

When Pillars Crumble: A Warning for Healthcare?

Review of *The Third Pillar*
2019 release by Raghuram Rajan

By David W. Johnson

Raghuram Rajan's new book *The Third Pillar* provides an insightful framework for understanding the interconnected relationships between the three pillars of modern society: governments, the markets and local communities. An atrophied community pillar limits society's ability to repair deeply rooted structural problems in education, healthcare, employment and housing. —David W. Johnson

In a widely viewed [Ted Talk](#) in 2011, primatologist and ethicist Frans de Waal discussed moral behavior in animals. Near the end of his presentation, de Waal showed a video of two capuchin monkeys in adjoining cages peaceably exchanging rocks for cucumbers with a researcher.

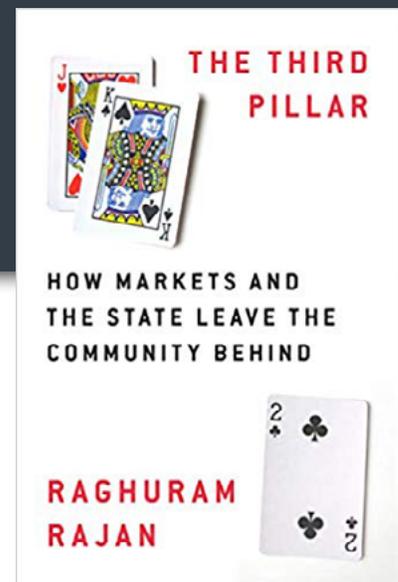
Everything changed when the researcher started giving one monkey grapes in exchange for the rocks. Grapes are a more desirable food for capuchin monkeys. With its primate sense of fairness violated, the other monkey went berserk – rattling the cage, pounding the floor and throwing cucumber slices back at the researcher.

Interestingly, the stress levels for both privileged and deprived monkeys skyrocketed as the experiment unfolded. The angry, concerned, stressed and jealous capuchin monkeys are an apt metaphor for societies navigating within today's digitized, post-financial-crisis world. In societies with widening income inequality and clear winners/losers, individuals and communities without adequate support are grappling to remain relevant and productive.

It is on this unbalanced world that noted political economist Raghuram Rajan aims his powerful analytic lens. Rajan, a professor at the University of Chicago Booth School of Business, is the former Chief Economist at the International Monetary Fund and Governor of India's central bank. He is deeply disturbed by the populist movements from the right and left that are polarizing societies throughout the developed and developing worlds.

Nativist policies on the right and socialist policies on the left hurl blame without offering real solutions. They feed the politics of resentment and undermine liberal democratic market systems. At this perilous time, Rajan worries that "wrong choices could derail human progress." He's "never been more concerned about the direction our leaders are taking us."

Professor Rajan has just published *The Third Pillar: How Markets and the State Leave the Community Behind*. In its first section, Rajan takes readers on a magisterial march through history to explain how the three pillars of modern



The Third Pillar: How Markets and the State Leave the Community Behind

society (federal governments/the state, the marketplace and local communities) emerged, evolved and modulate to shape human affairs for good and bad.

History's overriding lesson is that societies function best when these three pillars counterbalance one another. Political and economic scholars have examined in detail the relationships between the first two pillars, the state and the market place. Unrestrained states gravitate toward fascism and communism. Unrestrained markets gravitate toward profiteering and crony capitalism.

The importance and function of the third pillar, community, are less understood. High-performing communities respond to local needs and cultures. They guide governments and corporations in making decisions that elevate societal well-being. Without strong communities, national governments and corporations usurp too much power and pursue initiatives that weaken societies, decrease human potential and increase human suffering.

Wars and technology disrupt societies and often topple the established order. Such was the case in the immediate aftermath of World War II. Fortunately, the pax Americana created global institutions that promoted growth, enabled level-field competition, stabilized markets and enriched communities. Balanced and farsighted policies generated three decades of unprecedented wealth creation, development and social investment.

The unravelling of this pax Americana is the focus The *Third Pillar's* next section, "Imbalance." The combination of unsustainable social commitments, changing global dynamics, corporate consolidation and digital technologies have created enormous fault lines throughout global societies. From their crevices, radical forms of populism have emerged that demonize immigration and fuel distrust in government even as many on the left seek salvation in expansive state solutions.

With expanded powers, "leviathan" governments and "behemoth" corporations have overwhelmed many communities and left them ill-equipped to provide comfort, identity and hope to their citizens. In Rajan's opinion, bringing dysfunctional communities back to health is this generation's principal policy challenge. That is the focus of the book's final section "Restoring the Balance."

Healthy societies require "civic nationalism" and "inclusive localism" to revitalize communities, decentralize power,

increase diversity, and facilitate individual expression. Reflecting his deep knowledge of economics, central banking and regulation, Rajan promotes pragmatic solutions that nudge governments, markets and communities toward fair play, inclusion and value creation. He illustrates his policy solutions with concrete examples of rising communities that magnify local strengths while retaining their unique cultures.

In advancing strategies for rebuilding the communities, Rajan is both realistic and optimistic. It takes time and good will to equalize the three pillars. It is always better to build up a diminished pillar than pull down (unless absolutely necessary) an overbuilt one. Choosing wisely and striving for balance are essential to long-term success.

WWII and its aftermath were a period of unprecedented turmoil and successful societal repositioning. How did that happen? During his January 1961 Farewell Address, President Dwight D. Eisenhower provided the answer. During turbulent times, societies must achieve balance in the following ways:

- in and among national programs;
- between the private and public economies;
- between costs and hoped-for advantages;
- between the clearly necessary and the comfortably desirable;
- between our essential requirements as a nation and the duties imposed by the nation upon individuals;
- between action of the moment and the national welfare of the future.

Eisenhower further observed "Good judgment seeks balance and progress; lack of it eventually finds imbalance and frustration." This could have been Rajan speaking. Professor Rajan's wisdom is timeless even as his advice responds to the specific and dangerous challenges confronting modern societies. He ends *The Third Pillar* with this final admonition,

We may be down today, and we have a long way to go, but the distance we have come should give us hope. Let us not let the future surprise us. Instead, let us shape it. There is much to do. We have to, we must, choose wisely if we want to live together well and in peace. I am confident we can.

Let us hope that we have the wisdom to follow Rajan's playbook for revitalizing embattled communities and restoring balance among society's three pillars. Our world's future depends upon it.

ABOUT THE AUTHOR



Raghuram Rajan is the Katherine Dusak Miller Distinguished Service Professor of Finance at the University of Chicago. He was the Governor of the Reserve Bank of India between 2013 and 2016, and also served as Vice-Chairman of the Board of the Bank for International Settlements between 2015 and 2016. Dr. Rajan was the Chief Economist and Director of Research at the International Monetary Fund from 2003 to 2006.

Dr. Rajan's research interests are in banking, corporate finance, and economic development, especially the role finance plays in it. He co-authored *Saving Capitalism from the Capitalists* with Luigi Zingales in 2003. He also wrote *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, for which he was awarded the Financial Times prize for best business book in 2010.



David Johnson is the CEO of 4sight Health. Dave wakes up every morning trying to fix America's broken healthcare system. He is a frequent writer and speaker on market-driven healthcare transformation. His expertise encompasses health policy, academic medicine, economics, statistics, behavioral finance, disruptive innovation, organizational change and complexity theory. Dave's 2016 book *Market vs. Medicine* is available for purchase here. McGraw Hill will publish his next book *The Customer Revolution in Healthcare: Delivering Kinder, Smarter, Affordable Care for All* in September of 2019. [Sign up to receive Market Corner Commentaries here.](#)

Outcomes Matter. Customers Count. Value Rules.