

Participation Politics & the Burden of Power

Protest Movements Fail if they Do not Reform
the Structure of Power

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The *indignados*, the popular protest movement in Spain which inspired the Occupy movement, now has five representatives in the European Union's Parliament. They will fail to achieve their objectives. Why? Because they only know what they are *against*, without understand how to achieve what they are *for*. Reformers need to modify the structure of power if they want a permanent improvement to people's lives.

A. On Appearances and Reality

The financial crisis of 2008 led governments to crush the spirit of working people with a political programme known as **austerity**. Politicians believed that, by reducing public spending and cutting wages, time could be bought to bail out bankrupt banks. In 2011, suffering record levels of unemployment, many Spanish citizens took to the streets. They were called the *indignados*. They inspired the Occupy Wall Street camp, and similar congregations of citizens throughout the western world.

In May 2014, the *indignados* contested the European Union elections. They received 1.2m votes, which gave them five representatives in the EU Parliament. The party is called Podemos (We Can). But on the basis of its analysis of the root cause of Spain's problems, **Podemos cannot deliver on its promises**. Spain's activists know *what* they are against: they do not know *why* their economy is structurally programmed to deliver sub-optimum outcomes. So they do not know *how* to alter the dynamics of exploitation that produce poverty and unemployment as a by-product of the system's pathological mechanism for allocating income.

B. On Participation Politics

Podemos will convene a conference in the autumn of 2014 to formalise arrangements for a participative democracy. They have moved from the streets to the corridors of power, and they need to translate popular protest into a practical system for working in the corridors of power (Kassam 2014). The party's "leader", Pablo Iglesias, has listed their agenda (see Box 1).

Pablo Iglesias is anxious to provide the means for the people to enshrine participation in the political process in a way that empowers them to change the

system. He says: "If people don't do politics, others will do it for you. And when others do it for you, they can steal your rights, your democracy and your wallet". True. But we also know, from the history of protest movements, that popular uprisings almost always fail to deliver **qualitative improvements** to people's lives. Why? Because while the activists knew what they were *against* – such as "privatisation" – they did not know how to translate their frustration into reforms that could deliver permanent improvements to the way that the economy operated.

Box 1 The List of Demands

Podemos went into the euro elections of May 2014 with the promise to raise the minimum wage in Spain, establish a guaranteed minimum income, abolish tax havens and EU border controls, nationalise the utilities and banks that were rescued with public funds, and lower the retirement age to 60. Most of these achievable demands (like minimum income levels) were features of many of Europe's Welfare States, like the UK. But such policies did not (i) prevent the land-led property boom/bust that triggered the 2008 financial crisis, or (ii) moderate the pain of unemployment that the people of these countries were to subsequently endure.

Podemos may find a practical solution to the institutional challenge that it faces (see Box 2). But, as things now stand, it is not about to challenge the structure of power that dictates economic outcomes in the long run. Why? Because its Members of the European Parliament do not have a forensic understanding of the source of economic power.

C. On Privatisation

When the Soviet Union was dismantled, western financial institutions like the IMF persuaded the politicians that they had to privatise state-owned assets. This was successfully accomplished, leaving millions of people unemployed and a few people mega-rich: the oligarch class was born. This provoked a reaction against privatisation.

But being *against* privatisation is not sufficient. What would be put in its place? Its opposite – the **renationalisation of enterprises** – is not a logical approach to the reconstruction of an economy. Why? Because the original nationalisation programme in the socialist countries was a simple-minded reaction against the failings of the capitalist economy. A more sophisticated analysis is needed, if the world is to avoid another round of ding-dong battles based on brute force. That analysis needs to apply the norms of justice to identify (a) what is *mine*; (b) what is *yours*; and (c) what is *ours*.

D. On Property Rights

Ownership rights to property are complex. Disentangling the layers of rights, to secure *optimum* outcomes (those that are in the interests of everyone), ought to be the first priority of a popular protest movement.

❖ Labour power can be both private *and* social:

- private power is that which people invest to secure the needs of their families;
- social power is that which people invest to secure the needs of their collective selves. We are social creatures who need to share certain services in common. We all help to produce these services by working together in the interests of our share welfare.

Box 2

From Street to Corridor of Power

Podemos is searching for a formula that combines a grassroots movement (made up of a loose network of hundreds of working groups) with a political party that can function effectively (to direct elected representatives in a way that can fulfil manifesto promises). The problem is one of **accountability**: how people in general can control those whom they elect to make sure that they act in the best interests of everyone. This is an issue that has defeated western democracies ever since America secured independence from Great Britain.

❖ Capital can be both private and social:

- private capital is the equipment we manufacture to increase the productivity of our labour: a screw driver, a factory lathe, a farm plough;
- social capital is that which we manufacture to secure our social welfare: highways, bridges, buildings that house institutions like parliaments.

But how, in practical terms, can we differentiate these two levels of property rights? The answer is to be found in the marketplace.

E. The Function of the Market

The market is popularly viewed as an institution that *opposes* the best interests of the individual. This was how Marx characterised the market in the 19th century, a term that was used synonymously with “capitalists” – the bad guys.

There was hostility between workers and employers. And the contest was fought out “in the marketplace”. But the market is no more than an *economic process* defined by the way people relate to each other. And the outcomes are determined by the **rules that regulate the interaction between people**. Those rules can be changed.

- ❖ Perverse rules distort economic relationships: they are biased in favour of those who can deploy the most destructive force.
- ❖ Benign rules liberate people’s creative energies: they secure *optimum, justice-based outcomes*.

The pricing mechanism is the practical device for determining results in the marketplace. **Prices are the process for discovering information**. They tell us about the terms for using inputs into production; the preferences of those engaged in production and consumption, and so on. If the pricing mechanism is correctly calibrated to the norms of justice, people are free to fulfil their aspirations. But if prices are distorted, the market will appear to be a hostile phenomenon that undermines people’s aspirations and willingness to work and to invest.

In practical terms, then, how can we use the market to identify the correct allocation of rights to property?

F. Rewards for Work

The analytical starting point is the definition of the forces that lead to the creation of value. There are three factors of production, each with its distinctive market for determining the level and allocation of remuneration:

- ❖ *labour markets*: wages are negotiated so that people receive their reward for adding to the value of a nation's income;
- ❖ *capital markets*: profits secure the flow of resources needed to enhance the productivity of labour; and
- ❖ *land markets*: these measure a nation's net income (the surplus after paying for the use of labour and capital). The value that accumulates through the land market is technically called *economic rent*. Economic rent is a composite value. It consists of the value attributed to the services provided both by nature, and by the services provided by society.

Through the interaction of people in the marketplace, a nation's income is allocated between the three factors of production (land, labour and capital) in ways that achieve optimum outcomes *if the rules conform to the norms of justice* (see Box 3).

G. Social Income

By breaking down the sources of value creation, we see how people work to achieve both their private and social interests. Through the market, they

- identify that part of a nation's income that may be allocated as wages and used for immediate consumption;
- that part of income that needs to be set aside and invested in the formation of capital; and
- the revenue which needs to be reserved to fund the services that are shared in common.

Economic rent is the portion of a nation's income that is allocated to fund public services. Economists can demonstrate, theoretically, that treating rent as social income does not damage the economy. In this sense, it is "neutral" in its effects on people's willingness to work, to save and invest. This contrasts with taxes on wages and profits, which distort the economy. Such taxes result in "deadweight losses", because they encourage the sub-optimum use of labour and capital.

And so we now see how the "free" market – when its processes are consistent with the norms of justice – can deliver optimum outcomes. These are perceived as both fair and efficient to every participant engaged in the business of creating private wealth and social welfare.

Box 3

On Justice in the Workplace

Justice is fulfilled if people are free to keep what they produce by their labour, and if they pay for all the benefits which they receive. If value is not distributed on that basis, distortions arise that create sub-optimum outcomes. Thus, if a few people decide they want to live off the labour of others, injustices arise that distort both private welfare and the economic process. This is not the fault of "the market". It is the fault of people who create (or who permit, by default) this situation to arise in the first place. Slavery is one such injustice. The current injustice takes the form of the privatisation of rent.

H. Rent-yielding Assets

We can now specify with precision the terms of a correct post-socialist privatisation programme.

A person who is free owns his labour, and therefore his wages. To argue otherwise is to advocate slavery.

Capital is created by labour – and that includes the aggregate labour of people working in common. So capital (the manufactured tools that help people to raise their productivity) may be privately owned either by individuals alone or individuals who arrange themselves in co-operatives.

“Land” is unique. Labour does not create the services of nature; and the services of society are created by people who work in cooperation.

- ❖ Urban locations identify the natural and social services that may be accessed at points where people wish to live and to work. The rent payable for the exclusive use of a particular location represents the sum of the value of the services that a user wishes to enjoy, and for which he is willing to pay rent.
- ❖ Natural resources – whether they are depletable (petroleum) or are infinite (the power of the sun) – are also valued through the “land” market. These rent-yielding resources cannot be privately owned by any one individual. Their value belongs in the public domain, and must be collected as social revenue.

I. The Reform Agenda

Current defects in the market are rooted in the maldistribution of income. These defects can be corrected by securing people’s natural rights to life, to liberty and to the correct balance of rights in relation to both public and private property. If we wish to enshrine property rights within the norms of justice, land and its flow of rents must remain in the public domain. If a nation’s public finances are calibrated according to these principles, optimum outcomes are achieved: full employment, wages that rise in line with productivity, decent housing, and social welfare provisions that meet people’s needs.

Conclusion: for reform movements such as Podemos, and the Plenums of Bosnia, if the objective is social justice, the priority political task is to restructure the public’s pricing mechanism (taxation), to secure justice in the distribution of income. This is the practical way to both reform the structure power and allocate property on the principle that we keep what we create, and we pay for what we receive.

References

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