

## Ownership by E. F. Schumacher

To follow is the full unaltered text of the fourth of five essays on 'Organisation and Ownership' in the final part of E. F. Schumacher's 'Small is Beautiful: a study of economics as if people mattered' first published in 1973 by Blond & Briggs (ISBN 0 349 13132 5).

'It is obvious, indeed, that no change of system or machinery can avert those causes of social *malaise* which consist in the egotism, greed, or quarrelsomeness of human nature. What it can do is to create an environment in which those are not the qualities which are encouraged. It cannot secure that men live up to their principles. What it can do is to establish their social order upon principles to which, if they please, they can live up and not live down. It cannot control their actions. It can offer them an end on which to fix their minds. And, as their minds are, so in the long run and with exceptions, their practical activity will be.'

These words of R.H.Tawney<sup>1</sup> were written many decades ago. They have lost nothing of their topicality, except that today we are concerned not only with social *malaise* but also, most urgently, with a *malaise* of the ecosystem or biosphere which threatens the very survival of the human race. Every problem touched upon in the preceding chapters leads to the question of 'system or machinery', although, as I have argued all along, no system or machinery or economic doctrine or theory stands on its own feet: it is invariably built on a metaphysical foundation, that is to say, upon man's basic outlook on life, its meaning and its purpose. I have talked about the religion of economics, the idol worship of material possessions, of consumption and the so-called standard of living, and the fateful propensity that rejoices in the fact that 'what were luxuries to our fathers have become necessities for us'.

Systems are never more nor less than incarnations of man's most basic attitudes. Some incarnations, indeed, are more perfect than others. General evidence of material progress would suggest that the *modern* private enterprise system is - or has been - the most perfect instrument for the pursuit of personal enrichment. The *modern* private enterprise system ingeniously employs the human urges of greed and envy as its motive power, but manages to overcome the most blatant deficiencies of *laissez-faire* by means of Keynesian economic management, a bit of redistributive taxation, and the 'countervailing power' of the trade unions.

Can such a system conceivably deal with the problems we are now having to face? The answer is self-evident: greed and envy demand continuous and limitless economic growth of a material demand, without proper regard for conservation, and this type of growth cannot possibly fit into a finite environment. We must therefore study the possibilities of evolving an alternative system which might fit the new situation.

The essence of private enterprise is the private ownership of the means of production, distribution and exchange. Not surprisingly, therefore, the critics of private enterprise have advocated and in many cases successfully enforced the conversion of private ownership into so-called public or collective ownership. Let us look, first of all, at the meaning of 'ownership' or 'property'.

As regards private property, the first and most basic distinction is between ( a ) property that is an aid to creative work and ( b ) property that is an alternative to it. There is something natural and healthy about the former - the private property of the working proprietor; and there is something unnatural and unhealthy about the latter - the private property of the passive owner who lives parasitically on the work of others. This basic distinction was clearly seen by Tawney who followed that 'it is idle, therefore, to present a case for or against private property without specifying the particular forms of property to which reference is made'.

'For it is not private ownership, but private ownership divorced from work, which is corrupting to the principle of industry; and the idea of some socialists that private property in land or capital is necessarily mischievous is a piece of scholastic pedantry as absurd as that of those conservatives who would invest all property with some kind of mysterious sanctity.'

Private enterprise carried on with property of the first category is automatically small-scale, personal, and local. It carries no wider social responsibilities. Its responsibilities to the consumer can be safeguarded by the consumer himself. Social legislation and trade union vigilance can protect the employee. No great private fortunes can be gained from small-scale enterprises, yet its social utility is enormous.

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<sup>1</sup> E.F.Schumacher's quotations in this essay on *Ownership* are taken from *The Acquisitive Society* by R.H.Tawney. Richard Henry Tawney (1880-1962) was born in Calcutta and educated at Rugby and Oxford. He was a British sergeant during World War I and in 1931 became *Professor of Economic History* at the *London School of Economics*. Tawney had a strong influence on the policies of the Attlee Government (1947-1951). He was married to William Beveridge's sister, Jeanette. His principal works were: *The Acquisitive Society* (1920); *Secondary Education for All* (1922); *Education: the Socialist Policy* (1924); *Religion and the Rise of Capitalism* (1926); and *Land and Labour in China* (1932). Tawney's [Historical Introduction](#) to Thomas Wilson's *Discourse Upon Usury* is available at [www.cesc.net](http://www.cesc.net). [Editor].

It is immediately apparent that in this matter of private ownership the question of scale is decisive. When we move from small scale to medium scale, the connection between ownership and work already becomes attenuated; private enterprise tends to become impersonal and also a significant social factor in the locality; it may even assume more than local significance. The very idea of *private property* becomes increasingly misleading.

1. The owner, employing salaried managers, does not need to be a proprietor to be able to do his work. His ownership, therefore, ceases to be functionally necessary. It becomes exploitative if he appropriates profit in excess of a fair salary to himself and a return on his capital on higher than current rates for capital borrowed from outside sources.
2. High profits are either fortuitous or they are the achievement not of the owner but of the whole organisation. It is therefore unjust and socially disruptive if they are appropriated by the owner alone. They should be shared with members of the organisation. If they are 'ploughed back' they should be 'free capital' collectively owned, instead of accruing automatically to the wealth of the original owner.
3. Medium size, leading to impersonal relationships, poses new questions as to the exercise of control. Even autocratic control is no serious problem in small-scale enterprise which, led by a working proprietor, has almost a family character. It is incompatible with human dignity and genuine efficiency when the enterprise exceeds a certain - very modest - size. There is need, then, for the conscious and systematic development of communications and consultation to allow all members of the organisation some degree of genuine participation in management.
4. The social significance and weight of the firm in its locality and its wider ramifications call for some degree of 'socialisation of ownership' beyond the members of the firm itself. This 'socialisation' may be effected by regularly devoting a part of the firm's profits to public or charitable purposes and bringing in trustees from outside.

There are private enterprise firms in the United Kingdom and other capitalist countries which have carried these ideas into successful practice and have thereby overcome the objectionable and socially disruptive features which are inherent in the private ownership of the means of production when extended beyond small-scale. Scott Bader & Co Ltd at Wollaston in Northamptonshire is one of them. A more detailed description of their experiences and experimentation will be given in a [later chapter](#).

When we come to large-scale enterprises, the idea of private ownership becomes an absurdity. The property is not and cannot be private in any real sense. Again R.H. Tawney saw this with complete clarity:

'Such property may be called passive property, or property for acquisition, for exploitation, or for power, to distinguish it from the property which is actively used by its owner for the conduct of his profession or the upkeep of his household. To the lawyer the first is, of course, as fully property as the second. It is questionable, however, whether economists should call it 'property' at all...since it is not identical with the rights which secure the owner the produce of his toil, but is the opposite of them.'

The so-called private ownership of large-scale enterprises is in no way analogous to the simple property of the small landowner, craftsman, or entrepreneur. It is, as Tawney says, analogous to 'the feudal dues which robbed the French peasant of part of his produce till the revolution abolished them'.

All these rights - royalties, ground-rents, monopoly profits, surpluses of all kinds - are "property". The criticism most fatal to them...is contained in the arguments by which property is usually defended. The meaning of the institution, it is said, is to encourage industry by securing that the worker shall receive the produce of his toil. But then, precisely in proportion as it is important to preserve the property which a man has in the results of his labour, it is important to abolish that which he has in the results of the labour of someone else.'

To sum up:

- a** In small-scale enterprise, private ownership is natural, fruitful, and just.
- b** In medium-scale enterprise, private ownership is already to a large extent functionally unnecessary. The idea of 'property' becomes strained, unfruitful and unjust. If there is only one owner or a small group of owners, there can be, and should be, a voluntary surrender of privilege to the wider group of actual workers - as in the case of [Scott Bader & Co Ltd](#). Such an act of generosity may be unlikely when there is a large number of anonymous shareholders, but legislation could pave the way even then.

c In large-scale enterprise, private ownership is a fiction for the purpose of enabling functionless owners to live parasitically on the labour of others. It is not only unjust but also an irrational element which distorts all relationships within the enterprise. To quote Tawney again:

‘If every member of a group puts something into a common pool on condition of taking something out, they may still quarrel about the size of the shares...but, if the total is known and the claims are admitted, that is all they can quarrel about...But in industry the claims are not all admitted, for those who put nothing in demand to take something out.’

There are many methods of doing away with so-called private ownership in large-scale enterprise; the most prominent one is generally referred to as ‘nationalisation’.

‘But nationalisation is a word which is neither very felicitous nor free from ambiguity. Properly used it means merely ownership by a body representing...the general public of consumers...No language possesses a vocabulary to express neatly the finer shades in the numerous possible varieties of organisation under which a public service may be carried on.

‘The result has been that the singularly colourless word “nationalisation” almost inevitably tends to be charged with a highly specialised and quite arbitrary body of suggestions. It has come in practice to be used as equivalent to a particular method of administration, under which officials employed by the State step into the position of the present directors of industry and exercise all the power which they exercised. So those who desire to maintain the system under which industry is carried on, not as a profession serving the public, but for the advantage of shareholders, attack nationalisation on the ground that State management is necessarily inefficient.’

A number of large industries have been ‘nationalised’ in Britain. They have demonstrated the obvious truth that the quality of an industry depends on the people who run it and not on absentee owners. Yet the nationalised industries, in spite of their great achievements, are still being pursued by the implacable hatred of certain privileged groups. The incessant propaganda against them tends to mislead even people who do not share the hatred and ought to know better. Private enterprise spokesmen never tire of asking for more ‘accountability’ of nationalised industries. This may be thought to be somewhat ironic - since the accountability of these enterprises, which work solely in the public interest, is already very highly developed, while that of private industry, *which works avowedly for private profit*, is practically non-existent.

Ownership is not a single right, but a bundle of rights. ‘Nationalisation’ is not a matter of simply transferring this bundle of rights from A to B, that is to say, from private persons to ‘the State’, whatever that may mean: it is a matter of making precise choices as to where the various rights of the bundle are to be placed, all of which, before nationalisation, were deemed to belong to the so-called private owner. Tawney, therefore, says succinctly: ‘Nationalisation (is) a problem of Constitution-making.’ Once the legal device of private property has been removed, there is freedom to arrange everything anew - to amalgamate or to dissolve, to centralise or to decentralise, to concentrate power or to diffuse it, to create large units or small units, a unified system, a federal system, or no system at all. As Tawney put it:

‘The objection to public ownership, in so far as it is intelligent, is in reality largely an objection to over-centralisation. But the remedy for over-centralisation is not the maintenance of functionless property in private hands, but the *decentralised ownership of public property*.’

‘Nationalisation’ extinguishes private proprietary rights but does not, by itself, create any new ‘ownership’ in the existential - as distinct from the legal - sense of the word. Nor does it, by itself, determine what is to become of the original ownership rights and who is to exercise them. It is therefore in a sense a purely negative measure which annuls previous arrangements and creates the opportunity and necessity to make new ones. These new arrangements, made possible through ‘nationalisation’, must of course fit the needs of each particular case. A number of principles may, however, be observed in all cases of nationalised enterprises providing public services.

First, it is dangerous to mix business and politics. Such a mixing normally produces inefficient business and corrupt politics. The nationalisation act, therefore, should in every case carefully enumerate and define the rights, if any, which the political side, e.g. the minister or any other organ of government, or parliament, can exercise over the business side, that is to say, the board of management. This is of particular importance with regard to appointments.

Second, nationalised enterprises providing public services should always aim at a profit - in the sense of eating to live, not living to eat - and should build up reserves. They should never distribute profits to anyone, not even to the government. Excessive profits - and that means the building up of excessive reserves - should be avoided by reducing prices.

Third, nationalised enterprises, nonetheless, should have a statutory obligation 'to serve the public interest in all respects'. The interpretation of what is the 'public interest' must be left to the enterprise itself, which must be structured accordingly. It is useless to pretend that the nationalised enterprise should be concerned only with profits, as if it worked for private shareholders, while the interpretation of the public interest could be left to government alone. This idea has unfortunately invaded the theory of how to run nationalised industries in Britain, so that these industries are expected to work only for profit and to deviate from this principle only if instructed by government to do so and compensated by government for doing so. This tidy division of functions may commend itself to theoreticians but has no merit in the real world, for it destroys the very ethos of management within the nationalised industries. 'Serving the public interest in all respects' means nothing unless it permeates the everyday behaviour of management, and this cannot and should not be controlled, let alone financially compensated, by government. That there may be occasional conflicts between profit-seeking and serving the public interest cannot be denied. But this simply means that the task of running a nationalised industry makes higher demands than that of running private enterprise. The idea that a better society could be achieved without making higher demands is self-contradictory and chimerical.

Fourth, to enable the 'public interest' to be recognised and to be safeguarded in nationalised industries, there is need for arrangements by which all legitimate interests can find expression and exercise influence, namely those of the employees, the local community, the consumers, and also the competitors, particularly if the last-named are themselves nationalised industries. To implement this principle effectively still requires a good deal of experimentation. No perfect 'models' are available anywhere. The problem is always one of safeguarding these interests without unduly impairing management's ability to manage.

Finally, the chief danger to nationalisation is the planner's addiction to over-centralisation. In general, small enterprises are to be preferred to large ones. Instead of creating a large enterprise by nationalisation - as has invariably been the practice hitherto - and then attempting to decentralise power and responsibility to smaller formations, it is normally better to create semi-autonomous small units first and then to centralise certain functions at a higher level, *if* the need for better co-ordination can be shown to be paramount.

No-one has seen and understood these matters better than R.H.Tawney, and it is therefore fitting to close this chapter with yet another quotation from him:

'So the organisation of society on the basis of functions, instead of on the basis of rights, implies three things. It means, first, that proprietary rights shall be maintained when they are accompanied by the performance of service and abolished when they are not. It means, second, that the producers shall stand in a direct relation to the community for whom production is carried on, so that their responsibility to it may be obvious and unmistakable, not lost, as at present, through their immediate subordination to shareholders whose interest is not service but gain. It means, in the third place, that the obligation for the maintenance of the service shall rest upon the professional organisations of those who perform it, and that, subject to the supervision and criticism of the consumer, those organisations shall exercise so much voice in the government of industry as may be needed to secure that the obligation is discharged.'