taxes.

The fundamental point is that we need to reassert democracy, which means, in a sense, placing the power to decide at the right place. We have elevated it too much and we need to bring it back. By doing that, we can have both more of an emphasis on the social side, but also not give up efficiency to the extent that sometimes we have to give up if we had a very different change.

Development needs work and cooperation

It is very important for industrial countries to recognize they have a problem of development. There are many places in industrial countries that would not be out of place in a third world country. Unless this is recognized, a policy of more and more stimulus will continue. However, stimulus works when a developed area just needs a little more oomph to come out of a trough, but development is not stimulus. Development needs much more careful work on local institutions, on local infrastructure, essentially creating the possibilities of local growth. The policy establishment in the United States still doesn't seem to recognize this. Think about the debate in Washington today. On the one hand, the FED has pushed its foot firmly on the accelerator and it is going to hold it there no matter what happens. This is fine, but we have spending also on the fiscal side. What is this spending? The Cares Act was extremely important in providing relief to households and firms. Of course there are many households now, certainly in the upper income brackets, that have plenty of money and that are not spending it. We have to be careful about the next round of spending to make sure it is much better targeted at those who are unemployed, those small businesses that need relief. However, it cannot be yet another open check book written to everybody regardless of whether they need money. This kind of policy diminishes room for the really necessary policy that is targeting better the areas that have been left behind. Whether it is the historically disadvantaged communities or whether it is the new communities that have been deindustrialized, the manufacturing communities that have in the parlance of economists suffered the China shock. Outside my window I can see the South side of Hyde Park, which was devastated by a previous wave of deindustrialization in the late 70s and early 80s. The point is that we need to work on these areas. Many of these areas for example don't have broadband. How can you not have broadband in the digital economy and be part of the economy?

The pandemic has been devastating in industrial countries, but it is potentially far worse in many developing countries and emerging markets. We have seen the spectacle of industrial countries cornering vaccines. I hope this is an early response that down the line there is a more moderate response in sharing the vaccines because we know from the work of epidemiologists that if it reaches uncontrolled elsewhere, there is the possibility of variants developing which come back to hit us, which will pierce the protection that the vaccines give us because they are variant that the vaccines haven't been developed against. This is an area where we need global cooperation and that has been sadly missing. I think the key problem has been that the U.S. leadership has been missing in action so far. There is a hope that the U.S. reasserts itself in providing and organizing global public goods, but it has to be rethinking at an order of magnitude different from what has been thought of previously. This is why we need a lot of work strengthening international organizations, perhaps creating new ones. If the industrial countries have been set back a year or two, many developing countries in some emerging markets, certainly in South America, have been set back in some cases a decade or more. That kind of hit often results in political change. This is why it seems to me, when the West is talking about creating a coalition of democracies, that coalition of democracies may risk having very few followers if the West doesn't buck up. We are spending trillions on minimizing the damage to our economies and minimizing the harm to our households. Why don't we spend a few billions to make sure that the effects on developing countries in emerging markets doesn't result in a rejection of the entire system and an embracing of alternative systems over the next few years because of the effects of the pandemic? I believe this kind of global thinking is needed at a time when the natural tendency is to look in what into your economy. One may think that it is not possible to think about the world when there are big problems. If we don't think about the world now, we will have big problems five to ten years down the line when the effects of the pandemic finally play out.

Work, urbanization, education: interconnected changes

The good news about the pandemic is that economic activity can be spread wider. Many of us have discovered work at a distance. It will not all stay the same way, many people will go back to office in the big cities, but there will be many jobs that can now be done four days a week, stay wherever you want, come in one day a week into office. These places that have been left behind can actually create the possibility of people coming and staying there if only they improve their infrastructure a little bit. They have better parks, better trails, better broadband so that people can work at a distance. Then, high-income workers can work there and spread economic goods across the country. We need to be thinking about new ways of spreading activity making capitalism work for many more people. Central government spends a huge amount of money devised by policies through the center with no thought of what the localities need. Unfortunately, local government and local decision-making in the United States has a bad aura with it, by past racism and the fact that the South emphasized states' rights and local government in order to keep African communities down. I believe we can get beyond that and recognize that to have stronger democracy, we do need to push much more decision-making especially in this building back better post pandemic back to the localities.

The pandemic amongst other things has accelerated the acceptance of technology in many ways, which gives us many new ways of dealing with some of the older problems we have. We have realized that we can get 90% of education, college education, on the web. We can't hit a hundred percent because a hundred percent sometimes is better to be in the same room with your students and professors to have a vibrant conversation. Nevertheless, it is possible to have a pretty decent conversation as we are having right now on the web. Why can't we have better education for many more people who can't access that today because they are limited by distance? Why can't we have more telemedicine? Many places don't get access to a good doctor, but we have seen, certainly in the United States, a big movement towards telemedicine in the early days of the pandemic. Of course, now people can meet a little more in person. I think some of that impetus is winning. But it shows us this can be done.

We need to embrace technology to provide solutions to older problems. But we also need to recognize there are new problems and that unless we tackle them directly, systemic change will be forced on us in directions that we don't want.

The article is excerpted from Raghuram Rajan's talk at the New York Encounter, February 13, 2021

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