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PROFIT-SHARING AND COPARTNERSHIP

INCLUDING A STUDY OF THE RECENT COAL SETTLEMENT

MR. LLOYD GEORGE in the House of Commons on June 28th, 1921, said in reference to the Coal Settlement, " I feel very hopeful as to the result of this arrangement by which all the parties feel that they are copartners in this industry, that they have a direct interest in improving the conditions of things, that if they do not improve it their wages must necessarily be cut down, that if they do improve it their wages will go up, but that their wages as well as the profits of the owner depend upon improving the condition of things. That is the new element which has been introduced. . . . I believe it will open a new era of co-operation in this industry."

These are large claims and call for some attempt at examination. Fortunately there is a considerable mass of practical experience which throws a vivid light on the probability or otherwise of realising these claims. This experience is far too seldom consulted in the formation of new schemes. Profit-sharing as a solution of labour troubles has always been able to dazzle the eyes of the uninitiated, and since the days of Sedley Taylor its exponents have been many.

In the whole history of industry no case exists where profit-sharing has been applied in the way now established in the coal industry. There are, however, three cases which show some analogy to it. The first existed in the coal industry prior to the war, when wages were partly determined by fluctuations in the price of coal. The second existed, and still exists, in the iron and steel industry in Britain, where wages are fixed according to the average net selling price of the finished product. The last case is that of the gas industry in Britain, where over a large field the wages of labour and the dividends of capital are determined in inverse ratio to the selling-price. Apart from the fact that the principle embodied in the last case flies right in the teeth of that embodied in the other two, the similarity to the present coal settlement is only superficial. In each of the three above cases it is the price to the consumer that is used as the index to wages. In the first two cases, what was extracted from the consumer in increased price was shared between the employer and the

worker. In so far as the share which went to the worker would otherwise have gone to the coffers of the owner, this represents a share in profits. But only incidentally and under certain circumstances is this the case. A rise in prices may not mean increased profits, nor a reduction in price a reduction in profits. The obvious transfer was not of wealth from owner to worker, but from customer to worker. It was always to the worker's interest that prices be high, and this by itself is quite sufficient to cast some doubt on the principle.

The strange thing is that the very opposite principle was applied in the gas industry. The formal logician used to tell us that two opposites cannot both be true, but industry certainly acted as if they were. In the gas industry wages (and dividends) varied inversely to the price of gas per cubic foot. Of course, by wages is meant the total monetary remuneration of labour including standard wages and bonuses. Even in the case of the gas industry, this did not mean a direct sharing of profits. When prices went up, as they did during the war, dividends were in most cases reduced to about 3 per cent., and the bonuses to labour disappeared altogether. Labour did not in theory share so much in the profits as in the economies of production. When the consumer gained through reduced prices the worker also gained by increased bonus, and this knitting up of the consumers' and workers' interests was an excellent arrangement. But it was very far from representing an experiment along the lines of that now introduced into the coal industry. Besides the criterion of price being adopted, account must be taken of the fact that the gas industry is a special case. It is semi-monopolistic in character, it is regulated by statute, and it possesses, like co-operative industry, a large and assured market. These special characteristics cut this industry off from the main body of ordinary competitive undertakings, and spell caution in attempting to draw deductions from its experience. Again in the gas industry each unit stands by itself, there is a wide difference in details and no attempt is made to pool results. This is almost necessarily so when account is taken of the fact that each unit possesses a virtual local monopoly. Thus the Prime Minister was correct in stating that "no such principles have ever before been applied on so great a scale to a great industry."

The National Basis

In recent years, many prominent public men of all parties have advocated profit-sharing. Perhaps the best-known names

are those of Mr. Asquith, Lord Haldane, Lord Cowdray, Lord Robert Cecil, Mr. J. R. Clynes, and Mr. Herbert W. Jordan. Of these, Lord Robert Cecil and Mr. Jordan have definitely advocated the establishment of profit-sharing on a national basis. Not that, in either case, they suggest that a scheme should be made compulsory on industry. What they do suggest is that the Government should study closely the whole problem, formulate a model scheme, and use the influence it possesses through its conciliatory activities to induce employers and employees to adopt the model.

Though profit-sharing was first brought into prominence in France by a house-painter, Leclair, commonly, though erroneously, called "the father of profit-sharing," still in no country in the world has it advanced more rapidly than in Britain. Switzerland, Holland, Belgium, Italy, Austria, Hungary, Germany, Spain, Portugal, Denmark, Canada, and the United States can all supply examples of profit-sharing schemes. In none of them, however, has this principle been made the subject of legislation to the extent of making it obligatory. This was attempted some twelve years ago in France, but ended in failure. Other proposals for the establishing of copartnership by Act of Parliament were made in France in 1906, in Massachusetts in 1912, and in the House of Commons Bill of the same year. The history of the French attempt is interesting and significant. In 1910 a Bill was introduced in the French Chamber of Deputies having for its object the compulsory administration of all French coal mines on a profit-sharing basis. This measure was a Government Bill and was strongly backed by the Ministers of Labour, Finance, and Public Works. A Committee was appointed to investigate the matter, and after visiting the mining districts it reported that no universal system was possible and that any attempt to enforce uniformity would inevitably result in the complete ruination of some undertakings. As both the coal-owners and the miners' unions were opposed to the Bill, it was finally dropped. Since that time several unsuccessful attempts have been made in France to encourage profit-sharing by legislative action, though no attempt has been made since to make the adoption of schemes obligatory. The encouragement consists in allowing the formation of new forms of companies, such as the proposed *Sociétés à participation ouvrière*, in extending to these the privileges accorded to co-operative productive societies, and in granting exemption from certain taxes. This is roughly the method suggested in Britain by Lord Robert Cecil, but so far in

France it has been opposed by the extreme wings on both sides, and has never been placed on the statute book.

The Present Coal Settlement

No direct legislative compulsion has been applied in the present case, though doubtless the offer by the Government of the ten million "in subvention of wages" was a strong inducement to the men to accept the terms of the owners. In theory, at any rate, we are left with a voluntary agreement on a profit-sharing basis. But when we try to probe beneath the surface the question becomes involved. Who asked for such a scheme? If not asked for, then who was its sponsor? Certainly the miners did not demand it, they asked specifically for a National Wages Pool, which in its operation is exactly the reverse of a District profit-sharing scheme. They asked that wages be made independent of the productivity of any particular district and that what was substantially an equalisation fund be formed from the excess accruing in favoured districts. Thus they demanded a scheme which freed any particular district from being subject to the profits made in it, and by their "voluntary" agreement they have accepted a scheme which directly bases wages on "the proceeds of the industry as ascertained in such district." It is therefore apparent that the miners have accepted the profit-sharing principle unwillingly as "the best they could get at the moment," as one of their leaders put it. This being so it need occasion no surprise that the miners proceed to look this gift horse in the mouth.

It would seem that the sponsors of profit-sharing have in this case been the owners or the Government, or both. There is little evidence that the owners are keen on this new principle, and there is a good deal to show that it was simply put forward as a smoke screen behind which the miners could hide their diminished heads. It is, for instance, loosely and carelessly drafted and occupies in volume less space than most schemes confined to single establishments. Already loud complaints are made by the men that the owners are not observing the spirit of the agreement. Now in these matters, as in most others, it is the spirit that quickeneth. No system or scheme, however good in itself, will ever work well unless it is administered honestly and sincerely. The history of profit-sharing amply illustrates this. Indeed, a close survey of schemes, successful and unsuccessful, or better, existing and abandoned, leads one almost to the conclusion that no scheme need fail if the spirit be good, and none will succeed if it be bad. The personal equation is, as ever, the

crucial one. Men can be led under the guidance of a powerful, magnetic, humane personality to carry any scheme to an enthusiastic success. Leclaire, Godin, Livesey, Taylor, Humphreys, and recently Mr. Austin Hopkinson were indeed captains of industry in the true sense, and could carry their crews successfully through almost any venture they inaugurated. Men have not forgotten how to follow if only they are well led. The Prime Minister was therefore correct in stating that "the whole success of this scheme depends on the spirit in which it is worked, and that constitutes an additional reason why nothing should be said that will tend to exasperate, irritate, or embarrass any of the parties." It is a melancholy reflection that already a good deal has been done which has exasperated one of the parties. Thus when the whole situation is reviewed there is a good deal to beget apprehension as to the future.

The Details of the Scheme

Apart from the all-important matter of the atmosphere into which the scheme is born, there is the question of its soundness in details. Does experience suggest that the system established in the coal trade is likely to succeed? Let us take each point in detail.

Firstly, it is a District scheme. The alternatives are a National or a Unitary one. Of a national scheme, we have no experience either at home or abroad, and everything points to the fact that such a scheme is both impossible and undesirable. Of unitary schemes, we have a large and varied experience since 1829. The respective merits of a district as against a unitary scheme is therefore the practical question at issue. In brief, it can be said that there is very little in a district scheme to commend it. It is more than sanguine, it is foolish to expect this to "open a new era of co-operation." Working for a district will never operate as a motive to effort. A miner may work for himself (including his family), his gang, his company, his industry, or for his country. Apart from abnormal war conditions, the further we move from the self-regarding motive the feebler the effort. Of course, it may be retorted that the miner is not asked to work for his district, but for his own interests as represented by the district interests. Suppose in each of the thirteen areas into which the coal industry is divided some 50,000 men are employed, can it be imagined that a miner will work harder because of the total extra proceeds of his area he will get a 1 : 50,000 part of the share allotted to wages, if there be any share at all? In the most comprehensive

and critical survey of profit-sharing issued up to the present it is stated "that the effectiveness of general profit-sharing is in direct relation to the rank of the participators, and in inverse relation to the size of the concern or of the participating group. This is a fact drawn from experience." It was found that in those businesses which were large the stimulating effects of sharing profits were not appreciable. What will they be when, not the single business, but a whole area is taken as the basis?

Secondly, the scheme in the coal industry is one for cash profit-sharing. By that is meant that any extra remuneration over standard wages is in the form of a cash payment. Clause 4 of the Terms of Settlement thus defines it:

"4 The sum to be applied in each district to the payment of wages above the standard wages as hereinafter defined shall be a sum equal to 83 per cent. of the surplus of such proceeds remaining after deduction therefrom of the amounts of the following items during the period of ascertainment:

- (a) the cost of the standard wages;
- (b) the costs of production other than wages;
- (c) standard profits equivalent to 17 per cent. of the cost of the standard wages;

and the share of the surplus applicable to wages shall be expressed as a percentage upon the basis rates prevailing in the district."

The present point is that if any payment be made to the men at all it will take the form of a cash addition to the weekly pay envelope. Now if one thing can be proved more than another from the fifty-five years of experience in Britain of profit-sharing schemes, it is just this, that additional sums in cash are ineffective in promoting either greater efficiency or closer co-operation. The facts are these. Since 1865 some 238 cash profit-sharing plans have been started in the United Kingdom. Of these, 151 have already been abandoned, leaving 87 survivors. But of these, 54 have been inaugurated since 1910, most of them much more recently, and these cannot lay claim to have stood the test of time. Thus out of 184 such schemes begun before 1911 only 33 survive to-day. And of this "thin red line" it is known that not a few have succeeded in no other sense than that they have succeeded in surviving. They have become fossilised.

Yet in face of this direct evidence of failure we see still another cash profit-sharing scheme established and hailed by the Government as "a new system for the remuneration of the wage-earner."

The truth is exactly the reverse, and reminds us that much that is old must appear new to the ignorant. If any feature of the present coal scheme be new it is the district basis, and this is a cardinal error. The reasons lying behind the almost complete failure of cash profit-sharing are not difficult to find.

In the first place, the payment to labour is always exceedingly small. In 1918, the average bonus paid to the wage-earner under some 105 schemes was only £3 13s. 3d. For the whole period 1901-18, the ratio of bonus to wages reached only some 5.5 per cent. Moreover, in the vast majority of these schemes labour begins to participate in profits at a much earlier stage than it does under the present coal scheme. Indeed it will be a matter of surprise if there accrue for labour in the coal industry any divisible surplus at all. An industry that requires a Government subvention to pay reasonable wages is not likely to have any super-profit bonus to divide. Even if it had it would be ineffective. The fundamental fallacy lying behind the profit-sharing idea is that what stimulates one man to production will when divided among the many likewise stimulate the many. Two circumstances render this false. First, as mentioned above, the division means the reduction of the amount to a "minimal sensible." Secondly, and more fundamental, profit divided among many ownerless wage-earners ceases to be profit in any real sense. It partakes more of the nature of a dole, or a bribe, or a gratuity. That it is hardly profit in the commercial and industrial sense is proved by the fact that a reserve limit varying from 5 to 15 per cent. is set aside for the shareholders and has the prior claim on the surplus. After that the remaining surplus (if any) is divided between shareholders and workers. In the case of the coal settlement, this standard profit, equal to 17 per cent. of the cost of the standard wages, is further conserved by being made cumulative. Where there is no ownership, and no direct control and responsibility, there can be no real sense of profits. The men may receive sums of money, but they cannot be expected to regard these as profits in any vital sense.

Imagine a firm with 1000 employees, a capital of one million, and a profit of, say, £125,000 at the end of the year after all the usual funds have been provided for. Further, let us suppose that the typical profit-sharing arrangement obtains in the firm and that after 10 per cent. goes to capital as standard profits the rest is divided equally between capital and labour. Thus £100,000 goes to the shareholders plus half of the remaining £25,000, leaving £12,500 to be divided among the wage-earners,

giving an average of £12 10s. a head. With the typical wage-earner getting £250 a year this would represent the average of 5 per cent. Now it can be maintained that this £12 10s., equalling about $2\frac{1}{2}$ weeks' wages, means a considerable addition to the worker's income and will win his interest and loyalty for his firm. Moreover, he will feel that his own extra exertion has earned this share for himself, and he will go forward with renewed zeal to the tasks allotted to him. He will feel a partner in the firm, a sharer in its gains, a sufferer by its losses, and this interest in the prosperity and well-being of "his" business will mean a new spirit of harmony, goodwill, and co-operation. This will mean harder work and greater efficiency, the jealous care of the firm's property, the prevention of waste, the reduction of labour turnover, the stability of the labour force, and above all will ensure the greatest blessing of all—industrial peace. All this is fine, but false.

There is, however, one small sphere in which experience approves of some of these claims. In so far as the staff are concerned, the managers, the executive employees—whether functional managers inside the firm, or buyers, sellers, heads of branch stores in a chain—among these cash profit-sharing has proved itself to be effective. The reasons why it succeeds in those cases indicate both its limitations and the causes of its failure when applied to the great mass of wage-earners. Discretionary employees are a small body of men, they more or less understand business and its fluctuations, they have an obvious and direct influence on profits, and can be suitably remunerated with advantage in proportion to them. All this is not true of the average wage-earner. Let us revert to the concrete case of John Smith, who gets his bonus of £12 10s. at Christmas, and try to understand his point of view. The gift is welcome, but he accepts it without gratitude. Employers have very often marvelled at the monstrous ingratitude of their workpeople on such occasions. An employer known to the writer doing a large importing business in Manchester presented his clerical staff with handsome bonuses ranging from £5 to £50. As all his staff had been with him for some time and were consequently known personally to him, he tried to allot the bonuses according to the individual circumstances of each, and thus to secure what he thought was absolute fairness. The day following the distribution he arrived at his office to find his two office boys rolling on the floor in a deadly feud. The *casus belli* was the bonus, one had received slightly more than the other, and they were testing

the employer's discrimination as to superiority at the bar of blows. There is a good deal of this boy nature in older and soberer folk. This employer is determined never again to buy trouble which affected all his staff and resulted in continual bickerings at such a cost. This, unfortunately, is no isolated case. In all, 91 profit-sharing schemes have been discontinued because of the "dissatisfaction" of one or both parties with their operation. The lack of a thankful spirit on the part of the workers is due simply to the nature of the case. The impersonalisation of industry (gratitude to a board of directors is always difficult), the prevalent neutralising agent of suspicion and mistrust, the engendered thought that a firm which can present gifts can increase wages, all account for the absence of gratitude.

The Economic Stimulus

But if gratitude be absent, will the desire for an equal or greater bonus next year stimulate to effort? Will John Smith double his output with the idea of increasing his bonus next year? That all the circumstances are against this follows inevitably from a consideration of his point of view. The following are some of those considerations, as they appear to John Smith.

(1) After all, I may work doubly hard and get no bonus at all due to—

- (a) others not doing their share,
- (b) the mistakes of management,
- (c) bad trade,
- (d) new management,
- (e) trade union opposition,
- (f) being dismissed.

(2) In any case the reward is not only small, fluctuating, and problematic, but is also remote and deferred. If I work harder to-day I may months hence get my bonus. Is it worth it?

And if John Smith decides that it isn't, we need not be surprised. The fact is that cash profit-sharing by the rank and file is bound to be ineffectual because it gives the worker no permanent stake in the business, no ever-present possession of part of its capital, no increase in status, but merely throws him some crumbs of excess that fall from the table after the shareholders are satisfied. But even more important than this is the psychological attitude of the worker to his share. The worker has never been a profit-taker, and when he gets an "extra" he

is very prone to put it in one of the categories with which experience has made him familiar. If he had a share in the capital of the business he might have an opportunity of understanding what profits meant, but without this he is rather apt to be puzzled. The bonus will normally appeal to him as a payment for services, a deferred wage—a right, or alternatively as a wind-fall. If he thinks of it mainly as the latter, he suspects the motive behind it, and in any case while he accepts the gift will not like the fact that it is purely an “act of grace” on the part of the employer. He will wish it to be regularised and will argue that if the firm can afford to give away sums of money it can afford to pay higher wages—to the workman a preferable form of payment. If, on the other hand, the share of profits be looked on as a right, the worker will learn to expect it, will feel aggrieved if it be not forthcoming, or if its amount be reduced. This attitude of mind has been responsible for the wrecking of a great number of profit-sharing schemes and has jeopardised at one time or another the small minority that has survived. The case of Clarke, Nickolls, and Coombs, Ltd., London, may be taken as an example. In this case conditions have been unusually favourable, and for over thirty years a profit-sharing scheme has been in operation. On three occasions there has been a considerable reduction in the amount of bonus paid to its employees, and the firm report as follows: “These lean years were in each case due to special circumstances (*e.g.* the sugar tax) altogether outside our control. We are bound to record that the difficulty of reconciling the worker-beneficiaries to these drops in their bonus was (especially the first time) greater than we should either have expected or liked.” Another significant case illustrating the failure of cash profit-sharing is that of Procter and Gamble, soap manufacturers, U.S.A. This firm began profit-sharing in 1887 in the belief that participation in the profits would in itself largely create a sense of common interest which would mean harmonious and contented service. The firm was, however, so disappointed with the results that they abandoned the profit-sharing scheme in favour of a system under which their employees had to qualify as participants by acquiring shares in the company under terms which compelled them to invest some part of their own savings. This scheme, which has been in operation since 1903, has proved very satisfactory.

It may seem at first sight that an inconsistency is involved in the above criticisms. If, as it is urged, the workers' bonus is almost always too small to be effective, how comes it about that

a diminution in the amount of this bonus causes irritation and strife? Surely if the bonus is in itself a "minimal sensible" any reduction must be even more so. This apparent inconsistency must lie equally on the shoulders of those who exhibit it in practice. But it must be observed that the stimulus necessary to induce men to work hard for a whole year may be very different both in amount and nature from that sufficient, in the present atmosphere of industry, to provide a *casus belli*. The case has been well illustrated in other walks of industrial life, and indeed it is the horns of the dilemma in the question of wages. Time and again it has been shown that while an increase in wages fails to stimulate output (as in the recent coal case), a reduction in wages never fails to irritate.

JAMES A. BOWIE