"PROFIT-SHARING IN INDIA"

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The classical conception of an economic system was that of natural harmony of individual interests and wills. It was argued by physiocrats in France and Adam Smith in England that if the impediments which human institutions have imposed upon the free play of natural tendencies in the sphere of industry and commerce were removed, a beneficial and harmonious order would emerge. Freed from obstructions, nature would give a positive guidance to individuals in the conduct of affairs. Each man would be "led as by an invisible hand to promote an end which was no part of his intention".  

By pursuing his own interests, he promotes that of the society more effectually than when he really desires to promote it. This natural harmony, it was contended, was not confined to the actions of individuals only. Through individual conduct, it harmonises the seeming conflict of competing business and trade, leading man through divided labour so to cooperate as to bring to all their proper share in these gainful operations. 

In such a system, it was claimed that there are "a natural price", "a natural wages"; "a natural order" which

human nature would discover for itself and men's natural liberty will be simply the absence of any hindrance to this spontaneous action of human nature.²

When political economy matured into a specialised study at the hands of David Ricardo, this invisible hand was no longer required. All that was needed was that the ordinarily intelligent man should put his labour or his capital to its most gainful use, giving as little and taking as much as possible. In this way, economic resources as an aggregate would be utilised as productively as possible and the largest body of wealth would be distributed in due proportions among all who had consciously cooperated in its creation. If progress is hampered for a while by successful manufacturers and merchants, competition must compel them quickly to hand down in lower prices to the general public all but a fraction of the industry.

The evolution of the marginalist doctrine in more recent times, which describes the movement of minutely divisible units of capital and labour into business and trades of maximum efficiency and productivity, has given a more precise meaning to the concept of laissez faire. If this divisibility and free mobility of all forms of capital and labour actually existed, they would guarantee a natural

harmony which would impel everyone to do his best and get what he was worth. In the words of J.B. Clark, "the distribution of the income of the society is controlled by a natural law of wealth and that the law, if it worked without friction would give to every agent of production, the amount of wealth, which that agent creates." From each agent a distinguishable share in production and to each a corresponding reward. Even if there were conflicts of interests and maladjustments, they were regarded as flaws or frictions in the operation of the system which, on the whole, worked harmoniously. Most of them were treated as temporary disturbances natural and inevitable in a growing organism. They were remedied in course of time by the competition in the economy which was thought to be malleable enough to adjust itself automatically, guided by the equilibrium of supply and demand. This process, it was added, would be accelerated and made more accurate by the spread of education and of reliable economic data among all classes.

But contemporary capitalism has belied many of the sanguine expectations of earlier economists, especially in the fields of distribution, for the exact working of competition has been considerably hampered by the concentration of production in fewer and fewer hands. In the age before capitalism, competition was a predominant force to break down all the stiff formalised economic relationships; but

3. J.B.Clark "Distribution of Wealth" p. 3. (New York,1899)
prolonged and intensified beyond a certain limit, it began to reverse its effects. From being a socially disintegrating force, it began to build up new relationship and new institutions. As John Stratchey aptly points out "the competitive process by its own ruthless strength, and in accordance with its own inner logic, continually creates bigger and fewer units with which to fight out the competitive battle."\(^4\) Since the eighteenth century, the individual craftsman, the individual merchant and later the individual industrialist, has been replaced by the partnership and the firm. This in turn has been superseded by the joint Stock Company. Later on, the small private joint Stock Company has itself been outclassed by the large Public Corporations. Finally, there has come into existence giant Corporations, usually a dozen or so in each industry, sometimes in the form of trusts, combines or cartels, occasionally although not typically, as semi-monopolies or even monopolies. Such giant units are now the dominant feature of contemporary capitalism. The extent to which this process of concentration has gone can be seen from the behaviour of some of the leading and advanced capitalist countries of the present century.

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To begin with, let us take the example of the American economy as it is the most advanced capitalist society of our time and as information on the structure of the American economy is considered to be the best and most elaborate. Professor Galbraith in his book "American Capitalism" writes that the heads of Corporations that produce between a third and a half of the national products of the United States could be seated comfortably in almost any neighbourhood motion-picture theatre (between 400 and 500). A recent investigation by the Federal Trade Commission shows that for the year 1946, the 113 largest manufacturing corporations owned 46 percent of the property, plant and equipment employed in manufacturing.

There are numerous industries where the number of firms serving the same market remains large and where no one or no small number have any considerable proportion of the total business; but one of the outstanding contemporary authorities on market organisation has concluded that "the principal indications of studies of American market structure are (among others) that concentration of output among relatively few sellers is the dominant pattern."

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5. Quoted in "Contemporary Capitalism", op.cit., pp.21-22
In Britain also, conditions are almost the same. According to 1936 census of production, it is found that in any given industry, about a quarter of the labour force worked in the three largest firms in that industry. There are in Britain under 12,000 "public" Joint Stock Companies altogether and these 12,000 units are responsible for, it is estimated, about one-half of the entire economic activity of the community. Thus these 12,000 firms do as much business as all the private Joint Stock Companies, the nationalised industries, direct state enterprises, the cooperative movement and all the innumerable firms, partnerships and one-man business of all kinds, put together.  

With regard to German capitalism, it was actually the leader in the fields of concentration and this tendency was at its zenith under the Third Reich. According to press reports, the process of concentration has again been going on in all its vigour since the early fifties.  

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The example of these three leading capitalist countries of the world conclusively proves that the process of concentration of production in the hands of a limited few is an undisputed fact. It also proves that as the economy expands, the tendency is more and more in the direction of concentration rather than diffusion. The result is that the managers of these firms are able to affect prices instead of being affected by them. Prices, from being objective data which move automatically with no man's will, become things which may be moved within certain limits, by the conscious decisions of groups of men. When this is accepted all the complacency about the self-regulating and automatic mechanism of capitalism becomes untenable. This new power to influence prices gives the entrepreneurs the power to influence the level of profits also. Although there are certain limiting factors which prevent the margins from being widened, the limits within which they can be widened are by no means small. This has enabled entrepreneurs to create and sustain large profits thereby creating inequities in the distribution of income.

An inequitable distribution of income may be conducive to accumulation and consistent with efficiency so long as there is an acquiescence in the existing mode of distribution. But when the workers become conscious of
the inequities of their economic lot, this awareness reacts upon their efficiency by causing an unrest and discontent with the current "social determination of values". When an actual sense of the inequity of distribution becomes firmly entrenched in the minds of the majority of workers, it interferes with their earlier automatic efficiency. For the present, this new moral fact of widespread and acute discontent on the part of large sections of workers is a matter of great concern to all those who desire peaceful progress. This new fact militates against efficiency and productivity of industry, thereby hampering the harmonious blending of the human units, in the economic system. It is become manifest that if energy and efficiency are to be restored to the system, some conscious policy of "industrial peace" has to be evolved and applied, in order that the efficient cooperation of the factors of production may be accomplished. There are many signs in industrial Europe and the United States of America of an increasing willingness on the part of workers and industrialists to experiment in methods of attaining industrial peace with a clear recognition that the existing economic system does not adequately fulfil the equitable and harmonious functions with which the classical economists endowed it.

Thus profit is the windmill at which labour tilts very often. It is the main citadel at which labour
directs its repeated attack, "for the climate of our day is hostile to income differentials in general, foreign differentials in particular, and to handsome profits to the extreme. This being the case, profit-sharing is a voluntary device initiated by employers to reconcile the claims of labour to a share of the surplus in the industry. It does not in any way weaken or infringe upon the rights of labour to improve its material conditions by invoking the aid of law, exercising collective bargaining through trade union movement or arriving at a working agreement with management to accept the principle of conciliation and arbitration. Profit-sharing is a new principle of rewarding industrial labour. Though usually labour is rewarded in the form of wages, profit-sharing when accepted allows the division of net profits between capital and labour, according to some form of pre-arranged formula. It is an attempt to satisfy labour on the question of profits by seeking to make him a profit-taker as well as a wage-earner. By and large, it is an inductive approach to the problem of industrial peace.

In this connection, I express my deep sense of obligation to Professor D.P. Mukerjee and Mr. Mohd. Shabbir Khan (Reader in Economics) for the valuable help and guidance they have given me in the preparation of the thesis.

Muslim University

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V. Karunakaran
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**Appendix**

Constitutions of some Copartnership schemes.
CHAPTER I

A THEORETICAL CASE FOR PROFIT-SHARING WITH EMPLOYEES.

Economic theory in its traditional form, has primarily been one of static equilibrium. It was concerned with the pricing of a collection of goods and services, the unknown of the problem being determined by the required number of known constants. It was argued that in an unchanging frictionless world, static laws determine the remuneration for various productive agents. In such a situation, all factors get their imputed marginal products and receipts exactly equal costs. No surplus accrues to the owner. But in the dynamic world of facts, however, a surplus income in excess of contractual costs does arise. It is only gradually eliminated by the forces of competition and continually repeats itself under the stress of changes and new frictions. J.B. Clark was the first economist to develop such a view of profit. "An invention" he says "makes it possible to produce something more cheaply. It gives first a profit to entrepreneurs.......then adds something to wages and interest. This is equivalent to a creation of new wealth. It has made a definite addition to the income of the society, and from the moment when the improved method has been put into operation the static standard of wages (that is the worker's productivity) has been higher.
The rate towards which the pay of the labourer is now tending is not what it was before the invention was applied, but it is a new and higher rate. Wages now tend to equal what labour can produce and this more than that it could formerly produce. When the full fruits of invention shall have diffused themselves throughout society, the earnings of labour will equal the new standard rate (through the working of the competition for labour.). Let another invention be made, that also effects an economy in production. It also creates a profit; and this profit like the first, is an elusive sum which entrepreneurs grasp but cannot hold. This sum, like the former one, slips in time through their fingers and bestows itself on all members of society.¹

Though the theory recognises certain dynamic elements in the economy, it is essentially static in

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¹ J.B. Clark. "Distribution of Wealth". p. 405. op.cit.

To Clark, profit, in another sense, is the consequence of 'friction'. The interval between the actual wages and the Static Standard is the result of friction; for if competition worked without let or hindrance, pure business profit would be annihilated as fast it could be created. Ibid. p. 410. "Were it not for that interval, entrepreneurs as such would get nothing; however, much they might add to the world's productive power. Ibid. p. 411."
nature. Modern business devices like restrictive practices, product differentiation, advertising technique etc., may make it possible to prolong the temporary gains of a quasi-monopolistic sort arising from successful innovations. It is these inventions which play a predominant part in the "dynamic theory" of J.B. Clark.

Marshall balanced the matter rather differently. Where Clark has emphasised a tendency for abnormal profits to disappear, Marshall devoted more attention to short-period in which they existed and his concept of "Quasi-rent" was the result. In the short-period, in his view, returns from the employment of productive factors were in the nature of rents, being price-determined rather than price-determining. In the long period, however, returns segregated themselves into normal factor prices sufficient to call forth the necessary supply of the agents of production concerned and rents resulting from permanent monopolistic situations. Anything in the way of permanent profit, not resolvable into wages, interest or rent had no place in Marshall's system.

According to Marshall, the cost to which prices tended to correspond in the long-run was the marginal cost; that is, that is the cost of the most expensive increment of the product obtained by utilising inefficient

* The theory though it is called dynamic, does not fit into the time honoured definitions of dynamism. For example vide the definition "Economic dynamics is the study of economic phenomenon in relation to preceding and succeeding events". (Quoted in "Economics Dynamics" by William J. Baumol. p. 2.)
factors of production or by working others intensively and at great expense. Whenever price was in excess of marginal cost, expansion of output was encouraged. New firms were attracted to the industry and existing business stimulated to produce a greater quantity. Conversely, when prices fell below marginal costs, there was an inducement to contract output. Inefficient firms or plants might shut down and others operate on a reduced scale.

The following diagrams will clearly illustrate Marshall's short-run and long-run prices.

In figure (1), M.P. is the price of the output OM and HM is its average cost. The industry is not in equilibrium. It is earning a large profit which in Marshall's terminology is called "Quasi-rent."
In figure (II), the firm is in full equilibrium since AR is tangent to AC. There is only normal profit, which is earnings of management.

Under competitive condition, it is argued that a producer will bring forth an output of such size that marginal revenue equals marginal cost and average revenue equals average cost. That producers will carry their production as far as the point where the revenue from the marginal increment of output just covers the cost of this increment is the basic assumption of the marginal theory. But if in the case of the least efficient firm in the industry, average revenue is less than average cost, then the firm concerned is incurring a loss and must ultimately go out of business. This brings about a fall in the supply of commodity. The price, therefore, rises increasing the average revenue of the remaining firms. On the other hand, if the average revenue for the marginal or least efficient firm in the industry is greater than average cost, new firms will enter lowering prices and therefore bring down average revenues. But what about the firms that are more advantageously situated? Clearly they owe their advantage to some non-competitive situation such as a more favourable location, better business management etc. The extra-returns which result from these superiorities are surplus or rent, so that it can be said that if
rents are included in costs, then all firms are in the position of the least efficient firm with respect to balancing of average revenue and average cost. And under the influence of competition such advantages are non-existing and that marginal revenue equals marginal cost and average revenue equals average costs. In more technical parlance, prices are from the standpoint of the individual firm, not variables but parameters and where this is so, there exists a state of equilibrium in which all outputs are at their maximum and all factors fully employed and rewarded according to their marginal productivity. But Marshall was careful to point out that even in the long run, when marginal cost equals marginal revenue and average cost equals average revenue, there is what is called "normal profit". This he designates as "earnings of managements", which is an element of cost.

At this stage, it is necessary to enquire and find out whether competition of the type envisaged by Marshall obtains at present in the actual world of realities. Traditionally, it had been admitted that where competition was displaced by absolute monopoly or something approaching it, the price was determined by the will of the monopolist. Therefore, the cost principle no longer applied to what was now a deliberately contrived scarcity. But in all intermediate situations, where sellers and buyers are numerous, elements which rendered the market imperfect
and caused it to depart from the abstract ideal of competition were simply treated as "frictions". These frictions, it was argued only muddled and at times diverted, but did not check the great underlying current which was towards a competitive equilibrium. Given that equilibrium, there was a presumption that economic resources would be employed with maximum satisfactions. Sraffa vigorously attacked the assumption that the "frictions" were in fact a secondary and fugitive phenomenon. He argued that they were stable and indeed cumulative and yielded a solution consistent not with competition, but monopolistic equilibrium. Hence he contended that monopoly, and not free competition, was the more appropriate assumption in the market theory.

This point of view was later developed by Joan Robinson and Professor Chamberlin. The latter has especially dealt with "Product differentiation" by brands and advertisements. As he has said, "Wherever selling costs are incurred - and they are incurred in some measure for almost all commodities - the cast the

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"Monopolized institutions which we shall have to examine are a different sort. They have in fact traits of monopoly, they confer monopolistic power. But at the same time, they are subject in other directions to the pressure of competition or are otherwise restricted. They are .... intermediate forms, lying midway between monopoly and competition .... mixtures of this sort ....... have great practical and even theoretical significance, but it will be best to distinguish them from monopolized institutions proper."

price problem in terms of competitive demand and cost
curves is not merely inaccurate, it is impossible........
Under condition of pure competition, there would be no selling
costs........In summary, the competitive cost curve which
includes selling costs is inconsistent with itself, it is
useless, it is misleading and it is of very limited
meaning. In other words, the beneficent type of
competition is replaced by monopolistic competition.

In the above conditions, equilibrium is very
difficult to attain; even if eventually attained, it
does not ensure either full employment or maximum output
in the sense of perfect competition. It may exist without
full employment. It is bound to exist at a level of
output much below the maximum mark, because profit
conserving strategy imposes itself. This practically
implies that factors are rewarded less than their
marginal productivity and profits contain always an
element of direct monopoly gain; that is gain acquired
by restriction. The important element of "good-will" in
all business valuations is seem largely to represent a
capitalisation of such monopoly gains. There is monopoly

5. Professor Chamberlin. "The Theory of Monopolistic Compe­

Compare A.R. Burns "Decline of Competition" p. 158, Elements
of Monopoly have always been interwoven with competition, but
monopoly elements have increased in importance. They can no
longer be regarded as occasional and relatively unimportant
aberrations from competition. They are such an organic part of
the industrial system that it is useless to hope that they can
be remedied by law and the industrial system brought into
conformity with the idea of perfect competition.
element in profit in a capitalist economy.\(^6\)

The extent to which elements of monopoly or monopolistic competition in the market of commodities reduce the real earnings of the workers can be stated with a certain degree of precision. It is usually said that a factor of production is exploited if it is employed at a price which is less than its marginal net productivity. It is in the interest of every employer to use such an amount of each factor of production that its marginal cost is equal to its marginal net productivity to him. If marginal productivity were greater than the marginal cost of labour, he would find it profitable to increase the number of men employed, if it is less, to diminish, the number. Accordingly, 'exploitation' of labour in the sense that it is paid less than marginal net productivity to the employer is impossible so long as the market for labour is perfect. There is, however, a type of "exploitation" which arises as a result of imperfection in the market for commodities, entirely aside from the question of whether there is perfect competition in the purchasing of labour. When the selling market for commodities is perfect, the marginal revenue to the firm which is the addition to total revenue produced by

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solving an additional unit of output, is equal to the price of the commodity and the marginal productivity of labour is therefore equal to the value or price of the marginal physical unit. In other words, the average price and the marginal revenue are the same under conditions of perfect competition, in the market for commodities. This follows from the fact that increases in the output of individual firm, under the market circumstances, here assumed do not lower price. The amount that each seller can offer is such a small part of the total supply of the commodity that variations do not affect price and he can dispose of as such as he can offer at the ruling price. If there is perfect competition, in the market for labour workers will be paid their marginal physical products times marginal revenue, which coincides with price.

When, however, the selling market is characterised by imperfect or monopolistic competition, marginal revenue will be less than price, or average revenue and since workers are paid under the assumption of perfect competition in the market for labour, their marginal physical product times marginal revenue to average revenue or price, is the measure of exploitation attributable to imperfection in the selling market.

What is actually meant by exploitation is, usually, that the wage is less than the marginal physical product of labour valued at its selling price.\(^8\)

The reason why marginal revenue is less than average revenue under condition of imperfect competition, whereas the two are identical when competition is perfect is not difficult to discover. Under perfect competition, each additional unit the individual producer offers brings the same price. Total revenue, therefore, increases by the price received for the additional unit, and so long as average revenue remains constant with an increasing output marginal revenue and average revenue will coincide. But under imperfect competition, the demand for the product of the individual producer is not perfectly elastic. Additions to output lower price or average revenue and this fall in price affects all units sold, not merely the final or marginal products. The net addition to total revenue produced by selling an additional unit is the price received for that unit minus the loss on all previous units due to the fact that their prices have been forced down by the increase in output. Patently, then, marginal revenue is less than average revenue under imperfect competition. Average revenue is total revenue

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Vide the definition of Mrs. Robinson "Economics of Imperfect Competition" p. 283. "We shall say that a group of workers are being exploited when their wages is less than the marginal physical product that they are producing, values at the price at which it is being sold".
divided by the number of units. Marginal revenue is the net change in total revenue and is affected not only by the loss on previous units when successive ones must be sold at a lower price. Each producer may be assumed to regulate his output in such a way that the addition to his total revenue from selling an additional unit just equals the addition to his costs from selling that unit (since if he sold one unit less, he would lose more of revenue than he saved of cost and if he produced one unit more, he would incur more of cost than he gained of revenue); and under conditions of imperfect competition, production will be carried to that point where marginal cost equals marginal revenue which is less than price, the difference between the two going into enterprise. The demand curve for labour (demand curve and productivity curve being assumed to correspond because of competition in the buying of labour) under imperfect competition in the market for commodities is marginal to, that is below, the demand curve under perfect competition, since the marginal productivity of labour to the individual firm is the marginal physical product of labour multiplied by the marginal revenue to the firm, and marginal revenue to the firm is less than price. Hence "exploitation" in the sense that labour is paid less than its marginal physical product valued at its selling price, would obtain,
eventhough the wage equalled marginal revenue to the firm.

In the above figure, if the amount of the product is increased from OA to OB by the addition of another unit of labour, the value of the marginal product is $ABQH$, the value of the marginal revenue product is $OBQN - OAPM$ or $ABQH - NHPM$. The marginal revenue product may be defined by the use of the marginal revenue curve. It is the marginal physical product multiplied by the marginal revenue. If $RR$ is the marginal revenue curve, it is $ABEF$. If $DD$ is the demand curve for the product under imperfect competition, and an additional unit of labour increases the product from OA to OB, the value of his marginal product is $ABQH$. His marginal revenue product is $ABQG - NHPM$. Since in adding more labour, the entrepreneur is guided by the marginal revenue product rather than by marginal
product, it follows that he will pay the marginal unit of labour only ABEF, though it is producing the marginal product ABQH. Therefore, FEQH is the measure of exploitation.

The accumulation of profits which contain elements of such direct monopoly gains by employers will not be taken to happily by the worker. A man who feels that he is not getting a fair share of his contribution to society because somebody else is getting a bigger slice is naturally an angry man. Noble thoughts are denied to him because he feels the sense of injustice done to him. Sooner or later, this will tend to develop a psychology of discontent and criticism among the ranks of labour. One of the greatest advantages enjoyed by the nineteenth century enterprisers was that they were able to maintain effective and personal contact with their employees, since they were concentrating both ownership and control in the same hands. But such a phenomenon has become a thing of the past in the face of immense impersonal corporations where management is totally divorced from ownership. If the managements were composed of persons who were owners of large absolute amounts of capital, even though a small portion of the whole, their individual interest as owners might lead them to act generally in the interest of the owners. But in a number of respects the interest of those in control may
substantially diverge from that of the owners. The management may even be in a position to benefit by the bankruptcy of the corporation.

Such managements who are out to feather their own nests rather than safeguarding the interest of the owners will not and cannot take to the discontent of the labour rather seriously. The consequence will be ill-feeling and tension which would eventually lead to strikes, lock-out etc. Though strike is a unilateral action, strikes entail loss of wages to workers, profit to the managements, goods and services to the consumers and last but not least morale to public. In short, the life of a modern community is profoundly affected by the forms of production and the relationships at work which go on within it. The following statistics prepared by the I.L.O. Delhi Branch, shows that the number of strikes and lock-outs have increased since the war in the leading countries of the world.


10. This is one of the basic assumptions of the "Duke of Edinurgh's Study Conference on the Human Problems of Industrial Communities" within the Commen-wealth and Empire, which opened at Oxford on July 9, 1956. Ref. Indian Labour Gazette, July, 1956, p. 42.
Mondays lost annually per thousand workers.

<table>
<thead>
<tr>
<th>Countries</th>
<th>1940 - 1944</th>
<th>1945 - 1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>313</td>
<td>1147</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>509</td>
<td>2899</td>
</tr>
<tr>
<td>Denmark</td>
<td>47</td>
<td>1062</td>
</tr>
<tr>
<td>Switzerland</td>
<td>12</td>
<td>123</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>178</td>
<td>293</td>
</tr>
<tr>
<td>India</td>
<td>337</td>
<td>601</td>
</tr>
</tbody>
</table>

This state of affairs is highly inimical to the present system of production and to the industrial structure at large. Therefore, in order to preserve industrial peace and to increase the tempo of production, it is necessary that labour should be given a stake and a status in the industry in the form of profit-sharing. This will tend to create a feeling in the worker that he is not a mere appendage of the machine, a mere automaton which is expected only to obey, but an integral part of the industrial system. As a prominent American businessman has put it, "In a democratic capitalism such as ours, one way to broaden the capitalistic system is to see that more people have a stake in it".11

Besides this, arguments supporting labour's claim to share industry's profits gather around an investment analogy. The labouring man's investment in the business is his job. The employee, it is said, invests his time and energy in the success of his company. No risks of unemployment, accident and old age disutility in serving his employer through the years. He is therefore entitled to participate in profits resulting, in part, from his investment and risk. William Green, American Federation of Labour President, testifying before the Senate Committee investigating profit-sharing, declared: "In reality, labour is a partner in production not from the investment of capital, but from the investment of experience and work ability."\(^{(12)}\)

The resulting Senate Report depreciated the business claim that labour is not entitled to share profits. Pointing to the fact that the person who buys a share of stock in a corporation shares its profits even though he does not 'labour' enough to sign his proxy vote for the annual stockholders meeting, the report argued that the labouring man, through his work, actively helps create profits. Therefore, the employee should share in the profit produced by his efforts.

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APPENDIX TO CHAPTER I

It is found that in spite of a progressive increase in the net values produced by labour, the annual earnings of the worker has been moving in a remarkably constant ratio. The production census of the United States of America, Canada and the United Kingdom amply bears out this fact. Although the figures for U.S.A. Manufacturing run back to 1859, the years are not strictly comparable, since the method in the compilation of the census of Manufactures has been changed from time to time. The total period, 1859 to 1939, is divided into four sections.

(1) 1859-89. This period included small domestic and hand industries omitted from 1890 onward. It shows that the percentage of net productions paid to labour at each census.

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1859</td>
<td>44.4 per cent</td>
</tr>
<tr>
<td>1869</td>
<td>44.7 *</td>
</tr>
<tr>
<td>1879</td>
<td>48.3 *</td>
</tr>
<tr>
<td>1889</td>
<td>44.91 *</td>
</tr>
</tbody>
</table>

1879 was a year of extreme depression. With this exception, the percentages over the 40 years are remarkably uniform.

(2) 1899-1927. This period covers a time of enormous economic expansion, employment was nearly doubled, the industrial wage bill rose from 1.3 to 10.1 million dollars; wage rates and prices soared to dizzy heights in the boom years of 1919-20, and then fell rapidly. The whole period was characterised by a revolution in
mechanisation. But, despite these conditions, the labour percentage of the net production shows an astonishing degree of uniformity:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1899</td>
<td>... 40.17%</td>
</tr>
<tr>
<td>1904</td>
<td>... 40.4%</td>
</tr>
<tr>
<td>1909</td>
<td>... 39.3%</td>
</tr>
<tr>
<td>1914</td>
<td>... 40.2%</td>
</tr>
<tr>
<td>1919</td>
<td>... 40.4%</td>
</tr>
<tr>
<td>1921</td>
<td>... 43.2%</td>
</tr>
<tr>
<td>1923</td>
<td>... 41.3%</td>
</tr>
<tr>
<td>1925</td>
<td>... 38.9%</td>
</tr>
<tr>
<td>1927</td>
<td>... 38.3%</td>
</tr>
</tbody>
</table>

From 1899-1919, the maximum variation was only 1.4%. With the sudden drop in prices between 1920 (index 151) and 1921 (index 104), the percentage rose to the abnormal level of 43.0%. The years 1925 and 1927 show an altogether lower level. But this time, post-war reorganisation had been well established, and one of its characteristics was the large growth of the white collar worker who probably absorbed a much larger share of the net product in the form of staff salaries, thus altering the rates of productive wages.

(3) 1929-33

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>... 36.4%</td>
</tr>
<tr>
<td>1931</td>
<td>... 37.0%</td>
</tr>
<tr>
<td>1933</td>
<td>... 36.1%</td>
</tr>
</tbody>
</table>
This period covers very wide fluctuations in trade; employment fell from 8.3 millions in 1929 to 5.8 millions in 1933. Wholesale prices from index 95 to 71; wage rates from 109 to 87. Despite these, the ratio again remained remarkably uniform.

(4) 1935-39 (last year of census).

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td>39.41%</td>
</tr>
<tr>
<td>1937</td>
<td>39.31%</td>
</tr>
<tr>
<td>1939</td>
<td>39.41%</td>
</tr>
</tbody>
</table>

The following figure represents the whole period in four sections. It showed the ratio of the average annual earnings to the average net production per worker employed. During these years:

Wage-rates moved from 39 to 260 (index 1913 = 100)
Whole-sale prices from 61 to 150 and back to 37. The total wage bill from £ 372 mil. to £ 2000 millions.

The increase in mechanisation and the revolution in organisation cannot be measured numerically. Yet, through these great changes, booms and slumps, and in spite of strikes, lockouts and the economic turmoil of war, the annual earning of the worker is seen to move in a remarkably constant ratio to the net value, he produces.
U.S.A.  All Manufacturing.

1. Percentage of Net production paid out in wages.

2. Logarithmic graph of the ratio of wages to net productions per worker employed.

British Manufacturing.

The only years for which statistics afford a comparison are 1924, 1930 and 1935, the years of the census of production. The London and Cambridge Economic Service has computed the total wage bill for operations only which, on the figures of net production given in the census of production, show the following percentages:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>45.9%</td>
</tr>
<tr>
<td>1930</td>
<td>46.83%</td>
</tr>
<tr>
<td>1935</td>
<td>45.19%</td>
</tr>
</tbody>
</table>

Sources: The calculations are made from the summary at the beginning of volume 1, U.S. census of Manufactures, 1939.
The evidence is quite scanty, but, so far as it goes, it all points to the same conclusion. 

**Canadian Manufacturing.**

Far more complete figures for Canadian Manufacture are available, and the results are plotted in the following figure. Although the figures tend to show a greater variation in the percentages than is the case in U.S.A. Manufacturing, for considerable periods, the constancy is noticeable, for instance between 1929 and 1940 (The census is taken each year).

1929 ... ... 34.3% )
1930 ... ... 34.6% )
1931 ... ... 33.2% )
1932 ... ... 33.7% )
1933 ... ... 32.3% )
1934 ... ... 32.7% )
1935 ... ... 34.6% )
1936 ... ... 34.0% )
1937 ... ... 34.8% )
1938 ... ... 34.9% )
1939 ... ... 34.0% )
1940 ... ... 35.0% )

Recovery
Canadian Manufacturing.

1. Percentage of Net production paid out in wages.
2. Logarithmic graph of the ratio of annual earnings to net production per worker employed.

The above figures clearly indicate that though the share of labour has been increasing in the absolute sense, the ratio of their earnings to net production has been remaining almost constant. This shows that so long as the workers are rewarded by the wage-system alone, their progress is bound to be slow. Profit-sharing, if introduced will not only supplement their wages, but will also give them a stake in the concerns in which they are working. Besides this, the concentration of such a considerable part of the production in the hands of the higher income group has been regarded as one of the fundamental causes of Trade Cycle. It is believed that a general adoption of profit-sharing in industry will not only serve to reduce the inequality in the distribution of wealth but also tend to minimise the swings of the business cycles by channelling purchasing power to the lower wage group whom Keynes considered as having a "high propensity to consume".

Source: Calculated from the figures supplied in the Canada year book, 1943-44. p. 405.
CHAPTER II

PROFIT-SHARING — ITS DEFINITION AND TECHNIQUE.

In all the statistics published on the subject prior to the first world war, the definition of profit-sharing was taken to refer to definite arrangements under which employees regularly receive in addition to their wages or salaries, a share on some pre-determined basis in the profits of the undertaking, the sum allocated to employees varying with the level of profits. Thus the International Congress on profit-sharing which met at Paris in 1889, defined profit-sharing as "an agreement freely entered into by which the employees receive a share fixed in advance of the profits". The congress interpreted it to include both legally binding agreements and those in which there was no other than moral obligation, emphasis was upon the necessity of determining in advance, the method of sharing profits. Closely following the Congress, the Report on profit-sharing and Labour Copartnership in the United Kingdom defined it as "a scheme whereby the workers receive in partial remuneration of their labour, and in addition to their wages, a share fixed before-hand in the profits realised by the undertaking to which the profit-sharing term relates". Accordingly, all types of

piece-work payments and all arrangements for the payments of bonus varying according to output, sales, savings in production costs, etc. were excluded. Similarly, arrangements under which an employer decides entirely at his discretion whether to pay a bonus, and if a bonus is paid, were normally excluded.

With the development of various forms of employee welfare plans some writers on profit-sharing especially in the United States of America tended to widen the meaning of the term to include other measures. In an enquiry made on the subject by the United State Industrial Counsellors profit-sharing was defined in a wider way as payments in the form of cash, stock, options, warrants or otherwise, given under a predetermined and continuing policy by the management of a company to all or any group of its officers or employees in addition to their established wages or salaries. Specially excluded were such forms of extra-wages or salary compensation as royalties or other payments based directly upon the adoption of specific innovations or suggestions, sale commissions, individual bonuses based solely on measured production or reduction in operating cost, attendance and Xmas bonuses, payments on insurance or to retirement or other benefits or saving plans not based directly on profits. It also did not include payments by any individual contract for the employment of a specified person, at compensation
determined in whole or in part by volume of profit. The United States Senate Committee on profit-sharing gave a more comprehensive scope to profit-sharing and defined it "as all employee benefit plans to which the employer contributes any sums or because of which the employer incurs any expense." 3

But these wide generalisations which have been used for all practical studies of profit-sharing in the United States did not find favour with the British experts on the subject. But of late, even in the United Kingdom, the conservative definition is being slowly widened to accommodate new changes in the field of profit-sharing. In the course of a recent investigation into the subject in the United Kingdom, considerable arrangements were discovered by which although no pre-determined basis was laid down, a bonus out of profits was regularly allocated to employees, the amount of which fluctuated in practice broadly in accordance with the level of profits. Arrangements which were wholly excluded from the pre-war statistics have been included in the present survey, because they have been found to be operating in consonance with the spirit of profit-sharing and as having as

objectives not differing fundamentally from those schemes, in which the basis of allocation is specifically laid down in advance. 4

Another departure from the pre-war definition may be mentioned. In the International congress referred to above, considerable emphasis was placed on the necessity for a profit-sharing scheme to be one which extends to all, or the large majority of, of the employees of the firm in question. Accordingly, the Ministry of Labour's pre-war statistics excluded not only arrangements for the sharing of profits with only a few special employees (e.g. managers) but also number of schemes in which participation was not extended to the bulk of those employed in the undertaking being confined to those classified as "staff" or to particular sections of the undertaking. In the recent enquiry, already referred to, a small number of similar schemes was encountered. In some of these undertakings, the classes of employees who are excluded from participation are covered by other bonus arrangements such as output bonus systems. In all these cases noted, the employees who do participate represent a whole group or class and do not consist simply of a few specially selected employees. Accordingly, the

schemes have been treated as examples of profit-sharing, within the limited field in which they operate and they were therefore included in the survey. Thus both in the United States of America and the United Kingdom, the scope of the subject has been considerably enlarged in order to accommodate new branches of development.

Methods of Profit-sharing.

Profit-sharing as practised in foreign countries falls under three categories. They are:

(a) Cash payments are made at the end of stipulated periods.
(b) Participation is deferred by placing the profits which are to be divided, in a savings account, provident fund, or annuity fund.
(c) Payment is made in the shape of shares of stock.

By far the most common and popular form of profit-sharing is cash payment. This consists of two-thirds of the plans introduced in Great Britain and a considerable number of those in vogue in the United States. About 10,000 American firms now operate employee profit-sharing plans according to the United States Bureau of Internal Revenue. These firms range in size from the Mail Order Firm with 12,000 employees to a wide variety of Smaller Enterprises such as newspapers, retail stores, banks and factories.
About 85 variations of two principal types (the first two) of plans are in operation. There are current payment plans in which workers share the profits periodically and deferred plans in which the employees' share of the profits is placed in a Trust Fund for future distribution. Many companies mix the two plans in which one-third of the profit-sharing funds is distributed outright, one-third placed in reserve and the rest towards building up a Retirement Fund. 5

Deferred participation is carried on in some concerns by placing the employees' share of profits in an account on which he may draw at any time on short notice. In this type of profit-sharing scheme, it is more common for the account to be placed to the workers' credit in a provident or superannuation fund in which case the bonus cannot ordinarily be withdrawn while the worker is in the employ of the Company. Frequently, it is retained, partly or wholly for investment in the enterprises, yielding 3 to 6 percent interest. The accumulations are usually payable upon retirement, termination of employment, permanent disability, death of the participant or in specified cases of urgent need. Usually workers who leave the service of the company, go out on strike or are dishonorably discharged, are debarred from participation in

the benefits, although in some plans employees on account of ill-health, or for other good reasons receive a part of the savings. This method has not found general acceptance, because the indefinite postponement of participation has not given the necessary incentive to increased efficiency or good-will.

The third type makes payment in the form of shares of stock which are issued to employees in some instances without giving any sort of recognition to superior service, for a term of two to five years. A number of plans provide for the issue of stock to employees at a price below the market rate, payments to be made in instalments. Under the English system, employees holding shares are given a cumulative preferred dividend and in others the workers receive dividends with holding regular shares, certificates being given to them which are not marketable as are the shares held by ordinary investors. Where shares are issued free or on favourable terms, there is ordinarily a maximum limit to the number set aside for this purpose. In England this maximum ranges from £50/- to £1000/- for each person. In the United States, the number of shares that can be held by individual workers varies widely; but the usual basis is the workers' earning capacity. Apart from the method
of payment, current profit-sharing schemes differ in three main ways.

(1) The nature of profits shared — that is the method of calculating the total amount of profit to be distributed.

(2) The application of the share — the method by which employees' shares in the distribution are arrived at.

(3) The qualifications for a share — the conditions of employees' eligibility.

(1) Determining the profit-share.

In formal profit-sharing schemes, the determination of the profits to be shared is described in a great variety of ways. In some cases, it is so nearly an arbitrary declaration of an indeterminate sum, by the Boards as almost to disqualify the distribution as a profit-sharing scheme; for example, such a statement as that a "fixed sum" will be distributed "after all charges have met". In other cases, at the other extreme, the charges to be met out of the gross profits are specified in considerable detail and the disposal of the residue is defined by the allocation of fixed proportions to a number of purposes, including the profit sharing bonus. There are usually three common methods which are used for this purpose. They are
(a) the direct sharing of profits (b) the wage dividend plan and (c) the percentage-of-pay system on the Datum-Line-Method.

(a) The Direct sharing of Profits.

Under this type which is the most common, the employees' share of the profits is fixed at a definite percentage of the profits earned. In such schemes, the profits are divided before making any provision for a return on capital or for the payment of taxes. In others, after certain specified deductions are made from the gross profits for depreciation, provision for anticipated expenditure, reserve etc., the balance is divided 50-50 between the share-holders and the employees. The significance of this division depends on the size of the labour force or of that portion which is eligible for the bonus and the number of shareholders. In consequence, this type of scheme has sometimes run into difficulties on account of substantial alterations in the size of the number of either party to the division. The main advantage is the comparative simplicity of its operation and the impression it gives of equality of fair treatment of the two sides in industry. A typical example is "The Sears, Roebuck Plan" (a large Mail order Firm) which was established in the United States of America in 1916. It is a deferred distribution

plan with a distinct bias on savings by the employees. All employees, after a continuous service of one year with the company are entitled to join the plan. Those who participate are required to deposit in the profit-sharing fund 5 percent of their wages. The firm in its turn contributes to the fund a percentage of its consolidated net income on the following sliding scale. Five per cent if the consolidated net income is less than 40 million dollars for the year; 6 per cent. if it amounts to 40 million dollars or more, but is less than 60 million dollars, 7 per cent. if it amounts 60 million or more, but less than 80 million; 8 per cent if it is between 80 and 100 million; 9 per cent if it amounts to 100 million or more. In 1947, the company's net income reached 107 million. Each employee's share of the company's contribution to the profit-sharing fund is determined according to the length of his service with the company and his own deposit in the fund, rising from a sum equal to the deposit made during the previous year in the case of an employee with less than five years' service to a sum equal to four times the deposit made during the preceding year in case of an employee over fifty years of age and with fifteen or more years' continuous service. The fund is administered by a Board of Trustees — three company
officers and two employees. An employee can withdraw his share in the fund upon retirement, death, cessation of employment or certified emergency. The firm's profit-sharing fund is valued at 200 million dollars and over 81000 employees or almost 99 per cent of those eligible have joined the programme out of their own free will.

(b) The Wage-dividend-plan.

This method is a variant of the above, and is to make the bonus equivalent to dividend paid in excess of a fixed minimum rate of dividend. In this case, a minimal return on capital is in effect included in the prior charges of the profits, before a 50-50 division of the residue between shareholders and employees. The Eastman Kodak Company's plan which has been functioning since 1912 is a current distribution plan of the above type.7 The employees' share of profits is related to the dividends declared for stock-holders and is distributed each year in cash. The firm has got about 40,000 workers and all employees hired on or before the first October each year participate in profits if still on the pay-roll of the firm when profit-bonus is paid in March of the following year. For each 20 cents by which the dividend declared on common stock exceeded 70 cents per share, during the

7. Ibid. p. 12.
preceding year, the eligible employees receive 5 per cent of their total earnings from the company (excluding the profit bonus) in the five years preceding the year in which payment is made. During the period, the plan has been in operation, over 86 million dollars have been distributed to employees as their share of the company's profits; and in March 1948, 49,300 employees received the largest dividend in the company's history — a total of 11.6 million dollars.

Both in this variant and the basic method described earlier, the payment of dividends on preference shares is usually included among the prior charges and the 50-50 division is related only to ordinary share-holding.

(c) Datum-line method.

Among the methods of determining distributable profits which are not related to dividends, the most common are those in which a datum-line is drawn which the profits must exceed before any distribution to employees is made, the amount of the distribution being usually the whole or portion of the excess. Such a line may be drawn at any point before or after charging any particular items of expenditure and the practice of the company adopting this method varies widely in the choice of which side of the 'line' various items
shall be reckoned. Because of this elasticity in application, the method does not differ substantially in its result from those based simply on a share of "net profits" and the chief reason why it has been used by companies seems to be its effects of giving warning that there will be no profit-sharing in bad times and the relief it affords from having to calculate and distribute very small profit-shares in years of very low net profits.

In some cases, the 'datum-line' takes the form of a percentage or proportion of the year's profits as a percentage of previous year's profits. In other cases, notably those of old established private companies with little or no capital share-holding other than 'family' or 'founder' and not much variation from year to year in turnover or labour costs, the datum-line may not be simply a fixed figure, the purpose and composition of which are not revealed.

An example of this type is to be found in the Rowntree and Company's profit-sharing scheme, drawn up in 1923 which is a straight-forward cash distribution plan. From the gross profits of the company, taxes are first deducted as also a return of 7½ per cent on

the capital invested in the business as the "standard wage of capital". Of the balance of profit remaining, 10 per cent is paid to a dividend reserve account (until this reserve amounts to one year's standard wage of capital) to provide for the payment of dividends during years of poor earnings. Of the net profits of the company computed on this basis, one-tenth goes to the Directors, four-tenths as their extra-share to capital contribution and one-half to the employees, the share of each employee being in proportion to his weekly earnings. All payments are generally made in cash and the plan is administered by the profit-sharing committee of nine members, a majority of whom are employees. An interesting provision of the plan is the right given to this committee, if it so decides to appoint an employees' Accountant whose fees are payable out of labour's share of profits, to check the profit statement drawn up by the company.

(2) Application of Share.

The second of the ways in which schemes differ, that is the way in which the distributable profits is applied and the employees share in it are arrived at — shows an even greater variation that the ways in which they differ in determining the profit to be
distributable. A great deal of ingenuity has been applied especially in the earlier days of profit-sharing to devising methods of distribution and some extremely complicated systems have been evolved. Nowadays, such ingenuity appears to be at a discount and the majority of schemes introduced in recent years have relatively simple methods of applying and distributing profits. The customary method in the last ten years has been to apply the amount of distributable profits to the total wages and in proportion to individual pay, with loading for long service.

In great many cases, the scheme is operated through a Trust, especially where the whole of the profit sharing bonus is not paid in cash. The Trust receives the distributable profits from the company and applies it according to a Trust Deed. The Trustees usually include employee representatives.

In a small number of companies, the bonus is distributed at a flat rate, regardless of rate of pay and length of service, or any other differentiation. In a rather large number of schemes, the application of bonus to basic pay, whether wages or salary, without any loading for status or length of service and without any account of overtime or other
increments to pay. In most cases, the total profit to be shared is divided by a number of 'points' representing the total of basic pay plus other points for a variety of special qualifications such as length of service, status etc., to arrive at a basic value for each point and each individual share is calculated by the number of point values he is entitled to. Sometimes, the result of the application of the total share to the total wages bill is expressed after so many extra works' wages.

It is in the method of loading the basic entitlement that a company's view of the functions of profit-sharing is more often revealed. For example, companies which gave a high and increasing loading for length of service may be thought to regard profit-sharing primarily as a reward for loyalty and also to subscribe to the view that it is the oldest employees who most need a share as a contribution to their income on retirement or dependants if they die. Those who begin the length of service loading early and maintain it at a constant rate perhaps attach more importance to profit-sharing as an inducement to loyalty, rather than as a reward of it and possibly have a higher expectation than the former group of its value in instilling a habit of thrift in the young. On the
other hand, those companies which do not load for length of service but increase the bonus share in accordance with status or quality of work may perhaps attach significance to profit-sharing as an incentive to production. The Imperial Chemical Industries which very recently introduced a scheme of employee-shareholding on a basis of profit-sharing excluded long service loading on the ground that it would detract from the idea that a profit-sharing is something earned each year by the corporate efforts of all concerned. In some cases, an attempt is made to give some weight to all these factors which result in the adoption of extremely complex formula. Generally, however, in the majority of cases the workers' share in the profits is linked to his annual earnings exclusive of overtime.

(3) Qualifications for a Share.

The third of the main ways in which profit-sharing differs — that of eligibility of employees for participation — throws up another example of the artificiality of the conventions which historically has been built up around the subject. The commonest

condition of eligibility among companies with profit-sharing schemes is a period of service with the firm. In a recent survey conducted in the United Kingdom, of sixty old well-known schemes in the country, fifty have some service qualifications. Half of them make the length of service one year, a quarter make it six months and the remainder requires a longer period either two or three or five or twelve years. 10

Administration.

By far the most important aspect of the administration of profit-sharing schemes in the opinion of a number of its experienced practitioners is the provision made to inform the beneficiaries of the way their share is arrived at. Some go so far as to say that nowadays the most substantial benefit to be expected from profit-sharing is its educational value, in enlightening employees by means of something in which they have a direct personal interest about the "facts of life" in business. It is certainly the case, that the companies which seemed to have derived most advantage are those which have effective systems of bringing the facts that lie behind the announcement of the year's share, not merely to the notice, but to the attention of their employees.

Profit-Sharing Committees.

Not all companies have special mechanism of communication for this purpose, many rely on existing channels, such as work councils. Where there is special mechanism, it generally takes the form of an administering committee for the profit-sharing scheme composed of management and employee representatives. In a number of cases, they are the Trustees of the Trust Fund. The functions of the committee are:

(a) To be informed of the financial position;
(b) To agree the calculation according to the prescribed formula of the amount available for profit-sharing;
(c) To check its application to whatever is the recognised aggregate entitlement in its distribution; and
(d) To settle any question arising on individual entitlement.

Above all, it is the function of the committee to see that the essential facts about the annual allocation are broadcast to and understood by the employees. In this process, it is the general experience that valuable and necessary as is the posting of notices or the circulation of printed
statements, the most effective form of communication is by word of mouth from the employee and management representatives on the committee. The occasion on which this communication is made varies from company to company at the time of audit, at the publication of accounts, on the day of annual general meeting, at the declaration of dividends shortly before annual holidays, or at regular intervals. It is clearly easier to make periodic announcements if there is a standing committee concerned with the scheme.

**Disclosure of Financial Information.**

The nature of financial information disclosed to the committee depends on the circumstances of particular company including the annual published accounts if any, but it is increasingly the practice to disclose at least as much as is disclosed to the shareholders and to disclose it in terms which relate it as closely as possible to the day to day experience of the men on the factory floor on the works office.

At the introduction of the scheme nowadays, care is generally taken to consult before-hand not only the employees, but also the Trade Union Representatives. Trade Unions tend as a rule to dissociate with some care from profit-sharing, but they have not recently set
themselves to oppose the introduction of schemes which have been fully explained to them before-hand and on which their advice has been sought on any points that might seem inimical to their interests.

Objectives of Profit-Sharing.

Various managements have introduced profit-sharing with various motives. They range from pure altruism to gross egoism. Between the two extremes, there lies the hybrid motive of altruistic egoism — where profits are shared with the workers in the expectation of increasing largely the sum total of profit and hence the share accruing to capital. Among the objectives that are commonly declared in the United States of America, the most important have been:

1. The avoidance of strikes and the maintenance of a contented labour force.
2. To act as incentive to increased efficiency and greater output.
3. To bring about certain flexibility in the wage system by an automatic adjustment of the total remuneration of labour to business fluctuations.
4. To instil in labour the desire of saving and a sense of security.
5. To help reducing labour turnover and
(6) To provide for old age and finally to preserve capitalism against threat of liquidation, by giving labour a stake and status in it.

Apart from these widely publicised motives, certain managements have instituted profit-sharing with the object of achieving some clandestine ends. One of these has been the desire on the part of management to combat the growing influence of trade unionism among the ranks of labour. All such schemes started with this dubious motive had actually accentuated rather than attenuating industrial unrest, and eventually, they had foundered on the rock of labour's increasing hostility. Another such motive has been the desire on the part of certain managements to use profit-sharing as an alternative to paying the prevailing wage scales. In America, during the war and post-war periods, a crop of schemes came into existence as a consequence of the managements' desire to avoid taxation. According to a report published by the Industrial Relations Counselors, in 1946, "the spread of profit-sharing plans and the increased distribution under them in prosperous times support the notion that there is an element of tax-avoidance in profit-sharing".

The table below shows the result of the most comprehensive study of the National Industrial Conference Board. Executives of 182 profit-sharing companies mention the goals listed in the table. It will be seen that approximately 60 per cent. of the companies expect their plans to result in either better labour relations or greater work productivity.

**Purpose of sharing profits in 182 Companies.**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Number of companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve morale</td>
<td>48</td>
<td>24.6</td>
</tr>
<tr>
<td>To reward extra effort</td>
<td>36</td>
<td>19.8</td>
</tr>
<tr>
<td>To increase efficiency</td>
<td>24</td>
<td>13.2</td>
</tr>
<tr>
<td>To promote systematic saving</td>
<td>23</td>
<td>12.6</td>
</tr>
<tr>
<td>Because of belief in principle</td>
<td>18</td>
<td>9.9</td>
</tr>
<tr>
<td>To reduce labour turnover</td>
<td>17</td>
<td>9.3</td>
</tr>
<tr>
<td>To adjust compensation</td>
<td>12</td>
<td>9.3</td>
</tr>
<tr>
<td>As preparation for transferring business to employees</td>
<td>4</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>182</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

In the Stewart and Couper study, the reasons for instituting profit-sharing plans were secured from 94 Executives. These management objectives are listed in the table subjoined. Indicative of growth in popularity of deferred distribution plans is the most frequent reason for plan adoption, providing for retirement of benefits. This goal was not stated in the previous table.

Management objective in instituting 94 plans.

<table>
<thead>
<tr>
<th>Reasons for adopting profit-sharing plans.</th>
<th>Number of plans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide for retirement benefits</td>
<td>36</td>
</tr>
<tr>
<td>To stimulate greater effort or interest</td>
<td>31</td>
</tr>
<tr>
<td>To reward exceptional service</td>
<td>20</td>
</tr>
<tr>
<td>To encourage employee savings</td>
<td>7</td>
</tr>
</tbody>
</table>

The desire to reform society is said to be as old as humanity itself, although the first written evidence of it appeared only with Plato's Republic. Just as Plato wrote his Republic and Sir Thomas More his Utopia to eradicate the social evils of their times, so also profit-sharing was started both in its classical home of France and later on in the United Kingdom as a manifest expression of the Social Reform Movement that swept Europe during the nineteenth century.

Product-Sharing.

The genesis of profit-sharing has to be traced back to the 'produce-sharing' which was practised in agriculture, fishing and mining from very olden times. The remnants of this method still linger in the share of the produce often granted to workers in these industries. But with the growth of modern large-scale production and the minute division of labour, the system was rendered impossible of extension, as the goods produced by many of the industrial workers were unfit for direct consumption. The specialisation of function with the resulting growth in the size of industrial units has meant the depersonalisation of industry. Interests as well as
employments have been narrowed, specialised and
distinguished so that capital and labour which were
employed in production came to regard their interest so
opposed to each other. Each began to claim a larger
share of the produce of their common venture. Some
means had to be discovered in order to reconcile these
conflicting claims and it was to bridge this ever-widening
chasm that profit-sharing came into existence.

FRANCE.

France is considered to be the classical home of
profit-sharing. Though the principle of labour participation
in industrial profits was adopted in the country as early
as 1775, it was systematically put into practice only from
1842, by a Parisian Painter by name Leclaire. Since he
was the pioneer in the field, he was called and
rightly so the father of profit-sharing. He carried
profit-sharing a long way on the road, not merely to
cow-partnership but to complete democracy in industry.
Born of very poor parents and in very humble circumstances,
Leclaire by dint of his honesty, ability and moral
rectitude, gradually rose to the position of one of the
most conspicuous "Captains" of French industry. His
whole life can be aptly termed as a continuous
experiment with the concept of profit-sharing.
Leclaire the Father of Profit-sharing.

Edmund-Jean Leclaire was born in 1801 in a small village about 100 miles south-east of Paris. Being the son of a poor cobbler, he had very little of schooling and was constrained to leave his education at the early age of ten. For about two years, much against his will, he had to become a tender of cattle. But he was so thoroughly out of joints with his work that he discarded after two years and got himself apprenticed to a mason. But even in this new vocation, life to him was far from being satisfactory. At the age of seventeen, he took himself to the city of Paris where he became an apprentice to a painter. Here also, he was the object of much privation and harsh treatment, but undaunted by the uncongenial circumstances, he stuck to his job tenaciously. He worked hard, conducted himself well and thus rose to the position of an overseer. Impressed by his perseverance and good workmanship, his master increased his pay which enabled him to save substantially. Always conscious of his natural abilities and aptitudes, he supplemented his meagre education by taking lessons during leisure hours.

At the age of 22, he married. By this time, he became a good decorator, his wages rising to eight francs a day. When he attained 26, he severed his connections with his master and set up an independent career by starting a shop of his own, the capital of which did not exceed a thousand francs. Though his capital was but
scant, his energy and enthusiasm were unbounded. 

"Whoever worked on the ladder near him was electrified by his zeal. Alert and adroit, he astonished his fellows by many a bold feat, mastered them, obliged them to imitate him, lost not a minute, and hardly took time to eat the frugal meal which Madame Leclaire brought."

In 1829 he contracted to paint seven houses at a cost of 20,000 francs which was much below the usual rate. He inspired his employees to better work by paying higher wages, and thus he was able to pocket a clean profit of about 6,000 francs, in his maiden attempt. The excellent work done by Leclaire and his group soon attracted the attention of many Parisian architects who patronised him with increasing orders. In 1834, he shifted his shop to a bigger building and from then, he could very easily count among his new patrons such institutions as the Bank of France and many Rail-Road companies. He had on his wage-roll a regular labour force ranging from 60 to 80, all very intimately attached to him. He advanced money whenever wages were low to be recovered during periods of plenty. But he was a task-master too. Unable to cope up with the strict discipline, many workers left him only to return to their old master after an interlude of drunkenness and vagabondage.

1. N.A. Gilman "Profit-Sharing between Employer and Employee". p. 67. London, Macmillan and Co., Ltd., 1900
So complete was his influence on the workers that they were prepared to work even on Sundays.

In 1833, Leclaire persuaded his permanent workmen to form a "Mutual Aid Society" which was to become the cornerstone of his subsequent profit-sharing scheme. This was supported by monthly subscriptions and limited to a period of 15 years, towards the end of which accumulated funds were disbursed among the members. His generous heart yearned for doing greater services to his employees. Especially the plight of old workers after retirement, or when a business was sold evoked his compassion.

It was with this aim that Leclaire evolved his profit-sharing scheme. In June 1840, he assembled his best and trusted men and explained to them at considerable length his profit-sharing programme, and sought their help and cooperation in its implementation. His appeal did not evoke any favourable response, as their minds were clogged with suspicion and misapprehension. After two years of education of his workers, he finally announced his scheme in February 1842; but even after the last two years of education and preparation, his workmen were not completely free from suspicion. However, in February 1843, he assembled his 44 painters who were eligible for profit-sharing of the previous year and flung upon the table a bag of coin containing 12,326 francs. When
distributed each got an average of £11. This had the remarkable effect of dispelling the doubts of even the most incredulous. For the year 1843, the profits divided were more than half as large again as 1842, the number of participants having gone up to 82. The following table gives the result for the first six years of experiment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Participants</th>
<th>Sum Divided (Francs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1842</td>
<td>44</td>
<td>12,226</td>
</tr>
<tr>
<td>1843</td>
<td>82</td>
<td>19,714\frac{1}{2}</td>
</tr>
<tr>
<td>1844</td>
<td>80</td>
<td>20,060</td>
</tr>
<tr>
<td>1845</td>
<td>90</td>
<td>19,404\frac{1}{2}</td>
</tr>
<tr>
<td>1846</td>
<td>92</td>
<td>20,388\frac{1}{2}</td>
</tr>
<tr>
<td>1847</td>
<td>98</td>
<td>20,754\frac{1}{2}</td>
</tr>
</tbody>
</table>

For the first six years, the average amount divided among the members on the basis of wages earned during the year was 18,765 francs, that is about 3,753 dollars. The sum distributed among the workmen varied according to the amount of their yearly wages. The average per worker for the first five years was 279 francs, or 56 dollars, for the next five years, in which the average number of participants was twice as great, the average bonus was 227 francs or 45 dollars.

Source. Ibid p.79
One of the limitations of Leclaire's profit-sharing scheme was that it was confined to his permanent workmen who were called the "noyau" or kernel. Though the number of workers increased year after year, it was only the permanent members who were entitled to share the profits until 1870. In that year, stung by the remark of a Socialist "your house is nothing but a box of little masters who make a profit out of the others" Leclaire persuaded the Mutual Provident Fund Society to alter the scheme in such a way as to embrace the whole of the employees. Since 1870, every worker employed by the firm even for a single day was entitled to a share of the profits, in proportion to his wages for the time he was employed. In the first year of the change itself, 759 shared in the profits. In 1871, 1038; in 1880, 1125; and in 1912, 1277.

The profit-sharing scheme started by Leclaire in 1848 was a simple arrangement between himself and his workers. Until 1852, he was the only owner of the business. In that year, he took as partner M. Alfred Dufournaux, the son of one of his foremen and trained him in the house. In 1854 the Mutual Provident Fund Society was put upon the profits of the business. Previously, it had to depend upon the subscriptions of its members, henceforth, the whole funds of the Society were to be given by the business in each year. These gifts, however, were at that
time wholly dependent upon Leclaire's good will. The Mutual Provident Fund Society was, according to its constitution, formed for fifteen years only. In 1854, it was given an extension for another fifteen years, at the end of which the funds would be shared among the members. On this occasion, Leclaire prevailed upon the members that the Society should be made permanent, the sharing of profits being replaced by retiring pensions for members. In 1863, the Society was legally incorporated and made a perpetual limited partner. Leclaire and his partners retained (according to the French Law) unlimited liability for the debts of the business, but the Society assumed only limited liability. The finishing touch to the organisation was given in 1869, when the business itself was made a permanent legal individuality. From this date Leclaire shared no profit of the business except a 5 percent interest on the capital. Wishing that the organisation should learn to conduct itself alone, he had already retired from Paris to a country home where he breathed his last in 1875.

It is of some interest to dwell at some length on the constitution of the scheme. It is already seen that there are two partners who have got unlimited liability. Then there is the Mutual Provident Fund Society with limited liability. Towards the start, the capital was 400,000 francs but 1890, this raised to 800,000 francs.
of 500,000 francs belonged to the Mutual Provident Fund Society and the rest was owned by the unlimited partners. In addition to its share in the business, the Mutual Provident Fund Society had a large capital, part of which was lent to the business. In 1908, the amount so lent came to 826,000 francs, so that the society had altogether about £53,000 in the business.

With regard to the division of profits, 5 percent is paid on the capital of the partners. Of the remaining profits, 85 percent is given either in cash or in benefits, to labour and only 15 percent to the managing partners. As to the 85 percent which goes to the workers, 50 percent is dividend on wages to which all the workers are equally entitled according to wages earned. No dividend was payable on overtime, piece rate or special remuneration. The remaining 35 percent which is paid to the Mutual Provident Fund Society also benefits the whole of the workers to some extent; but the members of the Society benefitted most. Provision was also made for putting part of the profits to a Reserve Fund of 200,000 francs which for a long time stood at its full amount.

A Managing Partner was elected for life; but could resign whenever he liked. Either Managing Partner acting jointly with the President of the Mutual Provident
Fund Society could require the other Managing Partner to retire, but this could only be done on the report of the two members of the Noyau appointed to examine the accounts. A retiring Managing Partner could make no claim on the Reserve Fund or the profit of the year, or the goodwill or property of the business; he was entitled to the salary to the end of the year and a lump sum of £240 extra. He could also claim his share of the capital on retirement.

Besides the Managing Partners, the strength of the society lay in the Noyau of about 136 selected employees. Every member of the Noyau should be between 25 and 40 years of age, and be able to read, write and do figures. He should also have a sound knowledge of his trade and should have good character and conduct. He should be nominated by a conciliation Committee and be elected by the general meeting of the Noyau. During slack period, it is the members of the Noyau who have the first claim to work. The Noyau had to perform very important duties. In case the Managing Director dies or retires, it elects from the employees of the firm his successor. It had to discharge this onerous responsibility five times and on all these occasions, its discretion had been thoroughly justified. In order not to limit the choice, it is provided that the new partner may contribute his share
of the capital from his share of profits. Every year, it elects eight members to a conciliation committee mentioned above. One of the managing partners is also a member and chairman. The committee might warn, suspend or dismiss any member from the Noyau, the Provident Fund Society or from the employment of the firm itself, if he misbehaves. It has also to examine the applications of those workers who seek entry into the Noyau. It elects annually all the foremen of the business from a list prepared by the managers.

Next in importance is the Mutual Provident Society. The minimum qualification for membership is that such a worker should be a member of the noya, should have good health and have been in the employ of the firm for a period of five years. It renders many services such as medical benefit and sick pay, maternity benefit, pensions of £60/- a year to every member who has reached the age of fifty and served the firm for 20 years, free life insurance for £40/- and funeral benefit. In the event of the firm being wound up, its reserve fund, good will and property would fall to the Mutual Provident Society, which by its statutes must then become a "Retiring Fund" for incapacitated house-painters.

The constitution of the business is such as almost to take it beyond the scope of ordinary co-partnership.
between workers and employers, into the realm of cooperative productive societies. But it does not embrace all the salient features of a cooperative productive society. Executive power and a considerable part of the capital and profit remain in the hands of the unlimited partners. Although the entire number of workers share largely in the profits, membership and its allied powers remain vested in a comparatively few. It may therefore be regarded as a partnership between the unlimited partners and the members of the Mutual Provident Society, with a very liberal profit-sharing arrangement between partnership on the one side and workmen on the other side.

Thus the profit-sharing scheme that Leclaire started has more than fulfilled the just aspirations of the founder. Even after his death, it went from progress to progress and blessed both the giver and the taker. Beginning business from almost nothing, he left £ 48,000/- on his death, and often enough declared that but for profit-sharing he could not have amassed so much even by fraudulent means. What he aimed at and accomplished was no reorganisation of society, no revolution in the world of labour, but a true evolution into an industrial system better than the pure wage system. No wonder he is called the "Father of Profit-sharing."
Next in importance to Leclaire's profit-sharing scheme was "The Familistere at Guise" founded by Jean Baptiste Andre Godin, which enjoyed an international reputation. The great foundries at Guise manufactured cast iron wares for the kitchen and general use and heating apparatus of different varieties. It was Godin's inventive genius that was responsible for replacing sheet iron by cast iron for the first time in the manufacture of stoves. When he started the business in 1840, he had only a handful of workmen numbering about 20; but by 1880, the labour force swelled up to 1400 at Guise and 300 in the various branches. Side by side with his great manufacture, worked another organisation for mutual aid among the workmen, financed by the proprietor; but he could introduce profit-sharing only as late as 1877. Like Leclaire, he too had to tide over the initial difficulty brought about by the ignorance and misdirected incredulity of many of his men. On the day of the first distribution of about 100,000 francs many of his workers flatly refused to accept their portion on the plea that they knew nothing about the object of such a distribution. Undaunted by their refusal, he deposited the entire amount in a bank only to find that the workmen came one after another to draw their share after some time.
The entire bonus of 172,266 francs for a period of three years from 1877-1879 was distributed in cash. But in 1880, the establishment was converted into a Joint-stock company with limited liability and it was only from thence onwards that profit-sharing was started in his business in the real sense of the term. What he aimed at was not an annual distribution of bonus, but a progressive transfer of business and of the associated "Familistere" into the hands of his workmen. Every detail of the business was so adjusted as to suit this end. The plan of computation of profits for division was as follows:

Ten percent on the value of the movable property of the society and five percent on the immovable property towards depreciation was the first charge on profits. Secondly, five percent interest on capital was deducted. Then a certain amount was set apart for the educational activities of the Familistere, and also a sum equal to 2 percent of the wages and salaries of the year towards pension fund. The net profits which remained after having provided for the above items was then divided thus. The Reserve Fund received 25 percent. Another 25 percent went to the management, the remainder being allotted to capital as a super-dividend, and to labour as a bonus on wages. The usual interest on the capital of the establishment and the whole amount paid out during the year in wages and
salaries were added together. The proportion each sum bears to the total amount determined the shares of capital and labour. Thus in 1880, interest amounted to 230,000 francs and wages to 1,888,000 francs. The bonus to labour accordingly was a little over eight times the amount of the super-dividend on capital. The bonus was not distributed in cash, but was all capitalised and applied towards the purchase of shares in the business. No man was eligible for participation unless he already owned a share; but every facility was given in the purchase of stock by employees. Godin himself was gradually selling off his capital to his workmen until his death and he expected the process to continue until such time as Madam Godin retained only the direction of the business. He wanted his workmen to imitate him in this field by releasing their shares to the younger in order that the ownership of the establishment remained in the hands of the actual worker. Godin's own capital in the business amounted to 4,600,000 francs in 1880. But the total capital of his had risen to 6,000,000 francs in 1883 of which 2,753,500 francs were sold to workmen by 1887.

The organisation of worker participators formed a hierarchical order. At the apex are the first-class partners (associes). Then comes the second-class members or associates (Societaries). The third-class members or
profit-sharers (participants) constitute the third category. All these three classes are shareholders while the fourth class members who are not individual share-holders, are known as helpers (auxiliaries).

On June 30, 1912, the first class-members numbered 426; the second-class 66; and third-class members 1188. The fourth class consisted of 926 members. There were also at that time 487 share-holders not employed by the company. These were retired employees or their representatives whose shares had not yet been paid out; they are known as "persons interested" or (interesses).

The qualifications for a first-class member are that he should be able to read and write and of good conduct; he should have worked for the society at least five years, should be 25 years of age, own £ 20/- in share capital and should have been elected by the first class members. For a second-class member, the qualifications are; to have been three years employed, to be 21 years old, to live in the building of the society, to be free from active military service. For the third-class member; to have been one year employed by the society and to be 21 years of age; but not necessarily to live in the buildings. The second and third-class members are admitted by the committee of management and the managing director.
The first-class members are like Leclaire's Noyau, a selected band, the backbone of the society. They constitute the annual general meeting and give their advice on all important expenditure outside the ordinary operations of the society and on proposed improvements. They accept or reject the annual accounts submitted to them, they appoint the Committee of Inspection and three members of the committee of management. On occasion, they elect a new Managing Director, who is the unlimited partner.

The Managing Director has the sole right to sign for the society, and to represent the society. He appoints and dismisses its officials and presents his Report annually to the General Meeting of the first-class members. The Committee of Inspection consists of three members appointed annually by the general meeting of the first-class members. It is their duty to see that the statutes of the society are observed, and that the books and correspondence are in order and to verify the account and balance sheet submitted by the Managing partner to the annual meeting. Their duties therefore closely correspond to those of auditors in an English company.

In dividing the bonus, each 'participant' claimed one part, each 'Societary' one and a half parts and every 'associate' two parts. In 1887, there were
93 associates, 209 societaries and 491 participants. The bonus of all classes amounted in 1882 to 30 p.c., 23 p.c., and 15 p.c., respectively, on their wages. From January 1880 to December 1883, a sum of 1,969,000 francs was applied to the conversion of shares in favour of workmen. During these four years, the workmen received in cash, 185,000 francs as interest and dividend on their stock. The following table shows the number, size and total and average value of the shares owned by the workers in June 1883.

<table>
<thead>
<tr>
<th>Size of share</th>
<th>No. of shares</th>
<th>Total value</th>
<th>Average value</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 and less</td>
<td>13</td>
<td>10,426</td>
<td>78</td>
</tr>
<tr>
<td>101 - 500</td>
<td>188</td>
<td>52,840</td>
<td>231</td>
</tr>
<tr>
<td>501 - 1000</td>
<td>167</td>
<td>132,662</td>
<td>794</td>
</tr>
<tr>
<td>1001 - 5000</td>
<td>318</td>
<td>706,010</td>
<td>2220</td>
</tr>
<tr>
<td>5001 - 10000</td>
<td>12</td>
<td>83,631</td>
<td>6969</td>
</tr>
<tr>
<td>10001 - 15000</td>
<td>2</td>
<td>22,231</td>
<td>11,115</td>
</tr>
<tr>
<td>15001 - 50000</td>
<td>4</td>
<td>131,941</td>
<td>32,985</td>
</tr>
<tr>
<td>Above 50,000</td>
<td>3</td>
<td>829,508</td>
<td>-</td>
</tr>
</tbody>
</table>

Source. Ibid, p. 185.
Over and above this pecuniary advantage, the society conferred on its members benefits of insurance funds, cooperative store, schools, parks and gardens, the wash houses and baths and the theatre. The schools are worthy of special mention. At a time when education was not such an accepted principle as today, Godin made every provision for education out of the profit for the education of the children of the Familistere. The founder, it is told "foresaw that each generation of workers would seek to assume the benefits of the Association to its own descendants and that thus the future prosperity of the work would depend on the education given to the rising generation".

Instances of similar exemplary schemes can be multiplied; but the above two schemes speak for themselves the enormous strides profit-sharing achieved in France even at as early a stage as the 19th century.

ENGLAND.

The earliest known example of profit-sharing was introduced in England by the British Union Fire Insurance Company in 1838. This was followed by the adoption of a profit-sharing scheme in the General Insurance Company in 1850. But only when the Christian Socialists, encouraged

2. N.A. Gilman "Profit-sharing between Employer And Employee". p. 150 op. cit.
by the success which profit-sharing acquired in France, took a keen interest that it became a live movement in the country. From 1850 this group had exerted a growing influence upon the infant cooperative movement and hence profit-sharing was widely adopted in cooperative societies. The first outstanding scheme of historical importance outside the cooperative movement, was that of Henry Briggs, Sons & Company, a firm of coal owners in Yorkshire. But this scheme which worked very successfully in the initial stages failed later. 3

In 1889, a profit-sharing scheme was started in the South Metropolitan Gas Company, which provided for the payment of a cash bonus varying inversely with the price of gas. As the dividend payable to share-holders under the company's Act also varied inversely with the price of gas, the employees' bonus was linked with the share-holders' dividends and thus with the company's earnings. The scheme underwent a revision in 1894 by which only 50 p.c. of the bonus was thereafter payable in cash, the other half being utilised for purchasing the ordinary stock of the company. By frequent revision, strong inducements were given to the workers to leave the withdrawable half

of their bonus on investments with the object of eventual investment. From 1910, provision was made that part of the bonus which could be withdrawn must be left with the company to accumulate at interest or invested in the stock of the company. It might be withdrawn only under very special circumstances. The name of the scheme was changed from profit-sharing to 'Copartnership' as the latter was more representative of the content and character of the scheme. It was for the first time made statutory in 1930. The basis of the scheme was further altered by which the surplus profits, after the payment of the prescribed basic rates of dividend on the company's stock were divided in the proportion of 3 to the consumers by way of reduction in prices and the remaining 2 in equal parts to the ordinary share-holders in the form of increased dividends, and to the participating workers in the shape of bonus at a uniform percentage on the salaries and wages.

Towards 1926, the employees of the company owned capital in the company to the order of £500,000 besides deposits at interest to the tune of nearly another £250,000. In another gas Company, the employees owned £750,000 of the company's ordinary stock.

Progress of the movement.

The first report which was published by the Labour Department of the Board of Trade records the existence of 101 profit-sharing business in 1894 embracing about 28000 employees. When a similar study was undertaken by the Board of Trade in 1915, it was found that the total number of schemes had increased to 133 with 106,000 workers. In comparing the two reports, the editor remarked "the fact that comes most prominently to light is the marked increase in those forms of profit-sharing in which the method adopted is either to invest the whole or part of the bonus in shares, or in other ways to secure that the employees shall possess a financial stake in the capital of business. Schemes of this sort have met with a large measure of success".

Till 1929, the movement was making consistent progress, though the initiation of new schemes was irregular. It occurred in bursts of activity. The periods conducive to the launching were the years of 1889-1912, 1908-1909, 1912-1914 and 1919-1920. It was found that periods of activity usually coincided with periods of good employment and industrial unrest. At such times, there seems to be recurring tendency on the part of employers to resort to the expedient of profit-sharing as a possible remedy for

6. Ibid p. 64.
7 unrest. By 1927, there were about 577 plans of all types out of which 280 were discontinued. The following table shows the total number of schemes launched in the various periods mentioned, the number of such schemes abandoned by the end of 1927 and the numbers and range of those surviving as shown in the Ministry of Labour Gazette for June 1928.

<table>
<thead>
<tr>
<th>Period in which started</th>
<th>Total schemes started</th>
<th>Schemes discontinued</th>
<th>No. of schemes in operation at the end of 1927</th>
<th>Total no. employees entitled to participate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1881</td>
<td>35</td>
<td>31</td>
<td>4</td>
<td>1700</td>
</tr>
<tr>
<td>1882-1890</td>
<td>80</td>
<td>69</td>
<td>11</td>
<td>17000</td>
</tr>
<tr>
<td>1891 - 1900</td>
<td>78</td>
<td>65</td>
<td>13</td>
<td>8900</td>
</tr>
<tr>
<td>1901 - 1910</td>
<td>82</td>
<td>44</td>
<td>38</td>
<td>87500</td>
</tr>
<tr>
<td>1911 - 1918</td>
<td>95</td>
<td>37</td>
<td>58</td>
<td>56500</td>
</tr>
<tr>
<td>1919</td>
<td>57</td>
<td>18</td>
<td>39</td>
<td>35000</td>
</tr>
<tr>
<td>1920</td>
<td>56</td>
<td>12</td>
<td>44</td>
<td>58800</td>
</tr>
<tr>
<td>1921</td>
<td>14</td>
<td>1</td>
<td>13</td>
<td>27900</td>
</tr>
<tr>
<td>1922</td>
<td>12</td>
<td>1</td>
<td>11</td>
<td>3300</td>
</tr>
<tr>
<td>1923</td>
<td>18</td>
<td>1</td>
<td>17</td>
<td>29000</td>
</tr>
<tr>
<td>1924</td>
<td>13</td>
<td>...</td>
<td>13</td>
<td>31200</td>
</tr>
<tr>
<td>1925</td>
<td>12</td>
<td>1</td>
<td>11</td>
<td>31100</td>
</tr>
<tr>
<td>1926</td>
<td>11</td>
<td>...</td>
<td>11</td>
<td>15700</td>
</tr>
<tr>
<td>1927</td>
<td>14</td>
<td>...</td>
<td>14</td>
<td>5900</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>577</strong></td>
<td><strong>280</strong></td>
<td><strong>297</strong></td>
<td><strong>409400</strong></td>
</tr>
</tbody>
</table>


With the onset of the great depression of 1929, the movement received a rude set-back. As a consequence many schemes disappeared; but many really sound schemes were able to weather the storm successfully. By 1932, there were in Great Britain 469 profit-sharing schemes of all types and the number abandoned was over 350. Those in private undertaking embraced 220,000 workers, a minority of the total number employed. 93 of the plans with 48,700 workers were linked up with share-ownership or copartnership. The movement languished further and in 1937, after more than half a century of development, the total number of enterprises known to practise copartnership and profit-sharing was 410, the number of workers employed being 429,000. Particulars regarding the progress or otherwise of the movement during the period between 1939 and 1953 are not available as no enquiries were made during this time. But in the latest enquiry conducted in 1954, it is found that it has made rapid recovery, and that about 551 plans embracing about 52,2105 workers are in existence. The following table shows the various types of plans in existence at the end of 1954 and the

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number of employees such plans cover.

<table>
<thead>
<tr>
<th>Type of Scheme</th>
<th>No. of schemes</th>
<th>No. of persons</th>
<th>No. of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Schemes operating on a pre-arranged basis: (Applying to employees in general)</td>
<td>400</td>
<td>570,909</td>
<td>380,865</td>
</tr>
<tr>
<td>2. Applying only to staff or to a particular section.</td>
<td>21</td>
<td>42,979</td>
<td>8,568</td>
</tr>
<tr>
<td>Total:</td>
<td>421</td>
<td>613,888</td>
<td>389,433</td>
</tr>
<tr>
<td>3. Other arrangements broadly of a profit-sharing character.</td>
<td>130</td>
<td>160,331</td>
<td>132,672</td>
</tr>
<tr>
<td>Grand Total:</td>
<td>551</td>
<td>774,219</td>
<td>522,105</td>
</tr>
</tbody>
</table>

From the foregoing, it can be seen that profit-sharing has had a long history in England the course of which was not very smooth. A large number of schemes has been

started, but are no longer existing. Many sound schemes have really stood the test of time. But in several cases, the schemes were brought to an end by the winding up of the business concerned by amalgamations with other undertakings or by other changes in the business. Although complete figures cannot be given, particulars are available in respect of 605 discontinued schemes and these schemes are analysed by duration and by the cause of termination, the latter being in most cases the cause as reported by the firm concerned. A few of the firms were short-lived, but over one half appear to have operated for periods of ten years or more and a considerable number lasted twenty years or longer. As regards the circumstances leading to the termination of the schemes, these were in very many cases connected with changes in the organisation of the business and in such cases the ending of the scheme may not have been due to any lack of success attaching to the schemes themselves. In this connection, special mention must be made of the situation brought about by the nationalisation of the Electric Industry in 1943 and of the Gas Industry in 1949. Before the war, a considerable proportion of the principal company which owned undertakings in these industries - especially those in the gas industry, were operating profit-sharing or copartnership scheme. Following the nationalisation of the gas industry, the
schemes then in force were continued in a modified form until March 1951 after which arrangement was made for the former "copartnership" to continue to receive, while they remained in the service of the 'Area Gas Board' by whom they were employed at the time of the arrangement, an annual fixed payment for a specified period equivalent to the bonus paid for the last completed year before 31st March 1951. This arrangement cannot be regarded as constituting profit-sharing and accordingly these gas company schemes have been included as terminated schemes shown in the following table. They account for 57 of the schemes classed as terminated because of "changes in or transfer of, business". Schemes in electricity undertaking also were continued in a modified form for three years after the nationalisation of the electricity industry and these account for a further seven schemes classed as terminated for these reasons.
### Analysis of Discontinued Schemes by Duration and Cause.

<table>
<thead>
<tr>
<th>Reported cause of termination</th>
<th>Under 2 years</th>
<th>2 and under 5 years</th>
<th>5 and under 10 years</th>
<th>10 and under 15 years</th>
<th>15 and under 20 years</th>
<th>20 years and over</th>
<th>Period not known</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Apathy of employees or dissatisfaction of employer's with results.</td>
<td>9</td>
<td>28</td>
<td>24</td>
<td>13</td>
<td>7</td>
<td>8</td>
<td>4</td>
<td>93</td>
</tr>
<tr>
<td>2. Dissatisfaction of employees.</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>3. Diminution of profits, losses or want of success.</td>
<td>6</td>
<td>23</td>
<td>19</td>
<td>22</td>
<td>15</td>
<td>18</td>
<td>2</td>
<td>111</td>
</tr>
<tr>
<td>4. Enterprise abandoned, death of employer, liquidation or dissolution of business etc.</td>
<td>9</td>
<td>12</td>
<td>4</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>3</td>
<td>54</td>
</tr>
<tr>
<td>5. Changes in or transfer of business.</td>
<td>2</td>
<td>7</td>
<td>15</td>
<td>12</td>
<td>15</td>
<td>78</td>
<td>11</td>
<td>140</td>
</tr>
<tr>
<td>6. Substitution of increased wages or shorter hours, or other benefits.</td>
<td>1</td>
<td>14</td>
<td>17</td>
<td>9</td>
<td>6</td>
<td>22</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>7. Other causes: cause not stated or indefinite.</td>
<td>6</td>
<td>8</td>
<td>14</td>
<td>7</td>
<td>9</td>
<td>39</td>
<td>33</td>
<td>116</td>
</tr>
<tr>
<td>Total:</td>
<td>35</td>
<td>96</td>
<td>96</td>
<td>81</td>
<td>62</td>
<td>176</td>
<td>59</td>
<td>605</td>
</tr>
</tbody>
</table>

In the course of the latest enquiry it was also found that 31 schemes prima facie based on profit-sharing and copartnership principles or defined by their promoters as such have been introduced since 1954. Of these 31 schemes, 24 are of the profit-bonus type and 5 are copartnership schemes providing for the issue of shares to employees on specially favourable terms. A number of other firms are believed to have introduced schemes recently or to be planning such action, says the report. Summing up the course of profit-sharing in the United Kingdom, J.B.P. Ribinson remarks that "the emergence in the past 100 years, despite of disappointment and bad times, of a limited but fairly constant number of such schemes covering at most some 2½ p.c. of industrial labour in the United Kingdom, but seldom covering less than half a million workers and not restricted to any particular trades or industries, nor to firms of any particular size, can be advanced in support of a contention that profit-sharing meets some deep-seated need in the national character which impels owners and managers, apart from any question of expediency, to devise ways of sharing their profits with their employees".

THE UNITED STATES OF AMERICA:

Whereas in Great Britain and on the continent of Europe, profit-sharing was a manifest expression of the Social Reform Movement, in the United States of America the ball has been set rolling by the action of certain enthusiastic entrepreneurs. Although the first profit-sharing plan dates so far back as 1794, it was the growing business prosperity during the first world war and after that focussed public attention on profit-sharing. The period in question was conspicuous for its high price, mounting labour unrest and declining labour productivity.

Albert Gallatine, Secretary of the Treasury under President Jefferson and Madison is regarded as the pioneer in the field of American profit-sharing. The first programme about which some clear proof exists was started in 1867, by the State Shoe and Leather Company, Worcester, Massachusetts. This was followed by the most famous of American profit-sharing scheme known as the Proctor and Gamble which operates even today.

Writing on American profit-sharing in 1889, Gilman found 23 plans in operation. Paul Munroe in 1896 discovered 50 American plans, but only 12 were actually

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10. Gilman. "Profit-sharing between Employer and Employee" op.cit. p. 359
functioning. Another study conducted by Canby Balderston in 1937 reported that at least 36 plans had been initiated in the United States up to 1900 as shown in the following tabulation.

<table>
<thead>
<tr>
<th>Period of initiation</th>
<th>No. of plans initiated in specified periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to 1881 - ....</td>
<td>6</td>
</tr>
<tr>
<td>1881 - 1890</td>
<td>23</td>
</tr>
<tr>
<td>1890 - 1900</td>
<td>7</td>
</tr>
<tr>
<td>1901 - 1910</td>
<td>17</td>
</tr>
<tr>
<td>1911 - 1920</td>
<td>75</td>
</tr>
<tr>
<td>1921 - 1930</td>
<td>24</td>
</tr>
<tr>
<td>1931 - 1936</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>185</strong></td>
</tr>
</tbody>
</table>

During the first decade of the present century, only 17 new plans came into being, one of them being that of Illig. Electric Ventilating Company, Chicago, a plan currently in operation. Among the well-known plans established between 1910-1918 are those of the Eastman Kodak Company, (1912), Sears Roebuck and Company (1916) and the Juslyn Manufacturing and Supply Company. In 1917, the

Source: Canbey Balderston "Profit-sharing for Wage-Earners" Quoted in "Profit-sharing" by Thompson, op.cit.p.12.
United States Labour Bureau of Statistics found 60 plans in operation under which distribution of stipulated part of the net profits to at least one-third of the company's total wage-earners and that under a much larger number, profits were shared with a few employees only.\textsuperscript{14}

A study conducted in 1920, reported the existence of 97 plans which were distributed as follows: Genuine profit-sharing plans 41, limited profit-sharing plans 14, wage bonus plans 30 and saving sharing plans 12. In the same year, the National Civic Federation, which gave a wider definition to profit-sharing found 214 American plans, of which 46 were percentage plans, 143 special distribution plans and exceptional\textsuperscript{15}.

As has already been stated, the movement got a fillip and a fresh vigour owing to the brisk business activity and high profits during the war and post-war period. A notable feature of the 1920's was the management's growing interest in Employee Stock Ownership plans. Because of the sharp rise in the price of the stock, the purchase of company stock by employees was found much attractive. This period also witnessed an increased interest in profit-sharing programme relating to the managerial and executive group.


\textsuperscript{15} Bryce M. Stewart. "Profit-Sharing for wage-earners and Executives" p.3. Industrial Relations Counselors. Inc. 1951.
The great depression that paralysed the American economy in 1929 administered a rude shock to the movement. Business failures and business losses that were well-nigh wide-spread led to the virtual abandonment or suspension of many genuine profit-sharing plans of the employees. In an article on the subject published in the Encyclopaedia of Social Sciences in 1934, it was remarked that "profit-sharing is rare in the United States and seems to be losing ground ... No nation stands out conspicuously against the trend of declining practice". 16 The findings of the National Industrial Board was still more alarming. Among the 161 plans for employees taken up for investigation, 96 were discontinued, 15 were listed inactive. The 50 active plans formed only 30 p.c. of the entire known plans. 17 Nevertheless, Balderston found 33 plans initiated during the period 1931-1936.

In the most elaborate of all American studies conducted by the Senate Committee in 1938, it was found that more than 9000 firms were practising some kind of employee benefit or welfare plans. Out of these 728 companies were reported to be sharing profits with employees.

A survey conducted in 1945 shows that 108 plans covering all employees have been established in the United States. The number of profit-sharing plans initiated and their status in January 1945 are shown in the tabulation shown below.

<table>
<thead>
<tr>
<th>Period of initiation</th>
<th>Number of plans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initiated</td>
</tr>
<tr>
<td>Plans covering all employees</td>
<td>in period</td>
</tr>
<tr>
<td>Before 1910</td>
<td>5</td>
</tr>
<tr>
<td>1910 - 1914</td>
<td>6</td>
</tr>
<tr>
<td>1915 - 1919</td>
<td>12</td>
</tr>
<tr>
<td>1920 - 1924</td>
<td>12</td>
</tr>
<tr>
<td>1925 - 1929</td>
<td>7</td>
</tr>
<tr>
<td>1930 - 1934</td>
<td>7</td>
</tr>
<tr>
<td>1935 - 1939</td>
<td>19</td>
</tr>
<tr>
<td>1940 - 1944</td>
<td>32</td>
</tr>
<tr>
<td>Unknown</td>
<td>8</td>
</tr>
</tbody>
</table>

The period following the last war was characterised by high business profits. In some companies the profits which accumulated were so high that it constituted a source of embarrassment to the managements. As in the previous war and post-war period, this created a renewed interest in profit-sharing arrangements. Hopes of mitigating labour disgruntlement which paralleled rise in profits through the sharing of the company earnings found their expression in the initiation of new plans. But a peculiar feature that was noticeable during this period was the increasing adoption of special plans for Executives designed to serve as financial incentives. Relatively, very little is known regarding the experience with profit-sharing for Executives as these plans were often enough conceived and administered in close secrecy. It is commonly believed that a large number of establishments have profit-sharing plans confined to their principal employees. These systems, however, do not get the publicity that is given to plans of the general type so that complete information is difficult to obtain and comparatively few cases have come to the notice of the Board.18

From the above details, it is clearly discernible that profit-sharing still retains its vitality in the U.S.A. in spite of the gloomy prognosis of the certain critics. As profit-sharing is very closely associated with business activity, it got a good impetus during the war and post-war periods. In the opinion of an American authority, profit-sharing seems destined to play a more important part in American industry.\(^{19}\)

A study of the course of profit-sharing in the above three countries enables us to make the following observations.

(a) Profit-sharing retains some of its earlier vigour and vitality.

(b) It blossoms forth during times of prosperity and languishes during periods of depression.

(c) It is an empirical approach to the problem of industrial peace.

\(^{19}\) Kenneth Thompson "Profit-sharing" op.cit. p. 15.
CHAPTER IV

PROFIT-SHARING IN INDIA.

The concept of profit-sharing as a method of fostering better industrial relations has been in practice in the western countries for more than a century. But it has been introduced into the industrial structure of India only quite recently. By far, the largest number of schemes in vogue in this country are bonus plans which were generally regarded as an ex-gratia payment arising out of the good-will of the managements and the prosperity of the firms concerned. This renders necessary an examination into these plans to find out whether they rightly come under the category of profit-sharing bonus plans or not.

The artificiality of the interpretation given to term profit-sharing is apparent as soon as consideration is given to the methods used to determine the amount of profits to be shared. The term is normally limited to the description of the schemes in which the amount to be shared or the method of calculating it, is fixed and announced in advance. Such fixing is not expected to be by agreement or by any legally enforceable contract, but simply by a unilateral
declaration, usually by the board, that such and such an amount will be set aside or a similar provision made, out of the profits of the company each year or some other period for the benefit of the employees. This statement may be qualified by reservations enabling the board to cancel, modify or postpone the arrangement if special difficulties arise, or the undertaking may be contingent upon a certain set of circumstances arising say for example, a datum-line of minimum net profits below which no sharing will be made or a precondition of a minimum distribution of dividends to share-holders. Frequently, the escape clauses and qualifications have been so extensive as to make the undertaking largely valueless except as an expression of a good intention. Companies which do not give such an undertaking in advance however, but leave any distribution to employees to the discretion of the board each year were not generally regarded as practising profit-sharing in the United Kingdom.¹

This rules out from profit-sharing the extensive practice of Xmas and holiday bonuses and any form of distribution in cash or credit which is not promised as a regular practice in accordance with a formula fixed in advance. There is very little distinction between a

formal scheme of profit-sharing and the established custom in innumerable firms of making bonus payments on the same occasion each year, the size of which varies directly with the amount of profits made or expected in the year. They are both the sharing of profits, and if the company is not doing well enough or is not well disposed towards its workers to pay handsome ad hoc bonuses there is unlikely to be any gain in the institution of a formal scheme. There may in fact, for the workers, be some element of loss, since long term formal schemes are usually based on very conservative calculations which may lead to a smaller amount being distributed in any particular year than the board of management might, in the exercise of unfettered discretion, think fit to make.

The attitude of workers on this point seems to vary. In some years, they prefer to be in a position to calculate as soon as annual accounts of the company are published, the amount of their bonus by reference to the pre-determined formula; in other cases, the element of gamble in not knowing beforehand how much the bonus will be, is a positive attraction. One company in Lancashire which had for many years distributed handsome bonuses at Xmas time asked its employees recently if they would like a formal profit-sharing scheme to be introduced instead and received the reply that the employees would rather
have it left as it was.² Hence there seems to be not much of a substance in this arbitrary distinction. It is this fact that must have weighed very strongly with the American Senate Committee of 1939 which recorded profit-sharing as all payments to employees regardless of the form in which they are allocated or distributed which are in addition to the market or basic wage rate. This wide generalisation has been further strengthened by the comprehensive definition of the United States Council of Profit-sharing in Industries, which defined profit-sharing "as any procedure in which an employer pays to all employees in addition to good rate of regular pay, special current or deferred sums, based not only upon individual or group performance but on the prosperity of the business as a whole."³ In the face of the above definitions, bonus schemes in India can be considered as a variant of the conventional type of profit-sharing schemes.

**Labour has a Right to Share in Profits.**

In India, after a very careful study of the subject, it has been decided upon good authority that bonus, in spite of its nature of having the form and colour of an ex gratia payment and that it may not be included in the

terms of any contract entered into by an employer and his employees, as soon as a demand for bonus is refused, all the elements of trade dispute arise, and that for this reason, it cannot be regarded as an ex gratia payment. The Adjudicators invariably held that on grounds of equity and justice, the worker could make such a demand. Thus the Bonus Disputes Committee, which was set up by the Bombay Government in 1924 declared after examining the basis of bonus which was paid to Mill Workers for five years since 1919, that the "mill workers have not established any enforceable claim, customary, legal, or equitable to the payment annually of a bonus; but in view of the nature of the claim" the Committee held that "it is a question of bargaining between the workers and the employers in which consideration might be given to principle of equity. It is not a question of determining what is the contract between the parties." 4

The Industrial Court Bombay, in its award, in the dispute between the Textile Labour Association, Ahmedabad and the Ahmadabad Mill Owners' Association held that although bonus was an ex-gratia payment and could not be legally demanded, yet such payment was made by the employers because of the relationship which existed between them and their employees and because of the work which the workers

are doing for them. It held that bonus was in the nature of a reward. The court further observed that "a reward is anything given or paid in return for anything done as kindness, service, etc. It includes additional gratuitous payment according to agreement. If the workers say that in a certain year, the employers have made handsome profits, and the employers can therefore afford to pay them something more than stipulated wages, they are asking for the additional payment as a reward for work already done by them which has resulted in such profits. Such additional payment is not a pure gift, because a gift may have no relation to any work done or to be done by the donee, but it is reward in as much as it is asked for as an extra payment for work actually done. It is true that it cannot be enforced in a court of law, because it is not a legal right. But it does not follow that it cannot become a subject matter of an industrial dispute between the employers and the workers, if the latter demand such a payment as reward in the form of bonus.5

In some of the disputes, the Adjudicators took a juristic view of the demand for bonus and held that the demand of the workers could be sustained only if it was proved that there was an explicit or implied contract between the parties. But this juristic view

was not accepted by the majority of Adjudicators, who maintained that the demand has to be examined from a broader view of equity, justice and good conscience. The Industrial Court Bombay, in their award relating to a dispute between the Mill Owners’ Association, Bombay, and employees of the member mills observed "Mill Owners Association’s contention that bonus is an ex-gratia payment is true from the standpoint of civil law, which can only enforce the terms of contract between the parties, but in the domain of industrial relations between employers and workers, the rights and duties of the parties, are not governed merely by civil law, but by collective bargaining in the settlement of disputes arising out of the demands by one or another for more earnings, better conditions of work and increased production."

Deciding the issue whether employees are entitled to bonus as of right or on any other ground, Mr. W. Cowley, in his award relating to a dispute between the Lahore Electric Supply Company and its employees remarked that "It is quite obviously not a legal right which can be enforced in a court of law. Only if the payment of a share in the profits of the workers was part of their contract for service as in the case of a profit-sharing enterprise like the Tatas could share in the profits be a legal right."

On the other hand, there is equally no doubt that the advancement of economic thought and industrial relations has led to a state of affairs where the workers' claim for a share in the profits of the industry may be legitimate and may have a certain moral and economic right. The Industrial Tribunal appointed by the Government of West Bengal in the dispute between the employers of thirty-six Cotton Mills in West Bengal and their employees remarked "Bonus may be an ex-gratia payment, but when it is demanded for work done out of which the employers make high profits the demand is not for any payment gratis, but price of labour." It further observed "In the matter of granting bonus the underlying principle which calls for consideration is that the demand for bonus, though not based on legal rights arising out of a contract expressed or implied, has to be decided on broad principles of equity and justice."

Such a view is probably based on the fact that a distinction exists in almost all countries between the functions of ordinary judicial authority charged with the duties of conciliation and arbitration. As the I.L.O remarks "the function of conciliation and arbitration is to establish a compromise between the interests of the parties to the dispute and to create a new basis for mutual relation - that is to say - to make law and not, as in the judicial

8. Award enforced under the West Bengal Govt. Order No. 2956 Lab. dated 21.8.43.
settlement of a dispute on rights to interpret "9

**BONUS IS A FORM OF PROFIT-SHARING.**

In more recent awards, certain Adjudicators have taken the view that bonus is a form of profit-sharing. They have maintained that profits being the result of joint effort of various factors of production and labour being one such factor, it should be entitled to a share in the profits. For example, Mr. S.N. Modak, in his award in a dispute in the Amirta Bazar Patrika remarked "The idea is that where adequate profits have been derived by a company with the aid and cooperation of the employees, a part of the profit should be paid to the employees in the shape of bonus in so far as the employees also have helped in the process of profit being derived." 10

The Industrial Tribunal in West Bengal which dealt with the dispute in 36 cotton Mills in that state held that "the underlying principle for the payment of bonus is that the employee has contributed by labour for the earning of the profits of the company. . . . . . . . The only just and equitable principle upon which an employer can be called upon to grant a bonus to the employees is to consider the amount of profit made by the employer in any

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10. Award enforced under West Bengal Government Order No. 1931/Lab., dated 12.6.1948.
year and the general financial conditions of the concern and its capacity to bear this additional burden of granting bonus without impairing the efficiency or injuring the business in any vital matter. 11 Mr. Justice Chagla in an Industrial Dispute in the General Motors (India) Ltd., Bombay, observed "It is almost the universally accepted principle now that the profits are made possible by the contribution that both capital and labour make in any particular industry, and I think it is also conceded that labour has a right to share in the increased profits that are made in any particular period." 12 Mr. E. Maravathy in his award relating to a dispute in the Standard Vacuum Oil Company, Bombay, has referred to the change which has taken place in the employer-employee relationship in the world which has led to the idea of copartnership in the industry and to profit-sharing between capital and labour. 13 The Adjudicator in the dispute between the employers and the employees of the Taj Tanneries, Agra, recommended the payment of bonus on the ground that bonus has been accepted as a legitimate claim of the workmen in all the industries by way of profit-sharing. 14 In an award relating to an Aluminium

11. Award enforced under West Bengal Government Order No. 2956/Lab., dated 21.8.1943.
factory in Madras, the Adjudicator held the view that bonus as an ex-gratia payment is an exploded view and that all progressive employers have accepted the position that the profits of a manufacturing concern are the result of a kind of cooperative effort on the part of the workers and the management. In this view the workers are considered to have a right to share in the profits by way of bonus, at any rate in the years in which substantial profits have been earned by the factory. Finally Sri Venkataramayya, in his award relating to a dispute between the workers and managements of motor transport service in the Madras State observed that the question of bonus has to be examined in the light of the changed outlook of employer-worker relationship. Equity requires that profits of the joint efforts should be shared by both.

IF THE LIVING WAGE-STANDARD IS NOT REACH D, BONUS ASSUMES THE CHARACTER OF THE DEFICIENCY OF A LEGITIMATE INCOME, BEYOND THE STANDARD; BONUS PARTAKES THE NATURE OF PROFIT-SHARING.

In some other awards, the Adjudicators have expressed the view that workers' claim for a share in

profits is taken for granted if the industry or undertaking is making a profit and if it is paying wages to workers which are below the living wage standard. This principle has been forcibly enunciated by the Industrial Court Bombay. In its award in a dispute between the Mill Owners' Association, Bombay, and the employees of the member mills, the court remarked that the justification for such demand (that is demand for bonus) as industrial matter arises specially when wages fall short of living wage standard and the industry makes huge profits parts of which are due to the contribution which the workers make in increasing the production. The demand for bonus is therefore an industrial claim when either of both these conditions are satisfied. It is to be remembered that adequate wages and dearness allowance, if any, for increased cost of living are the first charge on the industry, but the workers may reasonably ask for a bonus when there are enhanced profits, when dividends are paid out after providing for taxation and depreciation especially when their wages are below the living wage standard. 17 This view was endorsed by the Industrial Tribunal which was appointed by the Government of West Bengal in October 1947, in connection with the industrial dispute between the employers of 36 cotton mills and their employees. The

Industrial Tribunal which was appointed to adjudicate in a dispute in the Mazgaon Docks Ltd., while reiterating this principle, went a step further and stated that "the claim of workmen for a bonus, so long as that living standard (that is living wage standard fixed for cotton-textile workers in Bombay) has not been attained, will remain justifiable and it must have precedence over items of cost such as Managing Agents' remunerations and commissions, taxation provision and all reserves". 18

In an award in a dispute between the Mill Owners' Association Bombay, and 80 textile mills in Bombay, the Industrial court reiterated the view expressed by it in the 1947 award relating to bonus. The court observed that such demand (that is demand for bonus) derives its strength where the living wage standard has not been reached, from a feeling of deficiency in the means to attain the necessary standard of living. Therefore, bonus in such circumstances no doubt served as a temporary satisfaction, wholly or in part of this need. Theoretically adequate wages and dearness allowance should be the first charge on an industry............. Labour as well as working capital employed in the industry both contribute to profit made and both are, therefore, entitled to claim

18 Award enforced under Bombay Government Order No. 3246/34-1 dated 17.6.1948.
a legitimate return out of profit and such legitimate return so far as labour is concerned must be based on the living wage standard. It is however, to be remembered that a claim to bonus might be admissible even if the living wage standard were completely attained. It may, therefore, be stated that so long as living wage standard has not been attained, the bonus partakes primarily of the character of satisfaction, often partial and temporary, of the deficiency of legitimate income of the average worker in an industry, and once such income has been attained, it would also partake the character of profit-sharing. Owing to this dual character of bonus, it would be a mistake to regard a demand for bonuses as a demand for profit-sharing pure and simple. Even if it be held as the committee on profit-sharing have held, that profit-sharing on a 50-55 basis would be equitable it would be proper in our opinion when the living wage standard has not been reached, for labour to demand even a greater share after the gross profits have been reduced by depreciation, reasonable reserves and dividend and suitable provision for taxation. 19.

The above references have been called for in order to show that in India, the various awards have established that labour has a right to share in the profits of the industry in which it is working, and that such sharing is a kind of profit-sharing pure and simple.

LAW AND PRACTICE IN INDIA.

In India, so far no law has been passed in order to regulate profit-sharing schemes. The largest number of schemes have arisen from the awards of the Industrial Tribunals, and the amount which is paid as bonus is decided in an arbitrary manner every year and it is not uncommon that an adjudicator is appointed to decide the quantum of bonus. The lack of uniformity in the principle has resulted in a large variety of methods adopted. The rate at which bonus is paid by some of these undertakings in recent years as also the conditions attached to their payment are given in the statement in the appendix towards the end of this chapter. From the table, it will be seen that there is a large multiplicity of methods adopted by different undertakings for paying bonus. This variation is mainly due to the absence of any agreed principle for the determination and distribution of bonus.

QUANTUM OF BONUS.

So far as the quantum of bonus is concerned no fixed principle is discernible in the findings of the Industrial Tribunals, courts etc. The consideration taken into account while awarding bonus have generally been the financial condition of a unit or an industry
and its capacity to bear the burden. Generally speaking, the net profit of the concern or of the industry has been taken into account in fixing the rate of bonus. There has been no uniformity in regard to the definition of "profit". However, abnormal appropriations in the balance sheet for losses in the past years, for machinery or building, depreciation, replacement etc., have not been reckoned by the Adjudicators for determining net profits during any particular year. For example, in a dispute between the employers and the employees of the Chittavalsa Jute Mills, Madras, the employers opposed a demand for a bonus on the ground that depreciation had not been fully wiped out and therefore, there were no surplus profits. The Adjudicators rejected the contention of the employers and declared "I am not prepared to accept the contention that a bonus is liable to be paid only out of what may be called the absolute or the surplus profits. Why should the worker who has contributed by his labour to the enormous profits in the course of some years be deprived of bonus, because still in previous years there were losses." 20 Mr. D.G. Mancherker, in his award relating to the Mazagaon Docks Ltd., Bombay, objected

to the huge amount set aside by the company for building replacement and repair, reserves and remarked "while no objection can reasonably be taken to the provisions for general reserves, bad debts and taxation, it appears to me that the workmen's claim to an adequate bonus should have precedence over the company's reserves for machinery, replacement and repairs". 21

Some Adjudicators have favoured the linking of the quantum of the bonus with the dividends paid. In most cases, the Adjudicators have fixed the rate of bonus after considering the past practice, profits earned and the capacity of the industry to bear the burden. The practice generally accepted by Adjudicators has been to award bonus in terms of basic monthly wages excluding dearness allowance although there are a few awards in which the rate has been fixed in terms of monthly earnings.

MODE OF PAYMENT.

The Adjudicators and Industrial Tribunals generally set a time limit within which the payment is to be made. When the amount involved was large, recommendations were made to the effect that payment should be made in two instalments. So far, Adjudicators have invariably recommended the payment of bonus in cash. Recently

however, when the Industrial Court, Bombay, awarded 4½ months' basic earnings as a bonus aggregating to over four crores of rupees, they felt that they might recommend that a part of the amount should be locked up in savings certificates etc. They, however, felt that because of the provisions of the payment of Wages Act, they could not make such a recommendation. In their award, they have observed that it seems to them desirable for the legislature to look into the question and see whether it would be feasible in suitable cases, for the industrial courts to order such a mode of payment. This suggestion was promptly acted upon by the Government of India and on the 11th June 1949, they issued an Ordinance called the "Industrial Tribunals Payment of Bonus (National Savings Certificates) Ordinance 1949. The Ordinance provides that it shall be lawful for any Industrial Tribunal when making an award in relation to any industrial dispute, to direct that the bonus which may become payable under the award, shall to the extent of any part thereof, not exceeding half the amount of the bonus in any case, be paid in the form of post office National Savings Certificates of such denominational values as may be specified by the Industrial Tribunal, provided that no such direction shall be made under this subsection, if it will have
the effect of reducing the bonus payable in cash to the workmen to less than the amount of basic wages payable to him for a month's service. Any direction made by an Industrial Court in terms of this ordinance is to be binding on the parties in the same manner and to the same extent as the award.

**CONDITIONS OF ELIGIBILITY.**

Even in regard to the conditions laid down by various Adjudicators for qualifying for bonus, there is hardly any uniformity. While some have been conspicuous by their silence on this subject, others have laid down a minimum period of service. Generally, no qualifying period of service is prescribed in those awards in which bonus is linked to the earning of workers during the year concerned. This principle was followed by the Industrial Tribunals appointed by the Governments of Madras and West Bengal to adjudicate in trade disputes in the cotton Textile Mills in their respective states. However both these Tribunals recommended that no bonus should be paid to those workers who were absent for more than 60 days during the year. The minimum period of service, prescribed by different Adjudicators for qualifying for a bonus ranges from one month to one year. Wherever a complete year's service was prescribed, as the condition for
receiving bonus, workers with a short period of service were granted a part of the bonus. The general practice, however, appears to be to grant bonus to workers who have worked at least for one month. The Industrial Court, Bombay, while dealing with the dispute regarding bonus for the year 1946-1947, in the Cotton Textile Mills of Bombay city, recommended that only those persons who have worked for at least 75 days during the year should be paid bonus at the full rate and for those who have worked for less than 75 days, but more than 32 days, should be paid at half the rate. It did not recommend any bonus for those who worked for less than 32 days. The adjudicators have usually recommended the grant of bonus to those workers who were discharged or who left the service of the undertaking during the year concerned. Generally, the Adjudicators have not recommended the payment of bonus to those who were discharged for misconduct or misbehaviour during the year for which bonus was granted.

Schemes of the Traditional Type.

Although the bulk of profit-sharing schemes in the country has been the result of compulsory awards of Industrial Tribunals, there is a handful of schemes started voluntarily by the employers. Among such schemes, come
those of the Tata Iron and Steel Company Ltd., The Steel Corporation of Bengal Ltd., The Indian Iron and Steel Company Ltd., The Tinplate Company of India Ltd., and The Buckingham and Carnatic Mills Ltd.

**Tata Iron and Steel Company.**

It was in the year 1933-1934 that the company for the first time gave a bonus to its employees. In that year, bonus was paid to those earning under Rs. 500 a month. The next bonus was extended to all employees and this payment continued through the years 1935 & 1936. During these years, no contract was entered into for the purpose of paying bonus.

In 1936-1937, the company first declared a scheme of profit-sharing in which the bonus was linked with the dividends paid to the share-holders. In this scheme, if in a year, the dividend exceeded one crore of rupees, for every 25 lakhs in excess of that crore, half a month's wage would be paid to the employee. This scheme continued in force till the year 1944-1945. Under this scheme, which lasted for nine years, the amount set apart for profit-sharing bonus according to the calculation was distributed among the employees in proportion to

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their rate of pay. If the employee had his name on the rolls of the company and had served a minimum period of one year, he would be paid as bonus a sum equivalent to the wages for a certain number of days without regard to his attendance during the year for which the profits were calculated. Thus a man with one year's minimum service could get the full profit-sharing bonus payable at his income level, even though he had not attended work for a single day during the year.

In 1945, the company entered into an agreement with the Workers' Union which linked the profit-sharing bonus not to the dividends, but to the total net profits and the plan is the best example of the conventional type of profit-sharing scheme practised in India. According to the revised agreement, out of the gross profits after deduction of the depreciation (as allowed for under income-tax regulations) payment of taxes, payment of the guaranteed interest on preference shares and five per cent dividend on other shares, 22½ per cent of the remaining sum would be paid as profit-sharing bonus to employees. The sum thus set apart was to be distributed among employees in proportion to their total earned income for the year. The bonus was linked to profits and the attendance of the employees.
During the years of war, profits had been high and naturally the amount of bonus has also been correspondingly high; but with the cessation of hostilities, both began to dwindle. At the request of the Employees' Union, the Company once again revised the scheme. "This revised scheme shall be deemed to have come into force with respect to the profits of the company earned and to be earned from and after 1st April, 1948, and will be in operation for a period of four years ending 31st March 1952". as per the first clause of the agreement entered into between the Management and the Union.

**New Scheme.**

Accordingly, the employee of the company is entitled to get 27½ per cent of the annual net profits of the company and such shares shall be credited to and/or distributed among the employees of the company in proportion to the basic salaries and wages earned or deemed to be earned by such employees respectively during the year in which such net profits were earned by the company. For the purpose of the scheme "net annual profits" means the profits arrived at in the manner shown in the audited Profit and Loss Account of the company for each year after making the following deductions.
(1) All taxes payable except to the extent (if any) already provided in the audited profit and Loss Account and except Business Profit Tax or any Taxes of a similar nature.

(2) Depreciation at the rate of three per cent on the figure of gross block shown in the audited Balance Sheet of each year.

(3) Loss (if any) carried forward from previous year's Accounts.

(4) A sum equivalent to the fixed dividend (inclusive) of unpaid arrears if any) on preference, second preference and other preference share capital of the company plus 5 per cent (free of income tax) on all other issued share-capital (including premiums revised by the company on issues of capital made at a premium) as at the close of the year of accounts. Issued share-capital shall exclude any share capital issued in the shape of fully paid shares by capitalisation of reserves and other funds of the company.

The profit-sharing bonus shall become due after one month of the passing of accounts. 75% of the bonus payable to each employee shall be paid immediately the
bonus becomes due and 25% shall be credited to a special account along with the Employee Provident Fund. This shall be paid to the employee when he ceases to be in the service of the company. Apart from the increase in the percentage of net profit to be shared, the new plan required that the depreciation allowed is not at the income-tax rates, but only 3% of the gross block. They can be better observed from the fact that for 1949-1950, while the depreciation calculated according to income-tax rates would have been a crore and 60 lacs, the depreciation allowed for under the new arrangement was only one crore and 20 lacs. The profit-bonus distributed to 31,000 workers was Rs 55/- lacs for April 1948 to March 1949. In the 17 years for which the profit bonus has been in existence the company has paid a sum of Rs 25/- crores and 28 lacs.

The scheme was revised and the revised scheme "shall be deemed to have come into force with respect to the profits of the company earned and to be earned from and after 1st April 1952, and will be in operation for a period of five years ending 31st March 1957."

In accordance with the revised scheme, the profits of the year-ending 31st March 1953, that is Rs 106.50 lacs will be credited to and/or distributed among the employees.
in proportion to their monthly wages as calculated on the basic wages of such employees as on 31st March 1953. In respect of the profits for the remaining 4 years ending 31st March 1957, the employees of the company "shall be entitled under this profit-sharing scheme to a share of 30% of the annual net profits of the company". Such shall be credited to and/or distributed among the employees of the company in proportion to their monthly wages calculated on the basic wage of such employees as on 31st March of the year. Another change that was brought about in the revised scheme was, so far employees were given 75% of their bonus immediately in cash and the rest credited to their account. According to the new arrangement, only 66\(\frac{2}{3}\) per cent was immediately distributed while the rest was credited as before to the provident Fund Account. In all other respects, the agreement tallied with the previous one.

The profit-sharing scheme in the Tatas satisfies all the main tenets of a genuine profit-sharing plan and can be regarded as a true example of it in India.

**The Buckingham & Carnatic Mills, Madras.**

The Buckingham and Carnatic Mills started in 1880 were amalgamated to form the present concern of Binny and Company, Madras in 1919. Even before the amalgamation, a gratuity fund was instituted in each of
the mills in 1906 to provide a consolidated payment of a sum after a fixed period, as a percentage of the wages, which was to be determined by the management. In 1944, a Provident Fund scheme was started to which the management contributed 7½% of the basic wages and the workers were given the option either to come to the Provident Fund or alternatively to continue in the gratuity fund scheme until the maturing of the existing scheme.

The Bonus Scheme was started in 1919 which was introduced as per the management order in the following terms. "The Directors have for some time past had under their consideration the question of giving the work people an interest in the profits of the Mill, as is done in some English Companies. They have, therefore, the pleasure to announce that for half year ending 31st December 1919, they will pay the Indian Work-people in their employment on that date a bonus on the aggregate wages earned by each employee during that half year at the same rate as the ordinary dividend paid to the share-holders during the 6 months ending June 30th, 1919".

Thus if an employee has on December 31st earned Rs 20/- per month (or Rs 120 for 6 months) the ordinary dividend paid on 30.6.1919 being 5%, the employee will
receive at the rate of 5% on Rs 120 or Rs 8/-.

It has been specifically stated that payment would be made only in the absence of any stoppage of work, due to causes such as strikes, lockouts etc. By another order dated 2.6.1939, the principle was restated that in future the rate of bonus will be the same as that of the annual rate of dividend declared each half-year, eventhough on two previous occasions, no cut was made in the rate of bonus when the half-yearly dividend was reduced from 10 per cent for the first half-year of 1936 and the second half-year of 1938.

For example, if the dividend declared to the shareholders is 12½ per cent the bonus paid is 12½ divided by 100 x 12 equals one and half months' wages. Hence it is known as the Wage dividend Plan of profit-sharing. Sri M. Venkataramayya in his Textile Award of 19th June, 1947 recommended the Binny Plan as the best method of distributing bonus. If the share-holders who have contributed towards capital get a certain percentage of dividend, the same percentage should be made available to the workers whose investment, viz., labour is evaluated at the wages paid to them in the year. Hence he suggested that the bonus paid should be linked to the dividend declared.

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Probably, the industry in suggesting a link, between the quantum of bonus to be paid and the dividend declared for the year, is inspired by the idea of equalising the respective shares of labour and capital appropriated from the amount of the net profit. As wages represent the effective measure of labours' contribution and dividend the visible symbol of the productivity of capital, at once serving as the remuneration of their respective services, attainment of equality between bonus given and dividend paid, will be pricing the services of each according to contribution.

But it must be remembered that the dividend declared is not a true index of the rate of profit earned by the company. A large proportion may be carried forward to the reserve in order to reduce the amount that may be available to the share-holders, thereby lowering the dividend. Another danger is from the practice of stock watering or by the issue of bonus shares. The company can issue new nominal shares or bonus shares to the existing share-holders and expand the capital, thereby lowering the dividend rate so as to evade the regulation of the state to limit dividends or to avoid increased payment of bonus in good times when the dividend rate must necessarily be high.
But the Binny and Company did issue bonus shares in 1943 without defeating the basic purpose of the bonus scheme by doubling the dividend rate to arrive at the rate of bonus. Since 1943, for example, when the dividend is only 7½ per cent the bonus is calculated at the rate of 15 p.c.

Without questioning the good intentions of the management, having no fixed relation between the real amount of profits accrued and the dividend declared, the link between dividend and the bonus need not be in proportion to the profits made. True profit-sharing must fix the amount of bonus as a percentage of profits. Hence the Binny plan represents a transitional phase in the evolution of profit-sharing. The following figures since 1926 give a picture of the working of the bonus scheme and the contributions made to the welfare activities of the company.
## APPENDIX I TO CHAPTER IV

### TABLE SHOWING THE AMOUNT OF BONUS PAID BY DIFFERENT INDUSTRIES DURING RECENT YEARS.

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>RATE OF BONUS</th>
<th>PERSONS COVERED &amp; CONDITIONS ATTACHED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cotton Textiles, Bombay (Cotton Mills in Bombay City) Members of the Bombay Mill Owners' Association</td>
<td>For 1948, 4½ months' basic wages</td>
<td>Those who worked for at least 63 days during the year. Persons who worked for more than 80 days but less than 63 days, half the amount.</td>
</tr>
<tr>
<td>2. Cotton Mills, Sholapur</td>
<td>For 1947, 11/60th of the total earnings (exclusive of dearness allowance etc.)</td>
<td>Those who worked at least 75 days during the year. Persons who worked for more than 32 days but less than 75 days.</td>
</tr>
<tr>
<td>3. Cotton Mills, Ahmedabad</td>
<td>For 1948, 3/3th of earnings in 1948 (excluding dearness allowance bonus etc.)</td>
<td>- do -</td>
</tr>
<tr>
<td>4. Birla Cotton, Spinning &amp; Weaving Mills, Delhi</td>
<td>For 1948, 7/24th of the earnings (excluding dearness allowance during 1948)</td>
<td>Those who worked for at least 63 days during the year. Persons who worked for more than 20 days but less than 63 days - half the amount.</td>
</tr>
</tbody>
</table>

Half-yearly bonus is paid. Bonus is calculated on the gross earnings of the worker in the previous 6 months on the basis of dividend paid on ordinary shares of the Company.

For the first half of 1948, a bonus at the rate of 15% of gross earnings during the period ending 30th June 1948 was paid.


In 1948, 3 months' basic wages. Full to those who complied with the leave rules. Other were paid 25% of the earnings.


For 1947-48; 25% of the basic wages.

8. All Mills, West Bengal.

Bonus paid according to the following formulae.

Those absent for more than 60 days in the yeardeburred.

Total wages & of days
dearness worked
allowance plus
earned by authori-
the work-ed holder in the
year multi-leave on
tiplied full pay
by the multiplie
dividend by the
declared number of
days in the year.
<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.</td>
<td>Cotton Mills in Baroda</td>
<td>For 1947; all mills paid bonus at the rate of 25% of basic wages. Only one mill paid at the rate of 22% of the basic wages.</td>
</tr>
<tr>
<td>10.</td>
<td>Alagappa Textiles Ltd., Cochin.</td>
<td>For 1947; Approximately 3 months' basic wages.</td>
</tr>
<tr>
<td>11.</td>
<td>Cotton Mills in Indore (Members of the Madhya Bharat Mill Owners' Association.)</td>
<td>For 1947. 12½% of the total earning.</td>
</tr>
<tr>
<td>12.</td>
<td>Minerva Mills Ltd., Mysore.</td>
<td>10% of the total basic wages. Only permanent workers.</td>
</tr>
<tr>
<td>15.</td>
<td>Sri Krishna Rajendra Mills Ltd.</td>
<td>Same percentage of basic wages as dividend declared, subject to a maximum of 10% of basic wages earned in the half-yearly period concerned. Besides certain service conditions a minimum attendance of 105 days is required.</td>
</tr>
</tbody>
</table>
## II. WOOLLEN MILLS.

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indian Woollen Mills, Bombay</td>
<td>For 1947. 1/5th of the earnings excluding dearness allowance.</td>
</tr>
<tr>
<td>2</td>
<td>Cawnpore Woollen Mills, Ltd. Kanpur</td>
<td>Gratuity paid at the rate of 4 annas on the basic earnings for 1947.</td>
</tr>
<tr>
<td>3</td>
<td>J.K. Woollen Manufacturing Mills Ltd. Kanpur</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Bangalore Woollen &amp; Silk Mills Co. Ltd. Bangalore</td>
<td>13% of the earnings (excluding dearness workers allowance etc.) for 1947 and 20% for the last half of 1948.</td>
</tr>
</tbody>
</table>

## III. SILK MILLS.

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Sassonand Alliance Silk Mill, Bombay</td>
<td>4½ months' wages for the year 1948.</td>
</tr>
<tr>
<td>2</td>
<td>Bombay Silk Mills Ltd. Bombay</td>
<td>For 1948: 1½ months' wages.</td>
</tr>
<tr>
<td>3</td>
<td>Silk Weaving Factory, Mysore</td>
<td>For 1947-48. 1/6th of the total earnings (exclusive of dearness allowance, bonus and other allowances).</td>
</tr>
</tbody>
</table>

IV. JUTE MILLS.

1. Maheswari Devi Jute Mills Ltd., Kanpur. At the rate of 4 annas per rupee on earnings.


3. Mahabir Jute Mills Ltd., Kanpur. In 1947-48, As. 4½ per rupee on the basic wages earned during the period 1st October 1947 to 30th December, 1948 was paid as bonus.

V. IRON & STEEL.

1. Tisco Ltd. Employees entitled to a share of 2½ % of the annual profit of the company. Such share is credited to an/or distributed among the employees of the company in proportion to the basic salaries and wages earned or deemed to be earned by employees during the year.

2. Indian Iron & Steel Co. Ltd. (Hirapur works, Kutli works). Two days & wages for each one per cent declared.

3. Steel Corporation Bengal, Ltd. do.

4. India Steel & Wire Production Ltd. Approximately three month's wages.

5. Tin Plate of India Ltd. Bonus is paid on a slab system which is linked to dividend declared. The rate varies from
from one week's wages
(if the dividend declared
is more than 7½% but less
than 8½%) to 6 weeks' wages (if the dividend
declared is more than 18½% but less than 21½%). For
each additional 2½% dividend workers are paid one week's wages.

VI. CEMENT.

1. Six Factories under the management of the Associated Cement Co. Ltd.
   For 1946-47, bonus at the rate of 1½ months' wages was paid.

   One month's wages.

   For 1947-48, 1½ months' wages. Those in service on 31st October 1948.

VII. DOCK YARD.

1. Scindia Shipyards, Vizag.
   During 1946-47. 1 month's basic wages.

   Two months' earnings.

   During 1947. 2½ months' basic wages.

In the previous chapter, we have seen that there is a large multiplicity of methods being adopted by the various undertakings in India for paying the bonus. This variation is mainly due to the absence of any agreed principle for the determination and distribution of bonus. Towards the end of 1947, the Government of India convened an Industrial Conference to which representatives of Provincial and State Governments, leading businessmen, industrialists and leaders of labour organisations were invited. The main object of the conference was to give its due consideration to the steady fall in most spheres of production and to devise measures which would not only put a stop to the deteriorating situation, but would bring about concrete results in the field of production. Among the many matters which met with general agreement was the recognition that improvement in employer-labour relations was the most essential pre-requisite to enhanced production. Although there were vital differences as to how best industrial relations could be established,
maintained and enlarged, the realisation by all of the immediate urgency of the problem and the resulting willingness on the part of both the employers and workers to come to a practical solution enabled the conference to arrive at a general agreement known as the Industrial Truce Resolution. The main principles of this Resolution are best described by quoting the relevant part of the Resolution itself. "This conference considers that the increase in industrial production which is so vital to the economy of the country cannot be achieved without fullest cooperation between labour and management and stable and friendly relations between them. The employer must recognise the proper role of labour in industry and the need to secure for labour fair wages and working conditions; labour for its part must give equal recognition to its duty in contributing to the increase of the national income without which a permanent rise in the general standard of living cannot be achieved. Mutual discussion of all problems common to both and a determination to settle all disputes without recourse to interruption in or slowing down of production should be the common aim
of employers and labour. The system of remuneration to capital as well as labour must be so devised that while in the interest of the consumers and the primary producers excessive profits should be prevented by suitable measures of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking".  

The Government of India accepted this Resolution as part of their Industrial Policy and appointed a committee known as the Committee on Profit-sharing to assist the government in the implementation of their policy. One of the functions of the committee was to enunciate principles for determining labour's share of the surplus profit "on a sliding scale normally varying with production".

The Committee was of the opinion that theoretically, it should be possible to evolve a principle which would link labour's share of the surplus

1. Industrial Truce Resolution. 1947.
profit to the total production of a firm in some such
way as follows: if normal production is "X", labour's
share might be, say, 50 p.c. of the surplus
profits. If production in any one year increases by
20 p.c. and is \( \frac{120}{100} X \) labour's share might be
60 p.c. of the surplus profit. Similarly, if
production drops by 20 p.c. labour's share in
surplus profit might be reduced to 40 p.c. There
was also a suggestion that a similar formula might
be devised in which "X" will be the total
production of the whole industry and not of any
particular under-taking. The committee was of the
firm view that as a practical proposition, it was
impossible to work out any such sliding scale varying
with production. The reasons, according to them,
are the composite nature of profit and that
labour's contribution towards it is not amenable
to any precise measurement. Further, the basic
conditions in any one year may be quite different from
the conditions on which the norm has been determined.
The production equipment might have increased or
diminished or improved or deteriorated in the meantime.
The size and composition of the labour force might
similarly have changed. There may be involuntary
interruptions for which no one was responsible. Hence
the committee came to the conclusion that it was not in a position to prescribe any definite rule for linking labour's share in surplus profits to production and that it would have to be determined only in an arbitrary manner. In view of the lack of experience with profit-sharing, the committee was against any large-scale adoption of profit-sharing schemes in Indian industries. It, therefore recommended (though not unanimously) that to begin with, profit-sharing should be tried out for a period of five years and that it should embrace only the following industries.\(^2\)

(1) Cotton  
(2) Jute  
(3) Steel (main producers)  
(4) Cement  
(5) Manufacture of tyres  
(6) Manufacture of cigarettes.

The Committee added that if the initial experience is encouraging enough "we would further recommend that government should consider extension of the scheme to other suitable industries"\(^3\) It made the suggestion that in the above industries "labour's share should be 50 p.c. of the surplus profits of

\(^2\) Report of the Committee on Profit-sharing, pp. 7-8 published by the Manager, Government of India Press, Delhi, (1951).

\(^3\) Ibid. p. 8.
the undertakings. The individual worker's share of profits should be in proportion to his total earnings during the preceding twelve months minus dearness allowance and any other business received by him. This should be in substitution of any other profit-sharing bonus that is paid now. For purposes of this scheme, the committee defined surplus profits as net profits minus 10 p.c. for reserve minus 5 p.c. on capital employed. It held "that paid up capital plus reserves (including all future allocations of reserves) which are held for purposes of business, is the nearest practical approximation to capital employed in the industry."

After studying the question in its varied aspects, the committee recommended a scheme where profit-sharing should normally be unit wise, but in certain selected cases, would be on an industry-cum-locality basis. "We consider that, to begin with, profit-sharing on an industry-cum-locality basis should be tried out in the Textile Industry of Bombay, Ahmedabad and Sholapur". In these cases, the committee observed that the surplus profits of these units will be pooled for the

5. Ibid. p. 9.
6. Ibid. p. 11.
purpose of ascertaining what should be the profit-sharing bonus payable to labour in the industry in the locality. This bonus shall be payable, as a minimum, by every unit to its labour irrespective of its profits. But in those units where half the surplus profits (that is the amount due to labour in that unit) exceeds the sum required to pay the minimum bonus referred to, such excess shall also be paid to the workers of that unit. The committee further suggested "that in all cases, however, individual cash disbursement will be limited to 25 p.c. of a worker's basic wages and any excess will be kept in his account, provident fund or otherwise". 7

The recommendations of the profit-sharing committee were considered by the Central Advisory Council of Labour when it met in New Delhi in July 1949. It was not possible for the Council to come to a unanimous decision and no final recommendation was made by the body. An interministerial study of the implications of the scheme was reported to have raised doubts about its relative importance. Some of the Ministers felt strongly that in the then existing economic conditions, the sharing of profits with labour would result in the irrational distribution of capital thereby hampering the government's industrial programme and would discourage the investment of

7. Ibid pp. 11-12.
fresh indigenous and foreign capital in Indian industries. The U.P. Labour Enquiry Committee after considering the pros and cons of bonus at great length, came to the conclusion that bonus should be linked with the profits of the industry. With regard to the method of linking, the committee recommended that bonus should be linked to dividend declared on share capital paid. Such a scheme, the committee held, will entail no difficulties of detailed analysis of account figures, no waste of time and expenditure and no scope for mis-understanding and mis-interpretation. In addition such an arrangement was found to be simple in conception and easy to operate.

QUANTUM OF BONUS.

As for the quantum of bonus to be paid to the workers, the committee was of the view that the industries were not likely to make high profits as they have done during the war. As the committee has already provided for an adequate wage and adequate and fair dearness allowance, it recommended that the workers in the United Provinces should be allowed two days' basic wages for every one per cent declared on ordinary share-capital paid up. In the case of private companies where

dividend method is not adopted "we recommend that 25 per cent of the net profits of the concern should be distributed among the workers in an equitable manner." 9

CONDITIONS OF BONUS.

The Committee found that the payment of bonus to workers was regulated by a variety of conditions in each undertaking, which differed from one concern to another. In the majority of them, the payment was regarded as discretionary. The committee did not endorse the discretionary aspect, and recommended that all employees including watch and ward staff, chaprasis, malis, sweepers, clerks etc., whether permanent, temporary or substitute were eligible to it, if he or she has worked for more than 60 days in a year. Employees, who have ceased to be so on the day of disbursement of the bonus, will also be eligible for it, provided they were not dismissed for mis-behaviour according to the standing orders of the concern. No other qualifying condition was prescribed by the committee. It held that "the amount to be distributed in each case should be calculated by dividing total basic earnings of each employee in a year by half the number of man days worked by him

during the year for every one percent dividend declared."

RESERVES.

The Committee opposed the inclusion of reserves in "capital" for the purpose of declaring dividend. It held that reserves which are nothing but appropriations out of profits cannot be considered to be the sole property of the entrepreneur. It agreed with the principle that workers have a claim on profits as well as on all other items to which appropriations are made out of profits such as reserve. If, therefore, a business is about to be closed or transferred, the workers should get their share of the reserves. But so long as this is not the case, the Committee did not find sufficient justification to recommend the distribution of a part of the accumulated profits of a going concern among its employees. However, the Committee made the recommendation that no part of profits or reserves should, in future, in any shape or form should be credited to share-holders such as by issue of bonus shares, or completely reserved for them as by transfers to dividend equalisation funds, without making a corresponding appropriation in favour of employees of the concern.

10. Ibid. p. 247.
11. Ibid. p. 248.
CHAPTER VI

PROFIT-SHARING, BONUS AND THE CONCEPT OF COPARTNERSHIP.

From the foregoing, it is seen that almost all the known schemes of profit-sharing in India are of the cash profit-sharing type with the exception of a few which satisfy the main tenets of conventional schemes. Whether such schemes have arisen as a result of the awards of the Industrial Tribunals or they have emerged from previous agreements between employers and workers, they have helped labour to share in the profits of the concern in which they have been working especially when they reach abnormal proportions. But it is doubted whether the scheme of cash profit-sharing has ushered in a period of better industrial relations with increased efficiency and enhanced output. "The International Mission on Productivity in India" in their final report has expressed themselves strongly against the present practice of cash bonus as an incentive to higher productivity. It has recommended that this form of profit-sharing could, with advantage, be replaced by equitable payment by result schemes,
on a weekly basis, which would give the workers as much as the present awards.\textsuperscript{1} Even in the field of better industrial relations in this country, profit-sharing in its present form does not seem to have exerted much of a salutary influence. Although there is feeling both among employers and workers that it has prevented industrial relations from going worse, industrial relations exhibit evident signs of deterioration.\textsuperscript{2}

The reasons for these gloomy results are not far to seek. In the first instance, the bonus payment is too remote and small to exert any energising influence on the workers. The basic fallacy that underlies such a system is that what spurs on the one to action will, when divided, stimulate the many.

But much more important than this is the psychological attitude of the worker to his share of the profits. The worker has never been a sharer in profit and when he actually gets an extra, it is quite likely that he should put it on one of the categories which experience had made him

\textsuperscript{1} Indian Labour Gazette Vol. XVI. July 1956. p. 18.
\textsuperscript{2} Vide statement on page 207 of Chapter X of the Thesis.
familiar with. If he were a share-holder, he might have an opportunity of understanding the fluctuating and problematic nature of profits. The bonus will appear to him as a reward for services already rendered, a deferred wage or a windfall. If he thinks of it as the former, he will wish it to be regularised in the form of higher wages. On the contrary, if the share of profit is looked upon as a matter of right, the worker will continue to expect it and will be disappointed if it is stopped or reduced. This attitude of mind has been responsible for the wreckage of quite a number of bonus plans both in the United Kingdom and United States of America. Few employers who have practised profit-sharing for long seem prepared to claim that this comparatively small sum serves as an incentive to greater output and increased diligence except perhaps in the month before dividend is declared. There is, however, a generally accepted view that a bonus can influence the conduct of the foremen and employees holding responsible positions and to this extent, it can have an influence on the firm’s output.

If then both theory and experience combine to point towards the ineffectiveness of cash profit-sharing
as an incentive to greater industrial output and to
to the maintenance of better industrial relations, what
should be the next step to achieve these highly
cherished objectives? The I.L.O. Mission's
recommendation that the current system of cash
profit-sharing be "replaced" by equitable payment by
result schemes, with payment on a weekly "basis"
should merit consideration. But to make the bonus
which is now enjoyed by the workers in India almost
as a matter of right, conditional on individual or
group performance, is likely to invite all the elements
of trade dispute. A more desirable course seems to
be the introduction of incentive schemes (payment by
results - such as piece work, to jobs which have
traditionally been paid on a part-work basis) over
and above the prevailing bonus schemes, as has been
successfully done in the TECCO since 1949. Every
progressive industrial concern in England believes
in such incentive schemes. Nearly half of the
Indian Chemical Industry's pay roll benefits from
such incentive schemes. With regard to fostering
better industrial relations in India, especially at
a time when the second Five Year Plan is being

4. Commerce May 1951 "Article entitled I.L.O's
Scheme of Profit-sharing"
implemented, it is to be achieved by some sort of democratic control in industry. Our quest as to how best this could be done leads us to what is called the concept of COPARTNERSHIP in industry.

Copartnership denotes an attempt which has been made in many industrial concerns to create within the framework of the enterprise itself a sense of partnership, of identity of interest between the parties engaged in a common venture. It tries to liquidate the socially disintegrating and industrially sectionalising influence of the present method of production. It is based on the belief that the business structure of any community depends on the active and willing cooperation of workers of all grades, each of them contributing the best work and the most diligent thought in an atmosphere where rewards of activity and diligence are distributed in a way which appeals to the workers' sense of justice. Copartnership in a nutshell, is an attempt to translate into industry, to the extent possible, the idea of government based on the consent of the governed. The primary requirement is a leadership capable of inspiring those who have to obey orders and of earning their confidence that the working
arrangements of the business are so organised that
the workers can earn as much as industry can afford,
that they too as well as the owners of the capital
or management have a sense of proprietorship in
the concern and that their abilities are utilised
for the common benefit.

There is no generally agreed definition of
the term copartnership and so far as is known,
there has been no attempt to arrive at a definition
by International agreement. By implication, the term
covers any arrangement in which a business is so
organised and conducted that the employees feel that
by virtue of their services, they are genuinely
partners with the employers in a joint undertaking
although there is no partnership in a legal sense.
This is broadly speaking, the objective of every
firm with an enlightened industrial relations policy,
but it is manifestly impossible to indentify those
particular undertakings which could be said to have
achieved this objective and which are therefore
examples of copartnership. There is, however, a more
rigid conception of copartnership system as being one
which ensures that there should be a sharing of
profits with employees supplemented by arrangements
for the employees to acquire some share in the control of the undertaking by owning share capital or in other ways. The scope of the concept was sufficiently defined by L.W. Mundy when he said "the idea is simple.......The principle is that all workers shall become partners in the business in which they work; such partnership will confer the right to share in prosperity or profit, to share in ownership or capital, and to come into knowledge and consultation about the business."\(^5\)

To clinch the matter further, its cardinal features are three in number.

(a) The sharing with the employees of predetermined portion of net profits of the business in accordance with a scheme which has got the prior consent of all concerned.

(b) The enabling and encouraging of employees to acquire capital in the undertaking which employs them.

(c) The granting of a share in the management of the business to the employees by the setting up of copartnership committees, work councils or other channels of consultations along with information and ideas which can flow freely between employer and employed.

To be a real success, no scheme can afford to exclude the workers from any one of these three spheres. Their presence in the other two is essential to their completely successful presence in one of them. Let us try to deal with each of these points at some length.

**PROFIT-SHARING.**

The question that is posed often enough is as to how labour is theoretically entitled to a share in the profits of the concern when they are already receiving wages or salaries for their work and why the owners should voluntarily forego part of the profit which is legitimately theirs. An answer to this has already been given in the beginning of the thesis.

**EMPLOYEE-SHAREHOLDING.**

Share-holding should in fact be regarded as the ideal keystone of the arch of copartnership, the aim of which is to produce a happy shop of employees with a developed sense of their responsibilities. Employees of the company are in the same position as other people in buying its shares on the stock exchange; but some companies have introduced schemes with special
shares which can only be held by employees. These schemes all vary in some detail though all of them are devices of saving and are intended to increase the interest of the employees in the success of the business. Where profit-sharing and share ownership are linked together, the whole or part of the amount due to an employee may be invested in special shares. Acquisition of shares may be voluntary or compulsory. In some case, the decision is left to the employees as to how much he will take in cash and how much he will invest in shares. Thus in the Bryant and May Company Ltd., employees may use the amount of their profit bonus or any part of it for the purchase of the partnership stock. A notice is issued by the Trustees to all employees participating advising them of the amount of bonus due to them and inviting them to state on a form provided, whether they wish to receive such amount in cash or to subscribe for partnership stock to the full extent or for any less amount of stock. In other schemes, the employee is required to invest the whole or a specified proportion, often one-half of his share of profits.

6. Vide Appendix. p. iii
In some companies, shares can be bought by instalments paid by deductions from wages or they may be bought out of personal savings. Usually, the shares are sold to employees at par. Another inducement is to pay an increased rate of dividend, in some schemes a double rate, to employees who own shares equal to a year's wages or half a year's wages. Inducement may be given for employees to buy shares by offering them at less than market price. An alternative to the purchase of shares is for the whole or part of each employee's share in profits to be put into a savings account and a fixed rate of interest paid on the credits thus accumulated. Thrift is encouraged and many workers with long service accumulate large number of shares which increase their interest in the business and tend to minimise labour turn-over. Sometimes, it is argued that employees should not "put all the eggs in one basket" and that if their savings are accumulated in the company where they work, they may in times of depression lose both their savings and jobs. This is one of the reasons why some schemes provide safeguards to maintain the value of the shares.
Because of their smaller risk of capital loss, business which are stable and less liable to wide fluctuations are more suited for share-holding.

The rate of dividend paid on special shares is usually the same as that on ordinary shares, in some companies, however, special preference shares are issued with a specified rate of interest; they may be cumulative or non-cumulative and may or may not participate and receive additional interest if dividends beyond a given rate are paid to ordinary shares. Where a company has profit-sharing and share ownership, the employees receive their share in the profits and also interest or dividends on the shares they hold. A typical example is to be found in the Johnson Bros. Dyers Ltd., Liverpool.

Some schemes provide for higher dividends to be paid on employee shares than on ordinary shares.

The total number of special shares which may be issued for employees is fixed in some companies. In some schemes, a fixed number of notional shares or certificates of no par value and unsaleable is issued and the dividends on these shares distributed to the employees. But this is essentially a method of determining the amount of profits to be distributed rather than a system of share-holding by employees. In some companies, the total number
of shares are increased from time to time. For example, the Bryant and May Company Ltd., started with an initial stock of 200,000 shares of £1/- each. It was increased to 250,000 in 1935 and was further raised to 300,000 in 1951.

Some schemes limit the number of shares that any employee may hold. Alternatively, the maximum holding of an employee may be related to his annual wages, that is, the holding not to exceed double or four times this amount. Allocation is arranged in some companies so as to prevent a small number of better paid employees from holding a sizeable portion of the shares issued. In a few companies "good conduct" is made a condition for the allotment of shares to enable employees to become copartners, recommendation being made by their foremen or the heads of their departments.

Where special shares are held by the employees, restrictions are imposed on the holders. Ordinarily, the shares must be relinquished to the company on death or on leaving the company's service whether by resignation or dismissal. Some schemes allow holders to retain their shares when they retire. In general, the shares being for the benefit of the employees, they must be returned to the company as
soon as the holder ceases to be employed by it, except that some schemes treat shares as savings for old age. Usually, when shares are sold back to the company, or to the trustees appointed under the scheme, the price paid, is the par value, but in some schemes, the market value is paid. The first method has the advantage of protecting the savings of the work people against loss; but it weakens the value of the scheme as an education in the risk run by investors of capital. Funds are often put in reserve as a guarantee of the par value of the shares and are administered by the trustees. When shares are thus protected against capital loss, they represent a stake in the business as measured by dividends and not by changes in capital value of the shares.

Employees who own special shares are usually precluded from selling their shares whenever they wish as ordinary shareholders are at liberty to do. The latter can therefore exercise their own judgement when to sell to make a profit or avoid a loss; but since employees holding special shares are not able to do this, they are guaranteed the par value. Thus some rules provide that employees should not
transfer or sell shares, or pledge them as security for loans.

Others allow an employee to sell some of his shares, if the value of his holding is more than the amount of an year's wages, but only the surplus beyond that amount. Some schemes give greater freedom, for example, by the company or the Trustees undertaking to buy shares or authorising holders to sell them to other qualified employees. In some companies, the Directors can require employees to sell back their shares and this could be used to terminate a scheme. In the event of the company itself being wound up, some schemes provide that employees' shares shall rank equally with ordinary shares in the distribution of the assets. But in others, they participate in the asset only up to the par value of the shares.

In general practice, it has been found that the best type of schemes allows for:-

(a) The shares are to be ordinary shares of the company inscribed as "Employee Shares".

(b) Purchase to be voluntary out of savings or by profit-sharing allocation.

(c) The number of shares held by any one employee to be restricted.
(d) Voting-rights to be same as for ordinary shares purchased in the open market.

(e) The shares to be relinquished on termination of service.

(f) The shares to be then sold only to another employee or to the share Trustees or to be transferred by the secretary of the company.

(g) The sale to be at price not exceeding the par value of the shares, which should invariably be given a guaranteed minimum value.

(h) Some means should also be devised in order to give priority to employee shares, should a winding up becomes necessary.

It has been found by Professor Charles Gide, that by far the most successful in practice has been the profit-sharing type in conjunction with the automatic accumulation of part or whole of the profits so shared into the capital of the company. 7

If, however, an employee wishes to buy additional shares out of his wages as well, every facility should be rendered for him to do so. There are cases where shares are issued to employees in

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instalments. Such a system is in vogue in the United States of America. Share-holding should be regarded as the cornerstone of copartnership.

**LABOUR PARTICIPATION IN MANAGEMENT.**

Just as each of the three factors — capital, labour and management — is essential to production, so also it is necessary to give the workers a share in each, if copartnership is to harmonise effectively the interest of all concerned in industry and to give all alike an identical interest in raising efficiency. Schemes do exist in which the workers have a share in only one or two out of the three, and these schemes are useful as milestones on the way to complete copartnership. But practical experience from an examination of schemes in operation in foreign countries shows that where a scheme rests on one or two legs only, it will be unsteady and that a full realisation of the objects of copartnership cannot be achieved by anything less than a complete scheme.

Copartnership with employees implies that they have some share in the management of the business. This may range from consultation in work councils and partnership committee, to attending and voting at

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8. "Profit-sharing and Stock Ownership" by Bryce M. Stewart and Walter J. Cooper. op.cit.
general meetings of the company and electing employee representatives to the Board of Directors, though this last method is exceptional. Many companies supply information regularly to their employees about the financial position of the company, its problems, policies and prospects. Addresses on these matters are periodically given by the Managing Directors, and summaries published in the Works Magazines. Representatives of the employees take part in many firms in the management of Welfare Schemes and social activities. In these various ways, the status of the employees is raised and their understanding, interest and influence in the business in which they work are increased.

Some schemes exclude holders of employee shares from any direct part in the management of the company, provision being made that they have no voting rights or rights to attend meetings of the company. In some companies, even where as a result of the operation of profit-sharing and employee share ownership over many years, the employees are not given such rights. An example of this type is to be found in Messrs J.T. and J. Taylor Ltd. Though the workers own more than half the capital of the company and draw in their dual capacity as share-holders and profit sharers,
\[148\]

\[1\] of the profits of the undertaking, they have no voting rights. The company only undertakes to make a full statement to them yearly. \[9\] Possessions of shares without a voice in control is of little value in raising the status of the employees. Especially in a society where control is based on ownership, such a thing seems paradoxical. In principle, it is desirable that the employees should be able to acquire the right to vote. In other schemes, employees who own shares have the same rights as other share-holders to attend and vote at general meetings. In this respect, the plan of the Bryant and May Ltd., where when employees have acquired fifty employee partnership shares, they secure the right to attend the annual general meeting, has much to commend it, because it ensures that those with longer service and greater interest in the firm acquire greater responsibility. \[10\]

A few schemes go further, and provide that employee share-holders shall be represented on the Board of Directors, though usually their representatives are in a minority and therefore control over


policy does not get into the hands of the employees. Before nationalisation of the gas industry in Britain, many gas companies had profit-sharing and copartnership schemes which provided that employee share-holders would elect three representatives on the Board of Directors, but that there would be at least five other Directors, thus leaving in a minority the Directors representing the employee share-holders. Only those employees who have considerable service with the company, for example ten or twelve years, can be nominated for election as Directors.

ADMINISTRATION OF COPARTNERSHIP.

Various methods are adopted for the administration of profit-sharing and copartnership. Some are controlled by the Directors of the company, and other by a Joint Committee half of whom are nominated by the Directors and the other half elected by the employees from among them. Candidates for election must usually have had not less than a specified period of service with the company, often five years and in copartnership schemes must hold at least 25 shares. In some companies the number of shares he holds, for example, one vote for every

25 shares from 100 to 300 and one more for every 50 after 300. Some Joint Committees merely decide what amount of the available funds shall be distributed and how much shall be carried forward for equalising dividends over several years. Often, provision is made that a company can terminate its profit-sharing or copartnership at any time.

THE VALUE OF COPARTNERSHIP.

Experience with the working of the copartnership plans has shown that the greatest advantage that is derived from them is the possession of a happy shop. It is already seen that cash-bonus sharing has nothing to commend except a transient feeling of satisfaction on the part of the employees. A significant example of the failure of the cash bonus profit-sharing scheme is to be found in the Proctor and Gamble Soap Manufacturers of the United States of America. This firm started cash profit-sharing on the firm belief that such sharing would itself give rise to a sense of common interest which would eventually lead to a harmonious and contented service on the part of labour. But so rarely shocking were the results of the experiment,
that the sponsor had to give it up in preference to a system under which the employees had to qualify as participants by acquiring shares in the company which required them to invest some portion of their own savings. This scheme has been in operation since 1903 and has proved a success. Another example has been the King County Press Ltd., at Waikato, which has successfully operated a copartnership scheme, for a fairly long period. By this scheme, labour shares to the total number of 20,000 were issued by the firm to its employees in proportion to their wages with additions for length of service and efficiency as the Directors decided, but the total number issued was limited in view of the voting rights carried by them to 2/5th of the number of ordinary shares. Profits are allocated first to a 7% cumulative dividend on the ordinary shares and then to a non-cumulative payment on each labour share equal to 7% on an ordinary share. The balance after making provision for reserves, is divided equally between capital and labour until 9% has been paid on ordinary shares. The holders of labour shares are entitled to attend and vote at all general meetings of the company and to enjoy all the privileges of

12. Bowie "Sharing Profits with Employees" op.cit. p. 110
the ordinary share-holders. The scheme was started in 1927 and the dividend paid on labour share has varied between 5 & 7%. During the great depression of 1929-1932, no payment was made. Commenting on this, Mr. A.E.C. Hare, an authority on the Industrial Relations in New Zealand remarked "There seems little doubt that the profit-sharing side of the scheme has not proved the success which the workers hoped and has given rise to some disappointment, the amount received annually in dividend only amounting usually to between two and three weeks' wages. The system of labour Directors, however, and the consultative voice in the management of the business which they secure have undoubtedly been a success".13

A good deal of light has been thrown on the utility to a firm of profit-sharing and copartnership by some researches undertaken by the United States Senate Committee on Finance in 1937. The results of the research are based on the questionnaires sent to several hundred companies and would appear to be the first attempt that has been made to evaluate quantitatively the value of profit-sharing and copartnership.

schemes in promoting loyalty. These results have been worked up into charts by the investigators concerned.

The important conclusion drawn was that those firms which practised the more advanced type of profit-sharing and copartnership are proved to be less affected by labour troubles than others. It may be objected that the firms which carry on advanced profit-sharing and copartnership are just the firms which would have enlightened labour policy so that their greater freedom from labour troubles may be due to their attitude and not to their copartnership plans. Apart from this objection, the figures are conclusive and their statistical soundness is unquestioned.

One of the clear tests of loyalty is the absence or otherwise of strikes. The results of the questionnaires on this subject to 732 companies are tabulated in the following figure. By way of explanation, it should be pointed out once more that the United States Senate Committee accepted a far wider definition of profit-sharing than was accepted in Great Britain. Therefore, the figure includes many schemes which do not belong to the
conventional type. It will be seen that 23.4 per cent of the firms with no profit-sharing copartnership plans reported strikes whereas only 9.9 per cent of the firms with profit-sharing or copartnership schemes in which all employees could participate reported strikes. A most interesting result of these figures is that from the loyalty point of view, the introduction of plans in which labour does not share (that is bonus and inducements to Executives and Keymen) is almost worse than useless. This type of schemes results in higher incidence of strikes than no schemes at all.

From the incentive point of view, there is no reason to doubt the general observation that the grant of a bonus to an executive has a greater incentive effect than a bonus granted to an employee. But where the incentive bonus is granted to Executive only, its salutary effect is offset by worsening labour management relations. This is particularly the case where there is one plan for labour and another for executives — an arrangement which no doubt draws the workers' attention to disparities between his share of profits and that of the Executives. A fact which is brought out by the charts is that two groups of companies with
special schemes for Executives had a lower incidence of major strikes, about 16% as against 18.7 p.c. in firms with no schemes of any sort. It is only in the matter of minor labour troubles that they have a worse record than the companies without any plans.

| Column, A: | 62 companies where labour shares in some plans but not all. |
| Column, B: | 83 companies with a plan in which labour does not share. |
| Column, C: | 320 companies with no plans for any one. |
| Column, D: | 312 companies where labour shares in all plans. |

In view of the fact that the above figure includes many plans which do not conform to the traditional pattern figure II is of interest as a check. The column showing "Partnership plans" may be taken to include schemes which would satisfy the main tenets of profit-sharing and copartnership since they include those plans such as profit-percentage, stock ownership and wage-dividend wherein the employee has a definite interest in the fluctuations of the profit. The "non-partnership plans" include pension schemes and bonus granted at the discretion of the management, without being automatically linked to profits. It will be seen that figure II confirms the value of true profit-sharing and copartnership in decreasing strikes and labour turn-over. It is also reported as conducive to increased efficiency and loyalty.
Industrial Relations record of 312 companies in U.S.A. separated as to partnership and non-partnership plans.

<table>
<thead>
<tr>
<th>Percentage of Companies</th>
<th>Major Strikes</th>
<th>Minor Strikes</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70%</td>
<td></td>
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</tr>
<tr>
<td>60%</td>
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<td>50%</td>
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<tr>
<td>40%</td>
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<td></td>
</tr>
<tr>
<td>30%</td>
<td>A 30.5%</td>
<td>A 37.6%</td>
</tr>
<tr>
<td>20%</td>
<td>B 20%</td>
<td>B 60.5%</td>
</tr>
<tr>
<td>10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Column, A: 210 companies with non-partnership plans.

Column, B: 102 companies with partnership plans.

Source: U.S. Senate Report 610.
Finally, figure III analyses the return of 234 companies with plans in which all employees participate, and again bring out the favourable result achieved by true profit-sharing and copartnership schemes. The bonus plans in column "B" refers to a bonus granted more or less arbitrarily at the discretion of the management. The "profit-percentage" and "wage-dividend plans" either distribute a fixed percentage of profits irrespective of whether a dividend is declared, or distribute a dividend on wages in proportion to any dividend on stock. It will be seen that this latter group, which is the true copartnership group, makes the most favourable showing.
It will be seen that this latter group (c) which is the true copartner-ship and profit-sharing group makes the most favourable showing showing pension plans are too remote to be effective.

234 commercial companies in U.S.A. with only one plan and labour shares in it.

Column, A: Pension plans (86)
Column, B: Bonus plans (81)
Column, C: Profit percentage and wage dividend plan (77).

Source: U.S. Senate Report, 510.
The comparatively poor record of pension schemes is interesting. It is found that a pension scheme is too remote to be an effective output incentive and these figures suggest that it is not outstanding in securing employee good-will. Yet on its merits, no one could deny that a pension scheme is one of the most beneficial long-term means of raising the status of the employee. The fact that results which indicates that there is a large element of philanthropy and less of business value in running a pension scheme is probably a reflection on the short-term outlook taken by labour. An examination of 87 true profit-sharing plans shows that those which saved the bonus for the worker had a better loyalty record than those which distributed the bonus in cash. The tendency of the worker to take his bonus for granted, increases his standard accordingly, and then shows disappointment and resentment if the annual profits do not provide a bonus, is suggested in the Report as an explanation.

LABOUR'S ATTITUDE TO COPARTNERSHIP SCHEMES.

The trade union movement has on the whole been hostile to profit-sharing and copartnership for the good reason that historically, the purposes for which it was often introduced militated against the prime objectives of the movement. It was used as a weapon
to fight the inroads of trade unionism into the ranks of labour; but such of the schemes as were started towards this dubious end soon came to grief. But today, the old hostility has diminished into indifference as the movement has acquired greater confidence in the security of its objectives, and latterly, there have been signs of a positive willingness to acquiesce in or even to welcome schemes if the relations in the firm were such that from the trade union point of view, the scheme could do no harm. In many of the present schemes, there is embodied in the constitution of the scheme arrangements for safe-guarding the position of the unions in everything which legitimately concerns them.

This change of attitude on the part of trade unions is attributed partly to the marked increase in the number of schemes introduced and maintained in the United Kingdom since the last war.\textsuperscript{14} A recent survey conducted in the schemes now in operation in Great Britain serves to show that it is only where the employers and unions fail to work together amicably in other respects that there is any trouble over copartnership.\textsuperscript{15}

\textsuperscript{14} Manager, March 1956, p. 212. op. cit.
\textsuperscript{15} Earnest Marples. "Road to Prosperity," p. 130. op. cit.
In a copartnership industry, the trade union has got a very constructive role to play. The management of business in the modern world is such a difficult and complex affair that it requires thorough study and training before it is taken up. The participation that is given to labour in management by the copartnership scheme renders it necessary that labour should give their serious attention and study to the problem of business management. Though they will not be asked to hold key positions in the initial stages, they must secure the necessary training to take up the onerous duty whenever called upon to do so. Any step to under-estimate its vital importance will be fraught with dangerous consequences.

Lenin, during the early stages of the Russian Revolution thought that capitalism has so simplified and routinised methods of business operation that socialised industry could be operated by anyone "who can read and write. The ability to observe record and to make out receipts — this with knowledge of the four rules of arithmetic is all that is required"). The Manager was thought to be merely an instrument concerned with the siphoning off the "surplus-value" created by the workers. Therefore Factory Committees took over

the functions of the owners and managers of the enterprises in which they were employed. But after some time, Lenin saw that this would not work, because the workers were not trained to deal with the problems of supply, manufacture and distribution. A few years of operating without trained and authoritative business management resulted practically in the drying up of economic activity in all parts of the country. Therefore, the old Managers were called back to meet the deteriorating situation. As to "drying up" the following figures are very eloquent.

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of Production in Soviet Russia.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Index</td>
</tr>
<tr>
<td>1913</td>
<td>100</td>
</tr>
<tr>
<td>1916</td>
<td>109.4</td>
</tr>
<tr>
<td>1917</td>
<td>75.4</td>
</tr>
<tr>
<td>1918</td>
<td>43.4</td>
</tr>
<tr>
<td>1919</td>
<td>23.1</td>
</tr>
<tr>
<td>1920</td>
<td>20.4</td>
</tr>
</tbody>
</table>

Source: "Communism in Action" prepared by the Legislative Reference Service of the Library of Congress in 1946 (Quoted in Road to Prosperity).
This is the reason why trade unions have started in recent times to give their increased attention to the training of labour in the art of business management. A typical example is Yugoslavia.17

In conclusion, it is to be observed that there are at least a few conditions which any scheme of partnership must fulfil if it is to be permanently successful and satisfactory to everyone.

(1) It must be simple
(2) It must place no financial risk, nor liability upon those who have not acquired the reserve of capital which alone could enable them to face such a liability.
(3) It must be unselfish.
(4) It must enable all to share in the prosperity of each.

CHAPTER VII

PROFIT-SHARING AND THE PLANNED ECONOMY OF INDIA.

Having thus seen the concept of copartnership in its various aspects, let us direct our attention as to how far it fits into the Socialist Society and Planned Economy of India. It is today generally accepted that without an increase in production, there can be no lasting economic progress. Therefore, in many countries of the world, increased production has been the major target in recent years. During the war, it was a decisive factor. Even after the cessation of hostilities, it continues to play an important role in the development of war-devastated countries and in their economic recovery. Increased production provides the key to the rapid industrialisation of the underdeveloped and under-developed countries of the world. Besides these, political developments in recent years have given rise, in several countries, to an economic system of "armed peace" which of necessity be based not only on the restriction of civilian consumption, but also on an appreciable increase in production.

Apart from the fact that it is an outstanding economic necessity, increased production is now recognised as a primary social one, if not by all workers at least by a growing
number of their leaders. Strong support is now gaining for the view that improvement in social welfare is to be obtained not only by measures aimed at ensuring a more equitable distribution of the national income, but above all, by increasing production and efficiency. This is true of all countries irrespective of the type of economic and social systems in vogue. A significant example is to be found in the preamble to the time and motion study agreement concluded in 1948 between the Swedish National Employers' and Workers' Organisation which runs as follows:

"A continual development of efficiency in industry and production is a general and essential condition for raising the standard of living of labour and the nation. Such rationalisation must be carried out continually in each enterprise in order to enable it to keep pace with technical developments. The common interest of the entire staff of every enterprise is to assist in making it truly competitive. Like all other members of the community, the employees will benefit by a rationalisation which leads to increased production and thereby basically contributes to a general improvement of the standard of living."

But it is also increasingly appreciated today that production can be stepped up only with the help of all participants, especially the wage earners who constitute

the vast majority. For an undertaking to be able to produce more goods, it is necessary in the first place that all its members should be convinced of the need to do so; they must then be asked to consider themselves how the undertaking can be made to produce more. The workers need to be assured that they will get substantial benefits from the increased production and to be given the opportunity of putting forward their own view as to the methods of securing the increase.

India has already launched her Second Five Year Plan. One of the major objectives of the plan as laid down by the Planning Commission is to bring about a sizeable increase in the national income by stepping up production both in the industrial and agricultural sectors. Since the plan has a pronounced bias towards industrialisation the role of labour becomes very important. If there is cooperation from all sections of labour and if there is sufficient mass enthusiasm initiative and discipline, the success of the plan is assured. But if the workers in the country hesitate to contribute their due share, planning will be a failure.

In countries where labour is not highly organised the industrialists often seem to forget that workers have an effective role to play both in the matter of enhanced production and equitable distribution; it is also forgotten that workers are an integral part of the industry with integral responsibilities. They are even now considered as mere wage-
earners and the employers have still the right to "hire and fire" whenever they like. If the national plan for developing industries is to be a success, workers who are employed in the industrial sector must be given such conditions as will place them in a position to devote to their work all the intelligence, enthusiasm, physical energy and skill which they possess, so that their work will be efficient and the output both in quantity and quality will be the highest. Under the present industrial system in India, only those who invest capital in the industry control it fully. So long as the employer acts in isolation and prefers to impose technical progress, he will not inspire in the workers the confidence required for fruitful cooperation with his efforts, however justified they may be. The great fear that lurks the minds of the workers is that to the extent they improve their efficiency and their production, they stand the risk of unemployment and of wages going down. To free them from this risk and to eliminate their fear, it will not be enough to provide Social Insurance and machinery to fix their wages, without changing the system as regards the conditions under which the labourers work.

It is an oft-quoted dictum in political science that good government is no substitute for self-government. Although politically speaking the workers under a democratic system have the same rights as all other citizens, in the industries in which they are working, they feel often enough that they are mere cogs in the proletarian wheel and that everything
is imposed from above, because in general they are not given any hand in the taking of the decisions which nevertheless vitally affect them. Therefore, in the industrial system in addition to imparting good conditions of work, they will also require the higher satisfaction that by doing their work efficiently, they are rendering service to the community as free and independent men. In order to give the satisfaction of a higher motive, the workers will require to be given a hand in the conduct of the industrial system.

Therefore, unless there is a thorough re-orientation in the attitude of the employers, in the matter of labour cooperation in the conduct of the industrial system, planning is not likely to succeed. Cooperation in industry, in common with other concepts, must change with the change in the pattern of the society. Upto this time, we have been working in India under a capitalist system. But now we have changed the whole structure, which should lead us to the establishment of a welfare state, or a cooperative commonwealth slowly evolving into a socialist state. The second Five Year Plan considers the attainment of a welfare state not merely as a long-term objective, but as a goal that has to be reached as early as possible. It is this fact that explains the growing volume of emphasis upon various types of redistributional measures both in regard to income and ownership of wealth. The higher extent of expenditure upon social services as well as upon transport
and communication can also be partly explained on the basis of the above. It appears that the general approach of the Second plan is that it is possible to obtain a high rate of capital formation, simultaneously with a high rate of approximation to the welfare state. If we have to achieve these objectives, there must be full cooperation between labour and management. Private enterprises should slowly lessen the idea of profit-seeking and more and more become the guardians and custodians of the nation's production.

A socialist society places grave responsibility on the creative forces of the state. In the industrial sector, the burden must largely rest on the workers and technicians. In the capitalist industries, the workers have to bargain from time to time with their employers for better conditions of services and wages. But in a socialist system, if the patriotic urge does not adequately replace the profit-motive on the part of the employers, it will be for the workers to give a lead in the matter of production.

To cite an example, in Soviet Russia, the responsibility of the workers is of a very severe nature and a particular section of the workers known as "STAKNOVITE" goads the Directors of the Board of Management on to an ever-increasing tempo of production and thus the Directors are always afraid of this section and would utilise their individual initiative, and enterprise in securing production,
as otherwise, they may be liable to punishment.\textsuperscript{2} The very basis of Socialist State necessitates the maximisation of production, by every possible means, and there can be no limit to the workers' contribution so long as that contribution is made possible without undue interference with their health and dignity and consistent with adequate wages and just conditions of service.

In the United Kingdom, workers and managements believe in Joint Standing machinery at all level for arriving at voluntary agreements in the matter of the settlement of trade disputes, and on the question of production by joint consultation from time to time, the object being to give employees wider interest in and greater responsibility for the conditions in which their work is carried out. A number of industries managed by private industrialists have special schemes such as profit-sharing and association with the management through copartnership for the efficient running of the unit. In some industries, the representatives of employees are having a voice in the control of the industrial system.

In the Scandinavian countries, workers-managements relations are advisory in character; but they have established the right to be consulted on many vital subjects relating to the running of the industry. Thus, for example,

\textsuperscript{2} V.V. Giri. "Industrial Relations" p.23 N.M. Tripathi Ltd. Bombay 2 (1955)
in Sweden, the production committees are authorised to examine the Balance Sheet, Profit and Loss Account, Directors and Auditors Report and have their say in all these matters.\(^3\)

In Germany, in the year 1951, laws were passed especially in the Iron and Steel and the Coal Industries for the participation of Workers' representatives on an equal footing in the management, or "co-determination" as it is called is being recognised and representative of labour have a place in the Board of Directors.\(^4\)

In Yugoslavia, under Marshall Tito, according to the law established, factories, mines, communications, transport etc., are managed by workers' Collectives through workers councils and Management Boards. These Boards run the business and are responsible to the workers councils and the competent state organ. During the tenure of the Management Board which is for a year's duration, members remain in their regular jobs in the factories and receive no extra pay for the work done. The system of management by workers is still in the process of development. The Yugoslavian Trade Unions, on their part have been engaging themselves in training the workers in the art of business management which is very essential for the success of the system. The new changes have produced beneficial results such as appreciable reduction in the working

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population in individual undertakings coupled with an increase in the overall production, saving in raw materials, fuels etc.\(^5\)

Thus the system of association of workers with management and control through copartnership schemes and otherwise is gaining influence over the management in many countries with Planned Economy. But in India, the idea of workers' participation in management control was not appreciated both by labour and management alike. The latter thinks that it is too strong and independent to allow any labour infiltration into their ranks and similarly organised labour on their part feel that they too are strong enough and do not like any position leading to a compromise. They are still working at cross purposes and at best, there is only "cease-fire" friendship, between them. Since independence, both legislation and public opinion have sought to better the workers' lot and have succeeded to some extent in doing so. But these have not appreciably affected the outlook of the employer. He has no doubt yielded to the new measure; but there has been, by and large, not very much of a change of heart. But of late, employers have begun to recognise the need of associating labour with management.\(^6\) It is the duty of employers as the guardians of the nation's productive resources to set a new ideal for the future of the country.

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5. The Eastern Economist. June 20, 1956.\(^{1006}\)
6. Refer Preamble to the Supplemental Agreement dated 4.8.1956 between TISCO and the "Tata Workers' Union" (Contd. on next page)
The time is ripe for a bold experiment in the matter of conceding to labour an increasing share and voice in the conduct of the industry. The expenditure Rs 7100 crores during the period of the Second Five Year Plan of which a sizeable portion is earmarked for the industrialisation of the country requires much organisation and cooperation between the two indispensable partners of the industrial system namely employers and workers. It is to be remembered that the workers are the integral partners in the industrial undertaking and without their good work, discipline and integrity, the industry will not be able to produce effective results. However efficient the machine touch in an industry may be, if the human element refuses to cooperate, the industry will fail to prosper under the present world conditions. Therefore it is necessary that labour should be given a new status in the industry through copartnership schemes. The mere financial incentive produced by giving to the workers a share of the profits in the shape of annual

(continued from the last page)

which states that the company appreciates the view that an increasing measure of association of Works Employees with management in the working of the industry is desirable and would help

(a) in promoting increased productivity for the benefit of the enterprise, the employees and the country,
(b) in giving employees a better understanding of their role and importance in the working of the industry and in the process of production, and
(c) in satisfying the urge for self-expression.

Also vide the Preamble of the Agreement signed by the workers and management of Belur Aluminium Works and those of Alwaye Aluminium Works.
bonus, as is being practised in the various industries in the country is not enough, though it is something towards the right direction. This something will be all the greater if profit-sharing is combined with a share in the ownership and management of the business. Especially in a property-based democracy like ours, participation in control and management without ownership is a paradox. Therefore, in all industries where employers realise their full responsibility and workers have responsible organisations which would speak in a reasonable way, workers and employers should sit together and evolve participation on the principle of copartnership. Such a step should merit serious consideration and is worthy of being given an honest trial in a country like India which is trying to strike a middle road between western capitalism and eastern socialism. Profit-sharing with distribution of stock to the workers will pave the way towards the realisation of industrial democracy and the building up of a pattern of socialism that may be in greater consonance with Indian Social Traditions based on harmonious personal relationship between labour and management.
following statement bears ample testimony to the progressive deterioration of industrial relations since 1953. Apart from this, signs are not wanting to show that industrial relations may deteriorate further, the main indication being the demand for increased wages. A conference of trade unions in Bombay demanded a substantial increase in their wages as early as October 1956. 3 A similar demand was made by the I.M.T.U. in November 1956. Such demand for higher wages has invariably been found to be the precursor of worsening labour relations. This was justified by the strike-threats from various quarters which resulted in the appointment of the present Pay Commission by the Union Government. Such a state of affairs is very much disquieting, and with the Second Five Year Plan with its industrial bias, it is alarming. The success of the plan, and the capability of the Central and State Governments and the private sector to step up output and to set up new industrial units will, to a large extent, depend upon the maintenance of industrial peace in the country.

3. Indian Express, New Delhi, dated 27th October, 1956.
TRENDS IN THE INDUSTRIAL RELATIONS
IN INDIA SINCE 1953.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of disputes</th>
<th>No. of workers involved</th>
<th>No. of man-days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>772</td>
<td>466,607</td>
<td>3,382,608</td>
</tr>
<tr>
<td>1954</td>
<td>840</td>
<td>477,138</td>
<td>3,372,630</td>
</tr>
<tr>
<td>1955</td>
<td>1,166</td>
<td>527,767</td>
<td>5,697,848</td>
</tr>
<tr>
<td>1956</td>
<td>1,611</td>
<td>970,450</td>
<td>6,709,962</td>
</tr>
</tbody>
</table>

Industrial profit, it has been steadily rising after the post-Korean recession in 1952. During the year 1954, the economy made a distinct recovery and this was reflected in a sizeable rise in profits as seen in the following table showing the index numbers of industrial profits since

1940. This is further reinforced by the analysis, conducted by the Reserve Bank of India, of the finances of 750 Companies for the six years 1950-56 with special reference to the first plan period 1951-55. The study covered public limited companies registered in India, with a paid up capital of not less than Rs 5 lacs each, but excluded banking, insurance investment companies and also government companies. The total paid up capital of companies included in the study constituted 2/3 of the total paid up capital of public limited companies in the Sectors covered.

The analysis showed that the companies, as a whole, recorded a continuous growth from 1953 onwards. Most of the principal industries recorded rise in 1955 in the rate of dividend, the companies as a whole making the highest distribution of Rs 32 crores in 1955 compared to Rs 29 crores in the previous year. Sales, the main income, rose during the year by 113 crores to Rs 1,114 crores as also the total gross capital formation by Rs 35 crores to Rs 136 crores in 1955 against a total outlay of Rs 443 crores for the five years.

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Profits before tax during the period rose by 51.6 p.c. from Rs 64 crores in 1950 to Rs 97 crores in 1955, and profits (after tax) were higher by 53.8 p.c. rising from Rs 39 crores to Rs 60 crores during the six year period. Dividends during the period went up by 33.3 p.c. from Rs 24 crores in 1950 to Rs 32 crores in 1955, while profits retained in companies rose sharply by 80 p.c. from Rs 15 crores to Rs 27 crores during the period.

With regard to profits and dividends of these companies, the study revealed that profits in 1955 were higher than any other year of the First Plan period including the Korean boom year of 1951. Profits before tax which had fallen sharply from Rs 85 crores in 1951 to Rs 56 crores in 1952 rose continuously to Rs 97 crores in 1955, reflecting mainly the general growth of economic activity.
INDEX NUMBERS OF INDUSTRIAL PROFITS.
BASE: 1939 = 100

<table>
<thead>
<tr>
<th>Year</th>
<th>Jute</th>
<th>Cotton</th>
<th>&amp; Steel</th>
<th>Iron</th>
<th>Tea</th>
<th>Sugar</th>
<th>Paper</th>
<th>Coal</th>
<th>Cement</th>
<th>All Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>359.1</td>
<td>142.5</td>
<td>103.8</td>
<td>99.1</td>
<td>100.3</td>
<td>236.3</td>
<td>100.8</td>
<td>102.8</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>1943</td>
<td>376.3</td>
<td>640.0</td>
<td>111.8</td>
<td>142.3</td>
<td>157.8</td>
<td>352.8</td>
<td>95.6</td>
<td>147.9</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>415.4</td>
<td>408.9</td>
<td>101.3</td>
<td>198.8</td>
<td>122.4</td>
<td>266.4</td>
<td>198.5</td>
<td>194.1</td>
<td>229.2</td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>89.3</td>
<td>292.0</td>
<td>116.0</td>
<td>138.4</td>
<td>216.4</td>
<td>316.7</td>
<td>287.2</td>
<td>295.0</td>
<td>181.5</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>456.9</td>
<td>356.6</td>
<td>134.2</td>
<td>271.2</td>
<td>262.4</td>
<td>479.0</td>
<td>209.2</td>
<td>333.4</td>
<td>246.6</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>679.1</td>
<td>551.1</td>
<td>157.7</td>
<td>103.9</td>
<td>420.8</td>
<td>604.1</td>
<td>178.4</td>
<td>419.7</td>
<td>310.5</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>183.4</td>
<td>262.8</td>
<td>162.6</td>
<td>88.8</td>
<td>409.1</td>
<td>566.8</td>
<td>220.4</td>
<td>293.4</td>
<td>190.6</td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>326.2</td>
<td>379.4</td>
<td>179.4</td>
<td>391.4</td>
<td>419.8</td>
<td>512.7</td>
<td>145.5</td>
<td>279.0</td>
<td>261.2</td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>356.4</td>
<td>387.2</td>
<td>222.9</td>
<td>712.3</td>
<td>334.9</td>
<td>666.1</td>
<td>153.0</td>
<td>341.4</td>
<td>314.2</td>
<td></td>
</tr>
</tbody>
</table>

Besides these, the statement which is given below shows that industrial profits continued to maintain its steady growth during 1956 also. The statement though meagre, indicates the increasing amount of profits earned by certain companies between the years 1953 and 1956.

### Declared Profits of Certain Industries

(In lakhs of Rupees)

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Net profits for the year ended 31st March</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1953</td>
</tr>
<tr>
<td>2. Great Eastern Shipping Co. Ltd. Bombay</td>
<td>6.71</td>
</tr>
<tr>
<td>3. Metal Box Company of India Ltd. Calcutta</td>
<td>17.92</td>
</tr>
<tr>
<td>5. Mysore Paper Mills Ltd.</td>
<td>5.05</td>
</tr>
</tbody>
</table>

As to the question of a rise in price, it has to be viewed from the background of the deficit-financing envisaged in the Second Five Year Plan. The plan provides for a deficit-financing of the order of Rs 1,200 crores over a period of five years, or an average annual expenditure of Rs 240 crores. This means that according to the plan, the

government would spend an annual average of Rs 240 crores over and above all the taxes, loans and other resources, it could raise from the market. This has brought forth different estimates from different experts as to the extent of the possible rise in price during the plan-period.

Coming to an assessment of the likely reactions of the proposed deficit-financing, the Planning Commission observes that Rs 200 crores can be set off by drawing down of Sterling balances by an equal amount. The remaining deficit of Rs 1000 crores representing the net addition to total currency is expected to result in a secondary expansion of credit by banks. It is assumed that if the ratio between currency in circulation and deposit money remains unaltered, money supply would show something like a 66 p.c. increase over the plan period, and national income, during this period by 25 p.c. Hence the Planning Commission is of the opinion that the resulting increase in price level of about 40 p.c. is not beyond the safety limit.5

Professor Das Gupta calculates that the existing money supply at the beginning of the Second Five Year Plan is of the order of Rs 1,200 crores, and if the plan is implemented there will be an addition of Rs 1,200 crores.

5. Second Five Year Plan (Original) p. 85.
Deducting from it Rs 200 crores being roughly the amount which can be matched against the release of sterling balances, the net increase in note circulation is expected to be to the tune of Rs 1,000 crores which is about 77% of the existing volume of money. Against this, the plan envisages an increase of aggregate output by about 25% of which the share of consumers goods will be about 20%. If allowance is made for some transfer from the non-monetary sector to the monetary sector, then the consumers goods in the exchange economy will come to about 25%. Therefore, Dr. Das Gupta concludes on lines identical with those of the Planning Commission that if the income velocity of circulation of money remains more or less the same, during the plan period and further, and that the volumes of credit will move pari-passu with currency, there will be a price rise of about 40%.\(^6\)

But much more pessimistic and alarming is the estimates of Professor B.R. Shenoy. He assumes that the total money supply at August 1955, to be a round figure of Rs 2000 crores at the inception of the Second Plan. To finance a 20% increase in output at stable prices, money supply should rise to Rs 2400 crores by 1960-1961, the closing year of the plan. To this may be added

\(^6\) Dr. Das Gupta "The Economic Weekly" Annual Number 1956 pp. 125-128.
Rs 100 crores, being the amount the public is likely to hold more in cash as income expanded. The fiscal operations of the state being through the Central Bank, the amount of the Central Bank money with the public would rise by the amount of the deficit financing. Part of it would pass into circulation as currency notes. A part would get into the commercial banks and increase their reserves and enable them to expand their credit-loans, advances, over-drafts, and discounts. Total money supply therefore, would rise by more than the amount of the deficit financing. The ratio of currency notes to the total money in circulation in India is such that on an average, every Rs 100 crores of deficit-financing would add Rs 70 crores to the currency notes with the public, and the rest of Rs 30 crores would go to augment the reserve of the commercial banks. Commercial banks deposits being five to six times their reserves, they would build, on the additions to their reserves, deposits of Rs 150-180 crores. For every Rs 100 crores of deficit-financing, total money supply would thus rise by Rs 220-250 crores.

For an expansion of money supply of Rs 500 crores, the permissible magnitude of deficit-financing would be Rs 295-318 crores or an annual average of Rs 59-64 crores. In this computation, it is assumed that
as 125 crores of this sum would represent deficit-financing to acquire the currency reserves for the public sector and would therefore involve no addition to the money in circulation. The transaction in effect would amount to no more than book-keeping entries as between the Ministry of Finance and Reserve Bank of India. The rest of the deficit-financing (as 170-193) might add as 119-135 crores to the currency notes with the public and raise commercial bank reserves by as 51-85 crores. Commercial bank deposits might then grow by as 365-375 crores, as 290-306 crores of this representing secondary expansion of credit based on the addition to the commercial bank reserves and as 75 crores representing the credit created in connection with the use, by the private sector, of the foreign exchange reserve of the Reserve Bank of India. Under such an arrangement, total money supply would rise by as 500 crores and prices would remain stable.

Deficit financing by as 1,200 crores would expand money supply at the end of the plan to as 4267-4688 crores, allowance being made for as 125 crores for the purchase of the foreign exchange from the Reserve Bank for the use of the public sector. As money supply would be vastly larger than the permissible amount of as 2,500 crores this might raise prices by at least 78 to 95 p.c. in five years or 16 to 19 p.c. every year.7 In actual fact,

contends Professor Gheno, that prices might rise faster. First a rise in prices would raise the money costs of the projects before they are completed and necessitate larger deficit-financing. Secondly, people would hold a smaller percentage of their income in cash. In an effort to protect the value of their savings, they would try to invest as much of their savings as possible. This would tend to accelerate the velocity of circulation.

The above discussion clearly indicates that all the experts including members of the Planning Commission are unanimous in their forecast of a rise in price, although there are differences with regard to the extent of this probable rise. Leaving aside these theoretical considerations based on the "crude but operationally useful Quantity Theory of Money" it is necessary to face facts and realities as they present themselves at present.

The main emphasis of the plan is on long period industrial expansion, which will fructify only after a number of years. This means that while the money supply in the hands of the people has increased, the corresponding supply of goods will reach the people only after some time. In the meanwhile, a rise in price is sure to take place. This could have been obviated or kept under reasonable limit if the country imported food-grains, cloth and other
consumer goods from foreign countries in sufficient quantities. But that is not to be because of the very delicate situation in the country's foreign exchange resources.

As things stand, the imports of machinery, iron and steel and other essential goods for implementing the programme of industrial expansion has increased the country's balance of deficit from Rs. 46 crores in 1954 to Rs. 189 crores in the first eleven months of 1956. As a consequence, the sterling balances have declined from Rs. 742 crores in January 1956 to 539 crores in November 1956. This means that import of consumer goods from foreign countries is out of question. The alternative lies in the stepping up of production of consumer goods in the country itself. Even if this is achieved, a part of the increase will have to be exported to match our steadily growing imports. All this points to the conclusion that a general rise in price level is going to persist during the plan period. This is further reinforced by the fact that a certain degree of rising prices is inevitable in a developing and expanding economy. The growing pressure of demand on the economy has already led to a significant rise in prices. The sharp decline in prices in 1954-1955 was virtually reversed in 1955-1956 and on March 31, 1956, the general index of wholesale price at 390.3 was only a little below the level reached before the Korean war (397) or before the 1954-1955 decline in
prices (404.4). By November 24, 1956, the index of wholesale prices has advanced to 434.2. Although agricultural prices have receded somewhat since then on arrival of the new crop in the market, the decline has not been sustained and has not been of the normal seasonal order. Over 1956, as a whole, the general index of wholesale prices increased by 13 p.c. from 373.4 to 421.9. On February 16, 1957, the index stood at 424.4.

To some extent, the increase in wholesale prices is attributed to external developments, like the Suez crisis. But there is little doubt that prices of goods produced and consumed domestically have also risen. This is evident from the fact that the all-India working-class consumer price index (1949-1950 is equal to 100) which is little affected by the external factors has also increased from 100 in March 1956 to 110 in November 1956. These are enough to prove that the country is passing through a period of inflation, due to the developmental spending, and which is likely to persist throughout the period of the plan.

Thus it is seen that all the conditions conducive to the successful launching of profit-sharing and copartnership obtain in the economy at present. The psychological atmosphere also seems to be favourable. It is therefore eminently desirable to introduce copartnership schemes in all those industries which are well-established and in which there are responsible trade unions functioning. If faithfully implemented, it will transform industrial relations and foster a sense of partnership and spontaneous cooperation between the two integral parts of the industrial system. Such a step will be consistent with our cherished concept of cooperative Commonwealth which aims at the widest diffusion of property ownership and will be conducive to the capital formation which is a vital necessity in the context of the present plan requirements.

The government too has a constructive role to play in this experiment, instead of remaining passive on doctrinaire grounds.
It is very often expressed by spokesmen of government's labour policy that there is a distinction between labour working in the government concerns and those employed in the private sector, in the sense that the former are not working for any capitalist. It is further argued that this distinction has certain vital implications. It is this attitude that has been responsible for a dichotomy of approach and action in the field of government's labour policy. This has also made government's labour policy less of a national character. But recently, it has been announced by the Labour Minister in the Parliament that the distinction referred to above "has not got this implication that those who are working for the community should be deprived of what is due to them."

It is equally true to say that it has also not got this implication that those who are working for the community should be discriminated against their counterparts in the private sector. If we are to reconcile public

ownership on a grand scale with energy, enthusiasm and with individual liberty, in a public concern, some direct interest in the results and some special representation of the workers who are actually in the field are highly necessary. Since they are working for the community, it does not mean that they should remain the wage-servants of the community for all time to come. In the last analysis, employees in the public sector should, by and large, be at least on a par with their compatriots in the private employment. Therefore, if the government are prepared to discard their doctrinaire attitude for the sake of a more humane approach towards labour in the public sector, there is plenty of scope for starting co-partnership schemes in the government concerns, the number and magnitude of which are growing with the implementation of the plan. In general, those business undertakings of government which aim at making a profit, and which will ordinarily be organised in the form of corporations can be selected for the above purpose. The example thus set is sure to be emulated by the private sector.

In those industries where there is profit-sharing but where it may not be possible to introduce co-partnership schemes, it is advisable that workers are asked to save a part of the bonus instead of the entire amount being given in cash, for a successful profit-sharing.
scheme does not stop with the mere cash distribution. The universal observation has been that when given an extra cash, the worker nearly always spends it, but rarely uses it to safeguard his future. To quote an example from American experience in 1939, of 700 employees of a large institution which had distributed a cash bonus, it was found that 83 p.c. had saved nothing at all, and only 3 p.c. had saved all of it. If this is the case of the world's most highly paid labour, it is better to imagine the attitude of Indian labour towards such payment than to describe. Therefore there is growing conviction that profit-sharing standing by itself does not accomplish the desired objectives and the employee-savings should be coupled with it. It is not without some significance that even the oldest profit-sharing plan adopted in the United States of America in 1887, by the Proctor and Gamble now has a condition of eligibility that employees should contribute for six years at a rate of 5 p.c. of their earnings subject to an annual maximum of 100 dollars. A study conducted in 1948 in the United States by the National Industrial Conference Board showed that 22 out of 100 deferred distribution plans required employee savings. In the TISCO, according to the

revised profit-sharing scheme of 1952, only 66 2/3 p.c. of the annual bonus is distributed in cash while the rest is being credited towards the accounts of labour. Therefore in the interest of the future of the workers, it will be desirable to ask labour to save a portion of the bonus that is annually distributed to them, with the concerns in which they are working. This will not only act as a safeguard against future contingency, but also serve as a curb on the present inflationary pressure which persists in the economy.  

In the face of accelerated investment and the precarious nature of the balance of payment position, wage-earners' consumption has to be kept at a level at which a sufficient amount of savings will come forth to make possible non-inflationary financing of investment necessary for the maintenance of steadily increasing production and for keeping home prices of goods and commodities internationally competitive.

12. Vide. The Hindu "Survey of Indian Industries Section" Section II. December 1956. Article entitled "Functioning of Credit Control" by S.T. Sadasivan, General Manager, United Commercial Bank. p.68. "If the implementation of the plan results in a rise in note circulation unaccompanied by a large expansion of bank deposits, the remedy for the resulting inflation is wage restraint and the introduction of Compulsory saving schemes to take care of the bonus payable to workers".
A word more of copartnership, by way of conclusion. The question that is very often asked is: In what way is copartnership superior to the present wage system? The main advantage, it is said, is that it can bring about a much more rapid advancement to labour which the raising of wages can never give. It is argued that so long as land and capital are in the hands of a limited few, and labour merely rewarded by wages, the betterment of the material lot of labour cannot be anything but slow. A trade union by virtue of its capacity for haggling and haggling may secure for its members an increase in wages; but this increase does not mean that capital and land are given a smaller reward. A rise in wages is added on to cost of production which very soon reflects in higher price for the articles produced. In that case, such a rise in wages is almost futile. But on the other hand, if the workers are given an interest in the profits of the concerns in which they are working, it is possible to supplement their total earnings which do not in any way raise the cost of production. This implies that prices are also not raised. When that share of the profit is invested in the stock of the company, the workers not only receive the capital, but an annual share of that part of the
aggregate produce which goes to remunerate capital. This again does not enter into cost. On the contrary, the accumulated profits of the workers constitute a solid contribution towards the aggregate supply of the capital of the country. This may have the salutary effect of pushing down the interest rate which may mean a rise in wages. Finally the possession of that capital by the working class - the changes that will flow from it, the shareholders' rights and responsibilities, the more efficient work and the more sympathetic control - all these are expected to change the very atmosphere that now prevails in the factories. These are the manifold reasons why it is said that copartnership may secure a much more rapid improvement in the economic lot of the worker than is possible under the wage system, pure and simple. If the principle of copartnership is widely adopted in all the factories big and small, private and public, and in the vast number of smaller businesses, will it not, in conjunction with the other measures of reform, obliterate the fatal distinction that now exists between the employer and the employee? Will it not convert the various factories and workshops which are now the hotbeds of conflict and contention, into veritable places of harmony and spontaneous cooperation?
The copartnership scheme was introduced by Bryant and May Ltd., in 1919, and has been in successful operation since that time.

The scheme is based upon the principle that after capital and labour have received a good reward in the shape of interest or dividends and salaries or wages, respectively, and after due allowance has been made for depreciation and reserves, the amount of profit which it is decided to distribute should be divided between capital and labour as represented by the stockholders of the company on the one hand, and the employees of the company on the other.

Profit-sharing.

AFTER:-

1. Due allowance has been made for depreciation and Reserves,
2. The Dividend on Preference Stock,
3. And a Dividend of 10% (free of income tax) on ordinary and partnership stock.
An amount not exceeding £120,000/- (free of income tax) is divided equally between the ordinary stockholders in the shape of extra dividends and the employees as a Bonus upon salaries or wages up to 12%.

**Participation.**

No employee can participate until he or she has been exclusively in the service of the company over a period of three full business years and is still in the company's employ on March 31st of the year in respect of which the profit-sharing fund is being calculated.

**Division of Fund.**

The division of fund among those qualified to participate is in proportion to the amount of salary or wages actually received by them during the year in which the distribution is made.

The amount allocated to the salaries or wages of those employees who have been employed for less than three full business years, or whose work has been irregular or unsatisfactory is not paid to those employees but is transferred to a fund called the "Brymay Benefit Fund".
The amount payable to the employees is paid to a Trust called the Brymay Partnership Trust Ltd. for "division among the employees in terms of the Trust Deed".

**CAPITAL HOLDING.**

Employees may use the amount of their profit bonus or any part of it for the purchase of Partnership Stock. A notice is issued by the Trustee to all employees participating advising them of the amount of bonus due to them and inviting them to state on a form provided whether they wish to receive such amount in cash or to subscribe for partnership stock to the full extent or for any less amount of Stock.

The Partnership Stock, of which 200,000 shares of £1/- each were created at the inception of the scheme (increased to 250,000 in October 1935, and converted into stock of £1/- units in April 1942, and further increased to 300,000 in April 1951) carries no interest in the company's reserve funds. It is issued to the employees at par, and must be relinquished to the Trustee at the par value on the death of the employee, or on the employee leaving the company's service except in special cases decided upon by the Trustee.
The partnership stock receives a dividend from the company at the same rate as the ordinary stock up to 10% free of tax. When the dividend on the ordinary stock exceeds 10% free of tax, the additional dividend on the partnership stock is payable out of the proportion of the profits handed to the Trustee on behalf of the employees but the total dividend on the partnership stock is limited to 15% free of tax. This has the effect of giving a great share of the profits to those who have long service and have taken up the largest amount of partnership stock to which they are entitled.

An employee who holds £ 50/- or more partnership stock is entitled to attend and vote at the General Meeting of the company.

On a winding up of the company, the Partnership stock will only participate in the distribution of assets to the extent of the par value. It is not transferable or saleable except as above provided to the Trustee, and may not be pledged as security for loans.

The Committee of Management of Trustee consists of not more than 14 persons, of whom half are Directors of Bryant & May Ltd. (or stockholders nominated by the Directors) and the other half employees or persons appointed by them.

Constitution of the Works Committees.

This committee, which forms a part of the Joint Industrial Council organisation for the industry as a whole,
is composed of 12 members, seven being workers (of whom a fair proportion are women) and five staff and management.

The workers' representatives are elected by ballot, the employers representatives by appointment. The period of service of the Workers' representatives is one year, subject to retirement in rotation.

The qualification for election is continuous employment for not less than one year.

SCOPE OF DISCUSSION.

Any matter which is pertinent to the general well-being of the company and its employees excepting those matters such as wages, etc. for which negotiating machinery already exists.

No other matter is excluded and the management do all in their power to supply any information asked for.

PRIVILEGES OF MEMBERS.

Every member is wholly free in the performance of his duties as a committee member. In addition, the Trade Union Representatives may also attend meeting of the works committees, but in an advisory capacity only.

PROVIDENT FUND SCHEME & WELFARE WORK.

Additional to the profit-sharing and stock-holding, schemes already described, the company, as part of their full copartnership ideal, operate other schemes to assist their employees such as :-
Non-contributory Life Insurance; Pension Fund; Savings Bank; Tontine Benefit Societies; Insurance on Marriage; House Purchase Assistance; Supplementary Workmen's Compensation; Meals, including breakfast for early workers; Fully qualified Nurses and free Medical Treatment and Dental clinics; Holidays with pay; Sports and Social Clubs for both girls and men.*

JOHNSON BROS. DYBBS LTD.

The firm of John Brothers was established in Liverpool in 1817. The present works in Bootle were started in 1898 - 61 years ago. The number of employees at the works is over 1500 and there are a further 800 employees at the 500 branches, scattered over the country, which feed the works, making a total of over 2,300 employees. In 1889, the total number of employees was only 32.

Great efforts have been made to preserve personal relationships between employers and employees, and to share any prosperity which may have been achieved. To assist in this, a copartnership scheme was established in 1911 which is in successful operation today - 46 years afterwards. Details of the scheme are as follows:-

Profit-sharing.
Basis of calculation.

The share of profit according to the worker is based on fixed percentage of the net trading profit after all prior charges have been met.

Source: "Road to Prosperity" by Earnest Marples M.P. pp. 45 to 48.
Participation.

No employee participates in the profit-sharing until he or she has been in the continuous service of the company at the works for 12 months prior to April 1, of any year.

Division of Fund.

The profit-sharing fund divided into units which, for the purposes of division, are termed 'A' shares. Employees are graded according to the rate of wages earned per week and are allotted 'A' shares on the following basis.

- Under 45 shillings per week: 1 'A' share.
- Between 45 shillings and 59 per week: 2 do.
- Over 59 shillings per week: An additional 'A' share is awarded for approximately every 22 shillings of the weekly wages.

For example, an employee whose weekly wages is 60 shillings per week would receive three 'A' shares. Foremen receive double the number of 'A' shares.

Qualifications.

An employee who is dismissed or leaves voluntarily for other employment is not entitled to any profit-share accrued or accruing at the date of his leaving.

Should an employee be absent, from work for more than a period of 4 weeks, his or her participation is suspended until the reason for such absence has been reviewed by a committee of workers presided over by the Managing Director.
If an employee is persistently late, in any profit-sharing period his or her share is reduced as: 20 half-hours average lateness, a reduction to half-share. Over 30 half-hour average lateness, share is forfeited altogether.

The profit-sharing bonus is usually paid out during the last week in June.

**EMPLOYEES' SHAREHOLDING.**

Employees are given the privilege of taking up shares in the company to the extent of 10% of their earnings. These shares, known as Employees' Participating Preference Shares, receive the same dividend as the ordinary shares of the company and rank next to the preference shares. In 1947, there were 612 employee holders holding between them 89,252 shares and the dividend has averaged 15% since the start in 1914 to 1947.

These shares are issued at par on 1st July of each year and can be purchased out of the profit-sharing bonus. In the event of an employee leaving the employ of the company or retiring on pension, the shares must be resold at par to trustees who will in turn allocate them to other employees.

**PENSIONS.**

There are pension schemes to secure the future of the staff, non-contributory in the case of recipients of less than £3/17/0 per week, and in the case of more than this
sum, contributions are made by both the firm and the employees. The non-contributory scheme was established in January 1904 and the contributory scheme in 1907. The annual amount contributed by the firm for pension purposes for the benefit of the staff is £11,000/-/- a year. The amount standing to the credit of the two funds on April 1st. 1947, was

- Contributory scheme .... £363,938/-
- Non-contributory scheme .. £178,644/-

Works Committees.

They meet at regular intervals to consult with the management on questions of internal administration.

Savings Bank. In addition to these financial benefits, there is an Employee Savings Bank, money can be deposited each week and may be drawn out at 3 days' notice. Four per cent interest is paid on all amounts exceeding £1. The amount on deposit at present is over £77,000/-/-.

Welfare Scheme. There are also Welfare schemes, comprising medical, dental, and chiropody services; summer camp, a sick benefit society and continuation classes for junior employees.

Source: "Road to Prosperity". pp.56-58.
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