

New Methods of Socialisation by E.F. Schumacher

There appear to be three major choices for a society in which economic affairs necessarily absorb major attention - the choice between private ownership of the means of production and, alternatively, various types of public or collectivised ownership; the choice between a market economy and various arrangements of 'planning'; and the choice between 'freedom' and 'totalitarianism'. Needless to say, with regard to each of these three pairs of opposites there will always in reality be some degree of mixture - because they are to some extent complementaries rather than opposites - but the mixture will show a preponderance on the one side or on the other.

Now, it can be observed that those with a strong bias in favour of private ownership almost invariably tend to argue that non-private ownership inevitably and necessarily entails 'planning' and 'totalitarianism', while 'freedom' is unthinkable except on the basis of private ownership and market economy. Similarly, those in favour of various forms of collectivised ownership tend to argue, although not so dogmatically, that this necessarily demands central planning; freedom, they claim, can only be achieved by socialised ownership and planning, while the alleged freedom of private ownership and the market economy is nothing more than 'freedom to dine at the Ritz and to sleep under the bridges of the Thames'. In other words, everybody claims to achieve freedom by his own 'system' and accuses every other 'system' as inevitably entailing tyranny, totalitarianism, or anarchy leading to both.

The arguments along these lines generally generate more heat than light, as happens with all arguments which derive 'reality' from a conceptual framework, instead of deriving a conceptual framework from reality. When there are three major alternatives, there are $2 \times 2 \times 2 = 8$ possible combinations. It is always reasonable to expect that real life implements all possibilities - at one time or other, or even simultaneously in different places. The eight possible cases, as regards the three choices I have mentioned, are as follows: (I arrange them under the aspect of freedom *versus* totalitarianism, because this is the major consideration from the metaphysical point of view taken in this book.)

Case 1	Freedom Market Economy Private Ownership	Case 5	Totalitarianism Market Economy Private Ownership
Case 2	Freedom Planning Private Ownership	Case 6	Totalitarianism Planning Private Ownership
Case 3	Freedom Market Economy Collectivised Ownership	Case 7	Totalitarianism Market Economy Collectivised Ownership
Case 4	Freedom Planning Collectivised Ownership	Case 8	Totalitarianism Planning Collectivised Ownership

It is absurd to assert that the only 'possible' cases are 1 and 8: these are merely the *simplest* cases from the point of view of concept-ridden propagandists. Reality, thank God, is more imaginative; but I shall leave it to the reader's diligence to identify actual or historical examples for each of the eight cases indicated above, and I should recommend to the teachers of political science that they suggest this exercise to their students. My immediate purpose, here and now, is to speculate on the possibility of devising an ownership 'system' for large-scale enterprise, which would achieve a truly 'mixed economy'; for it is 'mixture' rather than 'purity' which is most likely to suit the manifold exigencies of the future, if we are to start from the actual situation in the industrialised part of the world, rather than starting from zero, as if all options were still open.

I have already argued that private enterprise in a so-called advanced society derives very large benefits from the infrastructure - both visible and invisible - which such a society has built up through public expenditure. But the public hand, although it defrays a considerable part of the cost of private enterprise, does not directly participate in its profits; all these profits are initially privately appropriated, and the public

hand then has to try to cover its own financial requirements by extracting a part of these profits from private pockets. The modern businessman never tires of claiming and complaining that, to a large extent, he 'works for the state', that the state is his partner, inasmuch as profit taxes absorb a substantial part of what he believes to be really due to him alone, or to his shareholders. This suggests that the public share of private profits - in other words, the company profits taxes - might just as well be converted into a public share of the *equity* of private business - in any case as far as large-scale enterprises are concerned. For the following exposition I postulate that the public hand should receive one-half of the distributed profits of large-scale private enterprise, and that it should obtain this share not by means of profit taxes but by means of a fifty percent ownership of the equity of such enterprises.

1. To begin with, the minimum size of enterprises to be included in the scheme must be defined. Since every business loses its private and personal character and becomes, in fact, a public enterprise once the number of its employees rises above a certain limit, minimum size is probably best defined in terms of persons employed. In special cases it may be necessary to define size in terms of capital employed or turnover.
2. All enterprises attaining this minimum size - or exceeding it already - must be joint-stock companies.
3. It would be desirable to transform all shares of these companies into no-par shares after the American pattern.
4. The number of shares issued, including preference shares and any other pieces of paper which represent *equity* should be doubled by the issue of an equivalent number of new shares, these new shares to be held by 'the public hand' so that for every privately held old share one new share with identical rights will be held publicly.

Under a scheme along these lines, no question of 'compensation' would arise, because there would be no expropriation in the strict sense of the word, but only a conversion of the public hand's right to levy profit taxes into a direct participation in the economic assets from the use of which taxable profits are obtained. This conversion would be an explicit recognition of the undoubted fact that a major role in the creation of 'private' economic wealth is in any case played by the public hand, that is to say, by non-capitalist social forces, and that the assets created by the public contribution should be recognised as public, and not private, property.

The questions that would immediately arise may be divided into three groups. First, what precisely is meant by the 'public hand'? Where are the newly issued shares to be placed and who is to be the representative of the 'public hand' in this context? Second, what rights of ownership should possession of these new shares carry? And third, questions relating to the transition from the existing system to the new, to the treatment of international and other combines, to the raising of new capital, and so forth.

As regards the first set of questions, I should propose that the newly created shares, representing fifty percent of the equity, should be held by a local body in the district where the enterprise in question is located. The purpose would be to maximise both the degree of decentralisation of public participation and the integration of business enterprises with the social organism within which they operate and from which they derive incalculable benefits. Thus, the half-share in the equity of a business operating within District X should be held by a local body generally representative of the population of District X. However, neither the locally elected (political) personalities nor the local civil servants are necessarily the most suitable people to be entrusted with the exercise of the rights associated with the new shares. Before we can go further into the question of personnel, we need to define these rights a little more closely.

I therefore turn to the second set of questions. In principle, the rights associated with ownership can always be divided into two groups - managerial rights and pecuniary rights.

I am convinced that, in normal circumstances, nothing would be gained and a great deal lost if a 'public hand' were to interfere with or restrict the freedom of action and the fullness of responsibility of the existing business managements. The 'private' managers of the enterprises should therefore remain fully in charge, while the managerial rights of the public half-share should remain dormant, unless and until special circumstances arise. That is to say, the publicly-held shares would normally carry no voting rights but only the right to information and observation. The 'public hand' would be entitled to place an observer - or

several - on the Board of Directors of an enterprise, but the observer would not normally have any powers of decision. Only if the observer felt that the public interest demanded interference with the activities of the existing management, could he apply to a special *court* to have the dormant voting rights activated. A *premie facie* case in favour of interference would have to be established in front of the court, which would then activate the publicly-held voting rights for a limited period. In this way, the managerial rights of ownership associated with the new, publicly-owned equity shares would normally remain a mere possibility in the background and could become a reality only as a result of certain specific, formal, and public steps having been taken by the 'public hand'. And even when in exceptional cases these steps have been taken and the voting rights of the publicly-owned shares have been activated, the new situation would persist only for a short time, so that there should be no doubt as to what was to be considered a normal or an abnormal division of functions.

It is often thought that 'the public interest' can be safeguarded in the conduct of private business by delegating top or medium-grade civil servants into management. This belief, often a main plank in proposals for nationalisation, seems to me to be both naive and impractical. It is not by dividing the responsibilities of management but by ensuring public accountability and transparency that business enterprises will be most effectively induced to pay more regard to the 'public interest' than they do at present. The spheres of public administration on the one hand and of business enterprise on the other are poles apart - often even with regard to the remuneration and security offered - and only harm can result from trying to mix them.

While the managerial rights of ownership held by the 'public hand' would therefore normally remain dormant, the pecuniary rights should be effective from the start and all the time - obviously so, since they take the place of profits taxes that would otherwise be levied on the enterprise. One half of all distributed profits would automatically go to the 'public hand' which holds the new shares. The publicly-owned shares, however, should be, in principle, inalienable (just as the right to levy profit taxes cannot be sold as if it were a capital asset). They could not be turned into cash; whether they could be used as collateral for public borrowings may be left for later consideration.

Having thus briefly sketched the rights and duties associated with the new shares, we can now return to the question of personnel. The general aim of the scheme is to integrate large-scale business enterprises as closely as possible with their social surroundings, and this aim must govern also our solution of the personnel question. The exercise of the pecuniary and managerial rights and duties arising from industrial ownership should certainly be kept out of party political controversy. At the same time, it should not fall to civil servants, who have been appointed for quite different purposes. I suggest, therefore, that it should belong to a special body of citizens which, for the purpose of this exposition, I shall call the 'Social Council'. This body should be formed locally along broadly fixed lines without political electioneering and without the assistance of any government authority, as follows: one-quarter of council members to be nominated by the local trade unions; one-quarter, by local professional associations; one-quarter [half? Ed.] to be drawn from local residents in a manner similar to that employed for the selection of persons for jury service. Members would be appointed for, say, five years, with one-fifth of the membership retiring each year.

The Social Council would have legally defined but otherwise unrestricted rights and powers of action. It would, of course, be publicly responsible and obliged to publish reports of its proceedings. As a democratic safeguard, it might be considered desirable to give the existing Local Authority certain 'reserve powers' *vis-a-vis* the Social Council, similar to those which the latter has *vis-a-vis* the managements of individual enterprises. That is to say, the Local Authority would be entitled to send its observer to the Social Council of its district and, in the event of serious conflict of dissatisfaction, to apply to an appropriate 'court' for temporary powers of intervention. Here again, it should remain perfectly clear that such interventions would be the exception rather than the rule, and that in all normal circumstances the Social Council would possess full freedom of action.

The Social Councils would have full control over the revenues flowing to them as dividends on the publicly-held shares. General guiding principles with regard to the expenditure of these funds might have to be laid down by legislation; but they should insist on a high degree of local independence and responsibility. The immediate objection that the Social Councils could scarcely be relied upon to dispose of their funds in the best possible way provokes the obvious reply that neither could there be any guarantee of

this if the funds were controlled by Local Authorities or, as generally at present, by Central Government. On the contrary, it would seem safe to assume that local Social Councils, being truly representative of the local community, would be far more concerned to devote resources to vital social needs than could be expected from local or central civil servants.

To turn now to our third set of questions. The transition from the present system to the one here proposed would present no serious difficulties. As mentioned already, no questions of 'compensation' arise, because the half-share in equity is being purchased by the abolition of company profit taxes and all companies above a certain size are treated the same. The size definition can be set so that initially only a small number of very large firms is affected, so that the 'transition' becomes very gradual and experimental. If large enterprises under the scheme would pay as dividends to the 'public hand' a bit more than they would have paid as profit taxes outside the scheme, this would act as a socially desirable incentive to avoid excessive size.

It is worth emphasising that the conversion of profit tax into 'equity share' significantly alters the psychological climate within which business decisions are taken. If profit taxes are at the level of (say) fifty percent, the business man is always tempted to argue that 'the Exchequer will pay half' of all marginal expenditures which could possibly have been avoided. (The avoidance of such expenditure would increase profits; but half the profits would anyhow go as profit taxes.) The psychological climate is quite different when profit taxes have been abolished and a public equity share has been introduced in their place; for the knowledge that half the company's equity is publicly owned does not obscure the fact that *all* avoidable expenditures reduce profits by the exact amount of the expenditure.

Numerous questions would naturally arise in connection with companies which operate in many different districts, including international companies. But there can be no serious difficulties as long as the two principles are firmly grasped: that profit tax is converted into 'equity share', and that the involvement of the public hand shall be local, that is, in the locality where the company employees actually work, lives, travel, and make use of public services of all kinds. No doubt, in complicated cases of interlocking company structures there will be interesting work for accountants and lawyers; but there should be no real difficulties.

How could a company falling under this scheme raise additional capital? The answer, again, is very simple: for every share issued to private shareholders, whether issued against payment or issued free, a free share is issued to the public hand. At first sight this might seem to be unjust - if private investors have to pay for the share, why should the public hand get it free? The answer, of course, is that the company as a whole does not pay profit tax; the profit attributable to the new capital funds, therefore, also escapes profit tax: and the public hand receives its free shares, as it were, *in lieu* of the profit taxes which would otherwise have to be paid.

Finally, there may be special problems in connection with company reorganisations, takeovers, windings-up, and so forth. They are all perfectly soluble in accordance with the principles already stated. In the case of windings-up, whether in bankruptcy or otherwise, the equity holdings of the public hand would, of course, receive exactly the same treatment as those in private hands.

The above proposals may be taken as nothing more than an exercise in the art of 'constitution-making'. Such a scheme would be perfectly *feasible*; it would restructure large-scale industrial ownership without revolution, expropriation, centralisation, or the substitution of bureaucratic ponderousness for private flexibility. It could be introduced in an experimental and evolutionary manner - by starting with the biggest enterprises and gradually working down the scale, until it was felt that the public interest had been given sufficient weight in the citadels of business enterprise. All the indications are that the present structure of large-scale industrial enterprise, in spite of heavy taxation and an endless proliferation of legislation, is not conducive to the public welfare.