



The State, Markets & Communities

December 6, 2021

The title of [Raghuram Rajan](#)'s book, *The Third Pillar: How Markets and the State Leave the Community Behind*, speaks for itself. In praising the book, [Janet Yellen](#) says, "Restoration of [the] third pillar is the most essential task facing policy makers today."

However, since politically elite policy makers *are* the state, her assertion is a bit of a non sequitur. Perhaps they ought to consider divesting [power](#) instead, thereby allowing communities to recover some of what has been lost... to build back better and make America great again.

Let's explore that thought in relation to some of Rajan's key points, beginning with:

There is both promise and peril in our future. The promise comes from new technologies that can help us solve our most worrisome problems ... The peril stems from influential communities not being able to adapt and instead impeding progress. (p. xii)

A key characteristic of one of the most influential communities -- [The Politics Industry](#) -- has been an impulse to retard progress in the name of protecting incumbent powers-that-be. Since the onset of the [Industrial Revolution](#), the potency of political policy makers to resist technological innovation has been limited, albeit not for lack of trying. Even now, loud voices on both sides of the political duopoly are calling for redoubled efforts to impose such intervention. Some welcome the prospect of the federal government gaining sufficient power to dictate to businesses and consumers, in the misguided belief that doing so will serve the public interest.

Rajan cautions against that trend, occurring at the expense of community:

The state and markets have expanded their powers and reach in tandem, and left the community relatively powerless ... the solutions to many of our problems are to be found in bringing dysfunctional communities back to health, not clamping down on technology or markets. (p. xiii)

In *The Power of Creative Destruction: Economic Upheaval and the Wealth of Nations*, Philippe Aghion and his co-authors address the latter point, concluding:

A market economy, because it induces creative destruction, is inherently disruptive. But historically it has proved to be a formidable engine of prosperity... with the indispensable support of civil society, it is possible to prevent yesterday's innovators, in collusion with public officials, from pulling up the ladder behind themselves to block the path of tomorrow's innovators. (p. 313)

As the basis for his argument, Rajan cites the dictionary definition of *community* as a social group of any size whose members reside in a specific locality, share government, and often have a common cultural and historical heritage. (p. xiv) He focuses on proximate communities, rather than those that are virtual, but includes local governmental organizations within his definition. With that meaning in mind, he asserts:

Markets and the state have not only separated themselves from the community over time, they have also encroached on activities that strengthened bonds within the traditional community. (p. xv)

The implication is that many of the problems society is facing today stem from that separation, fueled by the concentration of commercial and political power. Among the virtues of a healthy community, he suggests, are local governments acting as "a shield against the policies of the federal government, thus protecting minorities against a possible tyranny of the majority ..." (p. xvi)

On that score, it seems communities in the U.S. have become increasingly weakened and sickly, as a consequence of the growth and centralization of power in the federal government. Taking into account [Newton's Third Law](#), that seems only natural, since for every action an equal and opposite one occurs.

In combination with the [Commerce Clause](#), the [Supremacy Clause](#) of the Constitution has been taken far beyond the framers' intent, thus calling into question whether the [Tenth Amendment](#) retains any meaning. Not only local communities but also the states have been subjugated to all manner of controls from on high. Acknowledging that communities cannot be left entirely free to choose which laws to obey, Rajan suggests devolution of powers to communities can embrace more effective solutions. Thus, state and local rights become not merely a matter of principle but also practicality.

In a similar vein, in *Believe in People: Bottom-Up Solutions for a Top-Down World*, Charles Kock and Brian Hooks say, “Bottom-up empowerment is at odds with the prevailing ideas of our time, most of which are based on the paradigm of control.” (p. 5) Moreover, the tragic realities we now face result from deterioration of our core institutions, including communities, which “are increasingly characterized by the same control mentality that held people back throughout history.” (p. 10)

In other words, in the name of harmony, equity, and consistency, the federal government may be breaking society down and tearing us apart. Furthermore, Rajan notes:

... community-based movements against corruption and cronyism prevent the leviathan of the state from getting too comfortable with the behemoth of big business. Indeed ... healthy communities are essential for sustaining vibrant market democracies. This is perhaps why authoritarian movements ... try to replace community consciousness with national or proletarian consciousness. (p. xvii)

With reference to that thought, it is highly hypocritical for so-called “progressive” activists to attempt to label as authoritarians those calling for less government. In reality, they are actually describing themselves. Counter to the progressives’ impulse for centralized, authoritarian control, Rajan argues:

Unless absolutely essential, power should devolve from international bodies back to countries. Furthermore, within countries, power and funding should devolve from the federal level to the communities. (p. xx)

His usage of the word “absolutely” in this context calls to mind [John Dalberg-Acton](#)’s assertion, “Power tends to corrupt, and absolute power corrupts absolutely.” The ultimate authoritarians are those who believe not only that local but also national autonomy should be subjugated to their own, personal, “progressive” notions of what is good not only for humankind but the earth as well. The logical extension of their passionate argument is to ascribe to each of them the role of god, *deus ex progressivum persona*.

Passion has come to be regarded as something to be admired and we are commonly encouraged to follow our hearts. However, emotion has a very dark side when applied as justification for imposing our will upon each other. In *Against Empathy: The Case for Rational Compassion*, Paul Bloom says that while many people associate empathy with kindness, it prompts him to think of war. (p. 188)

From that perspective, zealots and despots throughout history can be viewed not only as extraordinarily passionate but also overly empathetic ... to members of their own tribe, at the expense of others. For example, when asked when he would stop murdering his own people, [Stalin replied](#) that he would do so when it was no longer necessary.

On a somewhat less dire note, Rajan cautions:

... a central concern in this book is about the passions that are unleashed when an imagined community like the nation fulfills the need for belonging that the neighborhood can no longer meet... For most of us, the neighborhood ... is where we have the best chance of persuading others that our humanity unites us more than our ethnicity, profession, or national origin differentiates us. (p. 2)

The irony is that, while the network effects of peer pressure can be subtly potent, the proponents of national and international compulsion may be guaranteeing not only needless resistance but perhaps also failure to achieve desirable results. In *Change: How to Make Big Things Happen*, Damon Centola says, "as we consider whether to adopt a new belief or behavior, we are guided, much more than we realize, by our social networks." (p. 10) Indeed, "*network bias* is the way our social networks invisibly shape the beliefs we hold and the norms we follow." (p. 11)

Quick-fix short-cuts -- like national and international mandates -- may save time and effort for those who are able to consolidate sufficient dominion over others. However, such "solutions" that are untried, untested, and unproven in smaller communities, on less risky pathways, may lead society blindly over a cliff. At least, attempts to exert universal coercion exacerbate political polarization and invite potentially extreme reactions.

To the extent Rajan's thesis may be correct, short-circuiting social networks diminishes the quality and value of community, an outcome to be avoided unless no better, more forward-looking alternative exists. That prospect calls to mind the famous Vietnam war [Catch 22 assertion](#) that it was necessary to destroy a village in order to save it.

Peering more optimistically into the future, Rajan suggests, "as more production and service jobs are automated, the human need for relationships and the social needs of the neighborhood may well provide the jobs of tomorrow." (p. 3) Who better to create such jobs than the community members themselves? Centralized government is incapable of doing so. It is more likely to stand in the way of progress or, worse, ensure decline -- by diminishing both economic incentive, which is the province of the commercial sector, as well as personal drive, which is fostered by networks of family, friends, and communities.

With respect to the exchange of value in commercial transactions, Rajan notes:

The more explicit and one-off the transaction, the more unrelated and anonymous the parties to the transaction, and the larger the set of participants who can transact with one another, the more the transaction approaches the ideal of a *market* transaction. The more implicit the terms of the transaction, the more related the parties who transact, the smaller the group that can potentially transact... (p. 4)

Extending that thought, he says:

The thicker the web of relationships tying a group of individuals together, the more it is a community. In that sense, the community and the market are two ends of a continuum.
(p. 3)

Government does have a role in the interplay between commerce and community. However, in “over-serving” that role it has become intoxicated with power, thereby threatening the viability of communities and, at the same time, retarding the efficiency of the market.

In *Tomorrow 3.0*, Michael Munger has forecasted that [reductions in transaction costs](#) will drive the next economic revolution. With respect to non-market-based exchanges, Rajan observes that “Communities facilitate internal trading by monitoring behavior and ostracizing defaulters ...” Taking those two ideas into account, what might be required to attenuate the [economic rent](#) (needless costs) thrust upon society by The Politics Industry, thereby re-empowering communities to do what they do best?

Centola argues the key to achieving change is to “stop looking for special people” (like politicians) and focus instead on special places, targeting the periphery. In short, he says, “The network periphery is the place where unfamiliar innovations take hold and spread.” (p. 297) With that thought in mind, how about shifting resources back to localities where they can be more efficiently, creatively, and effectively applied and monitored? Among localities, where are the special communities capable of initiating such innovation?

The vision of the Strategy Markup Language (StratML) standard (ISO 17469-1) is: *A worldwide web of intentions, stakeholders, and results*. The aim is to enable the formation of *Truly Connected [communities of results](#)* (CoRs) from the bottom-up, by making it easy for individuals with shared values and common objectives to discover and engage each other in partnerships.

If that vision were to be realized, the effect would be to disintermediate politics, government, and the state from as much of life as possible. Faced with a loss of power and prestige, the political elite can be expected to resist mightily. However, to the degree Rajan’s assessment may be accurate, relevant questions include: How long might the proponents of ever-increasing centralization of power be capable of thwarting a more enlightened back-to-the-future, technology-supported, community-embracing movement? At what cost to society might we allow them to do so?