How to beat the populists

The global malaise will linger on unless we revive community spirit, says a leading Indian thinker.

Ed Conway half agrees

"There is no such thing as society," said Margaret Thatcher in a famous 1987 interview. That quote has since come to stand for something rather profound: putting the individual before the community, the rise of markets, the increase in the gap between haves and have-nots and the slow death of the welfare state.

Combine these ingredients and you have at least part of the explanation for the malaise the world is in, according to the Indian economist Raghuram Rajan. While he wisely steers clear of that particular quote, the Iron Lady appears in his new book, *The Third Pillar*, as a kind of bogeywoman, standing for what has gone wrong over the past three decades. "She had a vision of an individualistic market economy, shepherded by a strong but limited state, with no real place for social structures, the community, that might balance the two," he writes.

Community, he says, is the third pillar in public life, sitting alongside government and markets. Your family, your friends, your neighbourhood, your religion, the local school and so on: they are the glue that keeps a society together. And, Rajan concludes, the glue is no longer sticking.

Economists tend to avoid foggy concepts such as community and society, preferring to stick with the stuff you can measure. However, Rajan, who is sometimes tipped as a future governor of the Bank of England, is no stranger to stepping beyond his brief. As India’s central bank governor from 2013-16, he controversially appealed for tolerance amid tension between Muslims and Hindus. His comments so infuriated India’s ruling Hindu nationalists that insiders believe they cost him his reappointment.

In August 2005, as Alan Greenspan, the chairman of the US Federal Reserve, was lauded at a self-congratulatory summit of central bankers, Rajan warned that the financial system was far weaker than anyone appreciated. There was opprobrium from some of those present; in hindsight he was spot-on. His book analysing the root causes behind the crisis, *Fault Lines*, is one of the finest analyses of the deep-seated problems of inequality and deprivation that we are grappling with today.

*The Third Pillar* is an important contribution to understanding why, a decade after the crisis, the world’s politics and economics remain so brittle. His overarching point: "Many of the economic and political concerns today across the world, including the rise of populist nationalism and radical movements of the left, can be traced to the diminution of the community. The state and markets have expanded their powers and reach in tandem, and left the community relatively powerless to face the full and uneven brunt of technological change."

It is a grand, sweeping argument, and much of the book is given over to the history of how we got here and a mini guide to capitalism. Rajan, a critic trying to save capitalism from itself, makes his point in accessible, clear prose. We used to rely on neighbours, or perhaps the local midwife, to deliver our children at home. Today we go into hospital. If a neighbour’s home burnt down, the community might once have clubbed together to rebuild it. Today fire insurance and building regulations...
mean you are more likely to hire a professional builder. Our homes are now less likely to fall down and child mortality is lower, but something has been lost along the way.

A similar argument is at play with the financial system. Local banks used to lend to local businesses. They knew how much to lend because they knew their customers and their families and friends. However, community-based credit checking has been replaced by algorithmic checks. Direct lending gave way to securitised lending, where your mortgage might be sliced up and sold to an investment vehicle across the world. At least part of the explanation for the sub-prime mortgage crisis that culminated in the 2008 crash was this “disintermediation”, which meant investors had little sense of the risks, or what they were putting their money into.

Despite Rajan’s sideswipes at Thatcher and Reagan, none of this, of course, was the work of a single politician. Instead it comes down to a panoply of factors, many of them bound up in the grey side of the economy: the laws, regulations and conventions. And that’s before you consider the role of culture, urbanisation or social media. The worry, Rajan says, is that politicians are busy centralising power rather than, as he suggests, spreading it out to regions and towns so that they can rebuild a sense of local responsibility and autonomy.

“In my adult life,” he writes, “I have never been more concerned about the direction our leaders are taking us than I am today.” Aside from handing back power to communities, maybe even allowing them to decide their own welfare policy, Rajan has a few other remedies. He encourages countries to increase immigration, but also to improve how they integrate immigrants. Untrammelled financial globalisation, he says, should be limited and mega-mergers should be discouraged.

All interesting suggestions, although in the face of such an enormous problem they seem rather underwhelming. Perhaps this is to be expected. Too many politicians have talked a good game on reinvigorating community spirit without making much difference. Indeed, everyone remembers that Thatcher quote, but they forget what she said a moment later: “It is our duty to look after ourselves and then also to help look after our neighbour.” Community, it turned out, was a crucial part of Thatcher’s vision. It was the antidote to those who assumed that something nebulous and impersonal called “society” would take care of them. It might horrify Rajan, but the Iron Lady would probably have agreed with most of this book.