
A MODERN GAME OF THRONES: THE THREE PILLARS

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Dr. Raghuram Rajan joined us on the “Behind the Markets” podcast last week to discuss his new book, *The Third Pillar: How Markets and the State Leave the Community Behind*.

Some of the most powerful statistics from the book:

- In 15th century Europe, there were close to 500 “political entities.” By 1900, these were down to 25.
- “England’s government finances benefited, stabilized in its early years by the South Sea Bubble.”
- “The United States Constitution, when adopted by Liberia, turned out to be just a piece of paper, with none of the effective checks and balances that fill the Federalist papers and characterize how the United States works.”
- According to the World Values Survey, in the U.S., only 57% of low-income respondents trusted people from their neighborhood, while 85% of upper-middle-class respondents did. “One of the reasons populist nationalism appears to be spreading today is because alternative sources of social solidarity, such as the neighborhood or community, seem to be tenuous.”

Rajan discussed how the rise of the state replaced federal lords and how the strong forces of community have been weakened by the rise of the global market and three technological revolutions. Although Rajan relies on economic history that is Europe-centric or even U.K.-centric, the evidence is also overwhelmingly global.

Rajan explained why he believes the ICT (Information, Communication and Technology) Revolution fostered economic inequality, but because the winners and losers are very distinct groups, it is rather easy to blame immigrants or distant nations that “stole” jobs.

Devastating job loss due to trade competition mainly has occurred in rural areas, while a mild job loss due to automation is more likely to happen near urban areas. Automation has had very close to zero impact on unemployment as increased productivity created other service jobs.

Cities and suburbs fared better than smaller towns in this long economic cycle. Rajan believes many social ills are caused by the weakened state of the community, with political and economic governance powers moving away from the town, the city and the state and toward national or super-national structures, such as the European Union.

Families feel a loss of control over their economic and political life. Giving economic and political decision-making powers back to the community is the only answer Rajan sees to restore the balance.

Rajan discussed how people like to live close to those who are culturally or economically close to them. Restoration of the community would necessarily bring on more segregated communities, but perhaps that is a preferred trade-off for people who have no community identity and only nationalism as their chief ideology. The book raises many interesting questions in this line of natural community organization and what kind of incentives can be used to encourage more mixed communities.

There are a few areas within the book we think are worthy of further discussion.

- China has seen a strong state since 221 BC, while the market has not risen as much as in Europe. The Chinese middle class has failed to constrain the state, as the landed gentry did to the British crown.
- How much of the neighborhood sorting and lower community engagement happened as an increasing number of women entered the labor force and had less time to contribute to the community?
- If maximizing shareholder value is not ideal for restoring the balance of state, market and community, what can be done without potentially harming all three?

For the Game of Thrones fans, Rajan's book even sheds light on a realistic economic ending for the popular show! If economic history is any guide, the Iron Throne would become even more powerful, until all seven lords answer to one crown again, with a stronger Iron Throne and weaker lords. The characters will be seeking more economic glory than simply the titles of the lordship. And aches of love will continue while the modern Game of Thrones will be fought among the state, the market and the community.

In our podcast, Rajan also mentioned real [interest rates](#), [monetary policy](#), growth prospects for China and India, and the broader thesis of this very interesting book. To listen to our full conversation with Rajan, please go [here](#).

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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Interest rates: The rate at which interest is paid by a borrower for the use of money.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.