Amazon made headlines last month when it *ditched plans* to build a new regional headquarters in New York. The state's governor, Andrew Cuomo, had backed the idea, but community groups, rallied by Democratic Congresswoman and leftwing star Alexandria Ocasio-Cortez, revolted. Amazon’s arrival would do little but gobble up tax subsidies and price out locals, they argued. Eventually the tech giant walked off in a huff.

Amazon’s controversies would sound familiar enough to *Raghuram Rajan*. In *The Third Pillar*, an important and timely new book, the economist describes an ongoing struggle for balance between the three building blocks of a good society: market, state and community. The final one of this trio, the book’s titular “third pillar”, often gets squeezed out, he claims, especially when technological change violently up-ends old economic arrangements.

“These are dangerous times,” Rajan writes. “If people have lost faith in their ability to compete in markets, if their communities continue to decline, if they feel that the elite has appropriated all opportunities for themselves . . . popular resentment can turn to rage.”

His outlook is broadly pro-market, as one might expect, given his academic position at the University of Chicago, spiritual home of free-market economic orthodoxy. But he has also won a reputation as a teller of uncomfortable economic truths, notably via a 2005 speech predicting elements of the global financial crisis that hit a few years later. More recently, he returned to his
native India to become central bank governor, only to clash with extreme nationalist supporters of Prime Minister Narendra Modi, and then leave abruptly in 2016 after a single term in the post.

An eclectic thinker, Rajan has often strayed outside the realms of economics; indeed, it was his willingness to talk about the importance of social tolerance that got him into trouble in India. Even so, *The Third Pillar* represents a new departure into grand social history, which in its breadth often echoes big-picture theorists such as Barrington Moore and Francis Fukuyama and their attempts to tease apart the long-term tensions between capitalism and democracy.

“Community ties can be more efficient than markets or government alone, as when ranchers rely on social links to sort out cattle disputes”

Early chapters discuss how government and commerce often grow in reaction to one another, as when monarchs in antiquity won territory through war, creating more integrated national markets in turn. These rising commercial powers then often pushed back against the state, as happened in Britain’s Glorious Revolution of 1688, when urban merchants and rural gentry combined to depose Catholic King James II.

At its best, democracy aids competitive markets by curbing cronyism and excessive commercial interests. Community ties can also be more efficient than markets or government alone, as when ranchers rely on social links rather than legal contracts to sort out cattle disputes, or small community banks turn out to be more willing to lend to entrepreneurs than big financial institutions.

Yet communities can also “withdraw their support for markets” in the face of economic adversity or rapid technological change, as has happened with America’s recent populist backlash. Here inequality has risen, while old-style mixed communities, where rich and poor live close to one another, are in sharp decline. America’s upper middle classes monopolise access to the best schools and segregate themselves in the nicest neighbourhoods. Cities such as New York have become talent magnets, hence Amazon’s desire to open up there.

Big businesses have also prospered: Rajan points to evidence suggesting that the average listed US company is three times larger today than it was a few decades ago, even holding constant for inflation, while many industries such as banking and retail show signs of declining competition. Meanwhile professionals in areas such as medicine and the law create “islands of privilege” by manipulating government rules and occupational licences to protect themselves from the forces of automation and globalisation that have torn through the ranks of the lower-skilled.
Given the severity of the trends he describes, Rajan’s prescriptions, which he dubs “inclusive localism”, can seem modest. He rejects the idea of a universal basic income backed by leftwingers and Silicon Valley idealists, suggesting instead that local communities be given control over programmes to help those who lose jobs or need retraining.

Elsewhere he proposes tweaking rules to decentralise power and aid mixed communities — for instance by giving tax benefits to rich parents who send their kids to schools in poor neighbourhoods. Other suggestions retain a solidly market-friendly bent, from high levels of immigration to ensuring openness to global investment.

Rajan’s pro-competitive instincts and balanced, cautious localism are therefore unlikely to excite the passions of progressives such as Ocasio-Cortez. That said, he does offer some more radical ideas, especially when he discusses how to rein in the problem of what he dubs “corporate gigantism” with much more forceful antitrust policies.

Here tougher rules should limit the ability of businesses to buy out smaller rivals, especially if any deal aims mostly to stymie potential future competition — a tactic often employed by Big Tech giants such as Google. Intellectual property rules should also be made less generous, given that they tend to benefit large media and pharmaceutical companies at the cost of innovation.

Most interestingly, antitrust authorities should act to stop excessive market dominance, even if that dominance benefits consumers, as would be the case with Amazon. Rajan does not say
explicitly that US tech giants should be broken up, although that is what the logic of his argument suggests. Even so, when Amazon ditched its New York plans in the face of fierce community opposition, it is at least possible to imagine him, on balance, nodding along in agreement.


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