

New Patterns of Ownership by E.F. Schumacher

J.K. Galbraith has spoken of private affluence and public squalor. It is significant that he referred to the United States, reputedly, and in accordance with conventional measurements, the richest country in the world. How could there be public squalor in the richest country, and, in fact, much more of it than in many other countries whose Gross National Product, adjusted for size of population, is markedly smaller? If economic growth to the present American level has been unable to get rid of public squalor - or, maybe, has even been accompanied by its increase - how could one reasonably expect that further 'growth' would mitigate or remove it? How is it to be explained that, by and large, the countries with the highest growth rates tend to be the most polluted and also to be afflicted by public squalor to an altogether astonishing degree? If the Gross National Product of the United Kingdom grew by, say, five per cent - or about £2,000 million a year - could we then use all or most of this money, this additional wealth, to 'fulfil our nation's aspirations'?

Assuredly not; for under private ownership every bit of wealth, as it arises, is immediately and automatically *privately* appropriated. The public authorities have hardly any income of their own and are reduced to extracting from the pockets of their citizens monies which the citizens consider to be rightfully their own. Not surprisingly, this leads to an endless battle of wits between tax collectors and citizens, in which the rich, with the help of highly paid tax experts, normally do very much better than the poor. In an effort to stop 'loopholes' the tax laws become ever more complicated and the demand for - and therefore the income of - tax consultants becomes even larger. As the taxpayers feel that something they have earned is being taken away from them, they not only try to exploit every possibility of legal tax avoidance, not to mention practices of illegal tax evasion, they also raise an insistent cry in favour of the curtailment of public expenditure. 'More taxation for more public expenditure' would not be a vote-catching slogan in an election campaign, no matter how glaring may be the discrepancy between private affluence and public squalor.

There is no way out of this dilemma unless the need for public expenditure is recognised in the structure of ownership of the means of production.

It is not merely a question of public squalor, such as the squalor of many mental homes, of prisons, and of countless other publicly maintained services and institutions; this is the negative side of the problem. The positive side arises where large amounts of public funds have been and are being spent on what is generally called the 'infrastructure', and the benefits go largely to private enterprise free of charge. This is well known to anyone who has ever been involved in starting or running an enterprise in a poor society where the 'infrastructure' is insufficiently developed or altogether lacking. He cannot rely on cheap transport and other public services; he may have to provide at his own expense many things which he would obtain free or at small expense in a society with a highly developed infrastructure; he cannot count on being able to recruit trained people: he has to train them himself; and so on. All the educational, medical, and research institutions in any society, whether rich or poor, bestow incalculable benefits upon private enterprise - benefits for which private enterprise does not pay *directly* as a matter of course, but only indirectly by way of taxes, which, as already mentioned, are resisted, resented, campaigned against, and often skilfully avoided. It is highly illogical and leads to endless complications and mystifications, that payment for benefits obtained by private enterprise from the 'infrastructure' cannot be exacted by the public authorities by a direct participation in profits but only *after* the private appropriation of profits has taken place. Private enterprise claims that its profits are being earned by its own efforts, and that a substantial part of them is then taxed away by public authorities. This is not a correct reflection of the truth - generally speaking. The truth is that a large part of the costs of private enterprise has been borne by the public authorities - because *they* pay for the infrastructure - and that the profits of private enterprise therefore greatly overstate its achievement.

There is no practical way of reflecting the true situation, unless the contribution of public expenditure to the profits of private enterprise is recognised in the structure of ownership of the means of production.

I shall therefore now present two examples of how the structure of ownership can - or could - be changed so as to meet the two fundamental criticisms made above. The [first example](#) is of a medium-sized firm which is actually operating on a reformed basis of ownership. The [second example](#) is a speculative plan of how the structure of ownership of large-scale firms could be formed.