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On the last day of the Trento Economics Festival, Raghuram Rajan sat down with Tito Boeri in an afternoon session on “The State, Market and Local Communities.”

Raghuram Rajan: “Problems in local communities must be solved internally”

During Raghuram Rajan’s conversation with Tito Boeri on “The State, Market and Local Communities,” they discussed the importance of restoring the balance between the three pillars: the state, the market and the communities. They addressed topics such as migration and social welfare programs that have played a large part in the community pillar over the years. Ultimately, Rajan gave proposals on where we go from here.

Rajan began his conversation with Tito Boeri titled, “The State, Market and Local Communities” by saying that even in developed countries, there are large pockets of underdevelopment. As communities lose jobs, their social structure begins to break down. Rajan added, as the community starts breaking down, their institutions begin to break down as well such as schools. He stressed the idea that stimulus policies are not the answer because it is not about a stimulus, it is about growth. He made the distinction that development is a very different problem. Development from the center is very hard because each community has its own, unique set of problems. This means that main cities such as Rome and Washington D.C. cannot just implement policies towards struggling cities because the third pillar, community is necessary to invoke change.

Rajan provided the example of a town in Chicago where their main issue was crime. They needed to address the crime issue before any kind of monetary or fiscal policy could be effective. Therefore, the community decided to close the bars in the city because that is where the criminals congregated. He added that, giving money to a community is not going to make people want to open businesses there if it is still a crime problem so, the community had to work internally to solve the issue.

Rajan said that even the poorest communities successfully solve their issues provided that they find the will. He then answered the questions, “How do you find the will? How do you find the leadership and how do you find community engagement?” He emphasized that although it is only effective when the community has the will to solve their own problems, this does not mean that they cannot seek help from external actors. For instance, the outside can help by building infrastructure and providing funding, but the will still must come from within.

One proposal made by Rajan on how to incentivize the best people in the community to stay is by thinking of clever ways so that communities that are struggling can maintain their best and brightest. He proposed paying people in different ways to stay in their community. He said that college is expensive and a lot of times people from struggling communities leave when they go to college, therefore if a prospective college student is offered to have their debts paid after graduation, there could be a condition that they have to remain within their community after graduation for a certain amount of years.

Next, Boeri switched the topic to migration and asked Rajan to comment on migration as an economic problem. Rajan replied by saying that migration can be seen as a solution or a problem. For instance, industrial countries are aging so they need to accept migration to keep the population young and the labor force stable.

Rajan ended on the note of communities being a source of continuity. By having diverse communities, one can have the cultural continuity they want. We have to continue the culture of the old native population, as well as accept new cultures that come in. If we do not, imposing one culture on everyone will prove to be difficult because there will always be some people who do not want to accept the culture which could lead to cultural apartheid. However, mixing immediately in big waves could have a large and negative reaction. Rajan finished by saying, “in the long run the future of the world needs much more integration in terms of trade capital flows and people.”

[Watch the video with Raghuram E. Rajan here](#)

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