The Third Pillar’ Review: Why Washington Is the Problem

National politics has become hogtied by culture wars. A high priest of economics has a modest proposal: Strengthen local communities.

By Edward Glaeser
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Recently 35% of Americans told Gallup pollsters that they trust the Federal government’s handling of domestic problems, while 72% said they trust their local government. Given this mismatch in public confidence, should Washington do less and local governments do more?

In his insightful and impressive book “The Third Pillar,” the University of Chicago economist Raghuram Rajan calls for “bringing back the largely self-governing community as the locus of self-determination, identity and cohesiveness.” Mr. Rajan, a former Governor of the Reserve Bank of India, is a high priest of financial economics and central banking. His decision to champion county craft fairs and garbage collection is all the more compelling because it is unexpected.
Mr. Rajan sees three pillars of society: the nation-state, the market and the community. He begins by noting that local communities today are quite weak by historical standards. In the medieval past, he observes, market transactions were restricted by religion, poverty and high transportation costs: “With little to buy, market transactions and the use of money diminished, and feudal relationships proliferated.” Local magnates were the most relevant political powers, who were “self-sufficient” as long as they had “fortified walls and a retinue of armed men.”

Military and transportation technology destroyed that world. Cannons could “demolish even the strongest fortification” but were as expensive as they were effective. Consequently, Mr. Rajan explains, “any political entity required a larger catchment area” to cover costs: A larger, stronger state brought with it better roads, bigger cities, more trade and “an expansion in the size of its domestic market.”

Both nation-states and markets enable long-distance collaboration. Markets facilitate beneficial exchange. Nation-states like Bismarck’s Germany emerged out of conquest but found new roles beyond the occasional invasion of France, such as caring for the elderly. A century ago progressive reformers viewed state power as a cure for monopolies and other perceived market failures. But as nations and markets grew strong, Mr. Rajan writes, communities became weak. The English welfare state supplanted an older parish-based system. In the U.S., New Deal largess dwarfed local forms of economic relief, and “government bureaucracy followed through the door opened by assistance to the community.”

The triumph of state and market over local communities initially seemed benign. Federal power crushed the loathsome local autonomy of the Jim Crow South. And as “the United States set in motion the forces that would encourage the formation of liberal market democracies around the world,” Mr. Rajan writes, an economic miracle occurred and “the
developed world reached levels of prosperity that could not have been imagined in the
dark days of the Great Depression.” But then, Mr. Rajan contends, stagnating incomes
and widening inequality “strained community cohesion.” In the years before 2006, policy
makers around the world “took a huge gamble—betting that borrowing liberalized in
financial markets could be the engine of broad-based sustainable growth,” creating the
debt-driven calamities of the 2007-09 recession.

As Rust Belt communities failed under the pressure of deindustrialization and
globalization, the author writes, “despair and social disintegration have moved in.” Left-
and right-wing populists rose amid the financial carnage. Mr. Rajan believes the populists
“are right in their diagnosis,” but that they cannot produce wise policies “because every
policy answer has to resonate with their followers.” National politics limits local
creativity and becomes hogtied by culture wars.

Mr. Rajan seeks that elusive policy unicorn: a moderate policy program that can stir
hearts. His alternative to the new populisms is an “inclusive localism.” In putting forth
his proposals, Mr. Rajan is more concrete than many writers, from Charles Murray to
Yuval Levin, who also extol strong communities, because he focuses on empowering
local governments. He leans against top-down attempts to control schools with tools like
the Common Core curriculum, favoring only “broad minimum objectives of education,”
while “leaving the specifics of how those objectives will be achieved to the schools
themselves.” Mr. Rajan favors a basic nationwide safety net, because “no rich country
should create uncertainty among its people about whether they will have enough to live,”
but he believes more aid “could be delivered through the community to those who have
resided in the community for a while.” He argues that “most communities know what is
needed, and apart from ensuring funds are spent transparently and effectively, the federal
government should give them the freedom to choose.”

Mr. Rajan believes populist nationalism is on the rise around the world “because
alternative sources of social solidarity, such as the neighborhood or community, seem to
be tenuous.” He thinks confident, cohesive communities will be more open to embracing
diversity and “a program of allowing immigrants in steadily and selectivity.” While I see
the benefits of immigration, I’m not so sure. History doesn’t suggest that decentralization
dilutes anti-immigrant fervor: In the 1920s, America’s restrictionist policies were fervently supported by many well-functioning Midwestern communities.

Critics may argue that, if local governments are entrusted with social welfare, many will cut services to induce the poor to exit, while others will try soaking the rich with taxes and end up with only isolated poor. Many localities seem to specialize mainly in overregulating the housing market, driving prices up and the poor out. Local governments function well partially because they concentrate on clear deliverables, like safety and clean streets. Expanding their range of responsibilities endangers that clarity of mission. But since local governments are functioning much better than Washington, Mr. Rajan may be right that Washington should shrink back and let them do more. Certainly, we should try the experiment. And as local governments get to work, they could certainly use the help of more thinkers of Mr. Rajan’s caliber.

Mr. Glaeser is a professor of economics at Harvard, a senior fellow at the Manhattan Institute and the author of “Triumph of the City.”