Our Future Lies in Our Communities

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Unemployment rates across the industrial world are at decadal lows. Yet some of the seemingly most privileged workers in developed countries are literally worried to death. Half a million more middle aged non-Hispanic white Americans died between 1999 and 2013 than if their death rates had followed the trend of other ethnic groups. The additional deaths were concentrated among those with a high school degree or less, and largely due to drugs, alcohol, and suicide. Their counterparts in France, the Gilets Jaunes, have been protesting on streets for months, while their brethren in Northern England voted for Brexit. Why are so many so unhappy in the midst of plenty?

The cause lies in technological change, the very reason why societies have prospered. By unleashing global competition and automation, it has eliminated a whole variety of jobs and rendered many others more precarious. The effects are felt not just by the affected workers but also, more devastatingly, by their entire community. Indeed, affected communities are triply damned; even as jobs vanish, social disintegration moves in, and this makes it yet harder for the communities to help workers and, especially, their children, adapt to change. As numerous islands of underdevelopment emerge in developed countries, national governments seem to be paralyzed by the magnitude of the problem – no response seems sufficient so they do little.

Indeed, because the challenges vary so much across communities, there may be no one-size-fits-all response. Instead, I will argue, we must empower communities to craft their own specific solutions. Somewhat paradoxically, myriad bottom-up local efforts will help us deal with the global forces buffeting us and help preserve an open world.

The Consequences of Technological Change

Let me be more specific about technological change. It is obvious to this audience that the reduction in costs of transportation and our ability to communicate over long distances in real time has made it possible to slice up the manufacturing production chain, with every segment done in the place where it is cheapest. Highly paid services like R&D and design move to flourishing cities like New York and London where skilled professionals congregate, while production moves to Mexico or Hungary where skilled manufacturing workers demand a fraction of the wage in industrial countries. Consumers obviously benefit from better, cheaper products, but so do skilled professionals like designers whose services are demanded worldwide. The losers? Manufacturing workers as the big factories, the main employers in small towns, shut down and jobs are outsourced.

Service workers face a different kind of threat – automation. Consider, for example, skilled tax accountants, whose specialty was to know every last detail of the tax code. They have been displaced by tax software, available for a few dollars. Two sets of workers have benefited. After a few weeks training, computer-savvy youth can use software to assist everyone else with their taxes. The elderly middle class couple that could not afford the tax accountant can now pay for the assistant from H&R Block. Technology has effectively de-skilled the accountant’s job, so that more workers can do it, and more customers can afford the service.

At the same time, the highly trained tax lawyer, whose work is to erect customized international tax shelters for her high-net-worth clients, is actually benefited by technology. Not only does the ease of
communications help her serve a global clientele, new search technologies allow her to access relevant
tax cases more easily.

So across industrial countries, middle income jobs in both manufacturing and services – jobs that
compensated people with a high school education or moderate skills well – are disappearing. We have
many new low income jobs being created – hence the low unemployment -- but also a number of very
high income jobs. To get the latter, however, the worker needs a good education or significant
upskilling, a costly requirement for a middle-aged worker.

This cost is even higher in the most adversely-hit places. One-industry small manufacturing towns and
rural areas are not only losing jobs without creating new ones, but their ability to equip workers with the
strong education or skills now needed for quality new jobs elsewhere is disintegrating.

This is because widespread local unemployment, with little hope of economic revival, frequently leads
to social breakdown – broken marriages, teenage pregnancies, and substance abuse – and consequently
a precipitous decline in the quality of local institutions such as schools. For the sake of their children, the
most able people escape the sinking community. The secession of the successful into communities of
their own leaves the rest, especially their children, further mired. Such vicious cycles – economic
hardship causing social decline causing yet further economic adversity – create additional impediments
like local crime that block members of declining communities from participating in national growth.

Finally, and most devastatingly, technological change and the accompanying globalization of markets
has disempowered communities, reducing their ability to respond. Let me explain why. I just argued that
technology had enabled corporations to expand and trade across vast geographical areas. Market
participants naturally prefer common regulations and governance wherever they deal so that their costs
are kept low. Historically, as inter-regional trade increased within a country, firms pressed for seamless
regional borders and common national regulation. National governments therefore increased their
powers and functions at the expense of regions and local communities.

In turn, as globalization accelerated in recent decades, national governments gave up some of their
powers to international agreements, bodies, and treaties. For example, the European Commission limits
the regulatory discretion of individual member states so that firms face identical “harmonized”
environments across the Union. In a similar vein, many bank regulations emanate from negotiations in
Basel, which are then adopted by national regulators. In the name of an integrated global market,
governance has also been integrated. This is not just profoundly undemocratic, it undermines any
required actions: even as left-behind communities need differentiated responses to the forces that are
pummeling them, the powers (and often the funding) they need has been taken away.

The “Solutions” on Offer

As jobs disappear and local institutions like schools decline, people in these communities lose hope for
themselves and even their children. No wonder they are worried and angry. Desperate for change, they
are drawn towards radical Populist leaders, who often offer dramatic but misguided alternatives. We
must not underestimate the economic appeal of radical change for those who have only seen economic
decline under a variety of more conventional policies. Neither should we ignore the social appeal of
alternative but imaginary communities to those whose proximate community is disintegrating.
The radical socialist promises the universal community of the proletariat, fortified by sky-high taxes on the rich. The Populist nationalist promises to identify the nation with the majority ethnic group, protecting the chosen people in his imagined national community from trade competition as well as pressure from minorities and immigrants. These movements offer social promise – a new community and a new solidarity -- along with economic hope. Yet history tells us these seductive paths will almost surely convert today’s unequal prosperity into future collective poverty, even while weakening democracy.

Concerned mainstream parties offer more moderate proposals such as tax incentives for job-creating investment in depressed communities. These suffer in comparison to the grand proposals of the radicals – they seem unlikely to move the needle for the left-behind. However, even such modest proposals can flounder on the hard-to-map shoals of local conditions. Amazon’s decision to site HQ2 in Queens, promising 25000 jobs paying an annual average salary of at least $150,000, was the ideal outcome of such tax incentives. Yet, local politicians rejected it. Too few in the community may have had the skills to get the jobs, while the influx of skilled outsiders could have raised rents and property taxes, pushing out old-time residents. Clearly, a proposal better tailored to the community’s needs could have persuaded it, but because the decision was negotiated by high-ranking company and city officials without taking the community into confidence, these alternatives were left unexplored.

**The Answers Lie in Communities Themselves**

What is to be done? The fundamental error is in the belief that the answers lie outside the community rather than within it. Paraphrasing Tolstoy, every unhappy local community is unhappy in its own way. Policies to stimulate national growth have little effect on these disconnected, depressed communities. Neither do one-size-fits-all “place-based” policies that would channel economic activity to depressed areas. Instead, we need differentiated policies that tackle the specific challenges of each community. These are more likely to be effective if developed from bottom-up than top down.

Success stories suggest that the community turnaround starts with a motivated and empowered local leadership team. It assumes responsibility, takes stock of the community’s capabilities and deficiencies, then by trial and error, expands activity. Fortunately, in a rich country it is easier to uplift a community than if the community leadership was trying to do it in a poor country – its key challenge is to restore links to the thriving national and global economies, so the community can piggy-back on broader growth. Locals can identify hidden resources as well as critical impediments, which is why their involvement is important.

In Chicago’s Pilsen neighborhood, for instance, locals understood they first had to reduce crime if Pilsen was to become attractive to businesses. Community leaders lobbied the licensing authorities to close down seedy bars where criminals congregated, encouraged locals to report criminal incidents to the police collectively (so that gangs could not target individual informants) and to come out on the streets after criminal incidents so as to “crowd out” further crime. Business and jobs are now crowding in.

There is another reason to emphasize the community as the primary locus of response. We must recognize people want more democratic control over their futures. If we are to preserve the global integration of markets, we may have to give up the hyper-integration of governance. We may have gone too far toward standardizing and harmonizing laws and regulations across countries in an effort to accommodate market integration. In this age of artificial intelligence, companies and traders can surely
handle some national regulatory differences. Could we not bring more powers back to the country level, provided global markets remain open?

Yet, the devolution of power cannot stop at the national level. We must devolve power and funding further to the local level so that communities can devise their own answers, and in doing so, re-instill a sense of engagement and identity in their members. Switzerland, a small country with extreme population diversity (its people speak three different languages and 25 percent of the population is foreign born) functions well because so many decisions are decentralized to its cantons and to its municipalities based on the principle of subsidiarity: subsidiarity requires that decisions should be delegated to the lowest level capable of taking them effectively. In this vein, why should the details of primary school curricula or the regulation of local retail working hours be decided outside the local community?

**The Role of the Government**

While communities should lead revival efforts, they need support. The government can help declining communities hold on to the talented people, from whose midst leadership could emerge. For instance, the college loans of those who return to live in these communities for a number of years could be forgiven, so that college becomes a route to upskilling locals, not a means of escape for the talented. Untied government funds can be devolved to the local community so that the community has the equity to seed necessary projects. Private capital, drawn in by government tax incentives, can augment these funds, but it is important that such flows dovetail with local plans. And, of course, the government can provide for infrastructure like broadband access or physical access like highways, tying remote communities to larger national and global markets.

Most importantly, the government can prevent rejuvenated communities from becoming segregated, tyrannical, or corrupt by ensuring that national laws against discrimination apply to all communities, and that members have both the necessary information and the democratic right to oust bad local leaders. So while I believe localization of powers is important, the national government can monitor local leadership lightly using information technology, as can community members themselves, to ensure powers are exercised in an inclusive beneficial way. Inclusive localism will create strong agile empowered communities for the world of tomorrow.

**Inclusive Localism: Back to the Future**

Indeed, by emphasizing our need for healthy communities, I am not simply romanticizing the past. In the future, when machines produce all our goods and many services, human work will center once again around inter-personal relationships. Because many such relationships are found within the community, it may be the workplace of tomorrow. Inclusive localism is down payment for tomorrow’s jobs.

Let me conclude. Amidst plenty today, we have many dissatisfied and distressed communities—indeed, developed countries have an underdevelopment problem. Given the very different impact of globalization across countries and within countries, to preserve a world open to trade and investment we must create more room for countries to choose their own way of coping. And countries themselves will have to further decentralize power so that differentially affected communities can chalk out their own paths. Globalization of markets may, paradoxically, require far more localization of governance. This, of course, means there is much for everyone to do. We need not wait for a distant and politically
fractured national government to uncover some magic new policy. Instead, we can, as Mahatma Gandhi said, be the change we wish to see.