Profit-sharing has limitations and is not by itself the solution to the industrial problem. It can contribute toward better understanding and its application should be expanded.

Revival of Interest.

Since the end of the war there has been a great revival of interest in profit-sharing as a means of overcoming industrial unrest, and of introducing more stability into industrial relationships. The outstanding example of this revival is the attention that has been devoted to the subject by the British Conservative Party. At the Annual Conference of the Party in October of last year Mr. Anthony Eden strongly advocated a general extension of profit-sharing in industry. The Conservative Party has also published an official pamphlet on the subject, prepared by a committtee under the chairmanship of Mr. R. A. Butler, who was Minister for Education in the Coalition Government during the war. In Australia, the policy speech of Mr. R. G. Menzies in the campaign preceding the last Commonwealth elections made it clear that the Liberal Party has adopted profit-sharing as part of its industrial programme.

But the interest has not been confined to political circles. Industrialists in Britain, the United States and Australia are studying the meaning and implications of the principle of profit-sharing and many have gone so far as to urge the widespread application of schemes of profit-sharing to industry.

This upsurge of enthusiasm for profit-sharing is a bright ray on the dark, foreboding horizon of industrial relationships. On the other hand, many of the claims recently made for profit-sharing, in its narrow sense at any rate, have been of the most exaggerated kind. When so much attention is being directed to the subject, it is desirable that there should be a clearer conception of its limitations and of what it is reasonable to expect from profit-sharing in practice.

Principle Sound.

It may be said at once that, in principle, profit-sharing is sound. It is right that all those who participate in a business enterprise should benefit, in some form at any rate, from its prosperity and success as measured by the profits it is able to earn. One way—perhaps the most satisfactory way—that this can be done in practice is through arrangements that afford the worker a share, either direct or indirect in character, in profits. There are, however, great practical difficulties in the way of the successful application of this principle on any widespread scale. One of the obstacles that might have to be surmounted arises from the attitude of organised labour. Generally the trade union movement in Australia has not shown itself to be favourably disposed toward schemes of profit-sharing and recently some unions have stated their outright opposition. It is difficult, of course, to ascertain how profit-sharing is viewed by the rank and file of workers.

The Record Unfavourable.

The history of profit-sharing is by no means a story of unqualified success. While it has had many enthusiastic supporters, it has never gained very widespread adoption. In spite of a hundred years of experimentation, profit-sharing schemes are to-day in operation in a very minor part of the whole field of industry. In the United States a survey conducted by the National Industrial Conference Board shows that of 160 profit-sharing plans introduced during the war 60% have been abandoned. Apparently many of the plans, so far from contributing to improved relations between employer and employee, had exactly the reverse effect When profits fell away or disappeared, and the amount of the workers' share had to be reduced, or eliminated altogether, great dissatisfaction arose.

Even assuming that the large majority of workers—and for Australia this is a doubtful assumption—are in favour of profit-sharing, it is by no means certain that they would be prepared to accept its full implications when there are no profits to divide up. **By and large there is insufficient evidence to support the belief that profit-sharing, in the literal meaning of the term, can do a great deal by itself to bring about harmony in industry.**

Small Return to the Industrial Worker.

The fundamental weakness of profit-sharing lies in the fact, that when capital has received a reasonable minimum return, there is very little, on the average, remaining out of profits for distribution to labour. Even with the most generously-planned schemes the individual worker may not stand to receive any very substantial sum, and, under the general average of schemes, his share may be no more than of the magnitude of £5 to £10 a year. **This negligible reward would, by itself, be sufficient to raise doubts whether profit-sharing is the unfailing medicine for industrial ills that it is sometimes claimed to be.**

As an Incentive.

But profit-sharing is not only repeatedly advocated as the foundation upon which a better structure of industrial relations can be built, it is also put forward as a solution to the problem of providing an incentive to the worker to strive for greater production—an incentive which is generally lacking under the present methods. **From a direct standpoint this proposal would appear to have little to commend it.** Indirectly, that is insofar as the general tone and atmosphere of industrial relations were improved, it is possible that profit-sharing might assist toward the achievement of greater industrial productivity.

As a direct incentive to increased production, profit-sharing has several weaknesses. First, as has just been pointed out, the monetary addition to the income of the individual worker as a consequence of profit-sharing schemes is likely to be small. Second, the interval of time between any extra effort that may be put forward by the worker and the reward he hopes to gain from that effort is too long to afford a real inducement. It is a basic and well-established principle of effective incentive schemes that reward must follow effort without delay. **Third, there is not necessarily any direct relationship between the amount of work performed by labour and the amount of profit. The level of profits in a business organisation is affected by all kinds of factors in addition to the efficiency of its labour force.** Any gains that the workers might hope to receive from raising the intensity of their exertions could easily fail to accrue because of mistakes made by the management, or because of changes in costs and prices altogether outside of the control of the business. As a **direct** incentive to greater production profit-sharing can be almost disregarded.

Other Weaknesses.

One or two other weaknesses of profit-sharing should be mentioned. Insofar as under the present organisation of industry profit forms a main bone of contention aggravating the problem of achieving industrial harmony, it may seem at first sight that the sharing of profits would provide the logical means of overcoming this difficulty. **But a general application of profit-sharing, which, if it were to come about, would presumably have to have the backing and support of the trade union movement, might merely serve to shift the ground of industrial disputation. In other words, instead of capital and labour quarrelling over the profit motive itself, and the returns which industry at present pays to its shareholders, they might now turn their energies to squabbling over the**

respective shares of profit going to the workers and the owners of business. This is by no means unlikely. Experience shows that it has often taken place in individual schemes of profit-sharing. Under a universal application of the principle, with the organised forces of capital and labour concentrated upon the division of the profit surplus, differences of viewpoint would be even more probable.

A further danger, and one not entirely to be disregarded by a long-suffering consuming public, is that under a general application of profit-sharing a tendency might arise for the consumer to pay part of the price. In other words, labour's share of profits might be gained partly from the proceeds of higher prices instead of wholly from a reduction of the return to capital. This is a possibility not to be overlooked in an economic age when the interests of the consumer have become increasingly subordinated to the highly-organised forces of capital and labour.

Finally, it needs to be recognised that in some industries, such as those of a seasonal nature or those in which a large proportion of the labour is casual, profit-sharing would be extremely difficult to organise.

Balance of Advantage.

However, when everything is said about the theoretical weaknesses and practical difficulties of profit-sharing, the balance of advantage is still in favour of those who so earnestly support it. From the point of view of social and moral principle it is fundamentally sound. As part of a well-rounded programme of industrial relations, it can contribute to better understanding between employer and employee. It might help to remove some of the prevailing antagonism to the profit-motive, and to profits generally, and thus help to clear up the very dangerous and widely-held misconceptions about the whole function and place of profit in the industrial process. Insofar as profit-sharing did assist toward improved industrial relationships it might also assist toward the goal of maximum productivity. **A wider application of profit-sharing to industry than at present exists would undoubtedly be desirable so long as its advantages and disadvantages are clearly recognised from the outset.**

Whether profit-sharing can be engrafted into the general structure of industrial organisation as a universal principle is a highly conjectural point; but the fullest exploration of its potentialities can do no harm—in fact, it can only do good.

By Itself No Solution.

It must be recognised, however, that profit-sharing is, by itself, not the solution to the industrial problem. On the list of things he would like to have, the worker in Australia probably places many things before a share in business profits. **With the worker security of employment and of income undoubtedly, and understandably, comes a long way before his desire to share in profits. It might well be better industrial strategy for business organisations to concentrate on this aspect of relations in industry rather than on profit-sharing.** In a broad and comprehensive programme aimed at the building of a friendly partnership in industry, however, profit-sharing is probably a valuable element. But it is one element only—and by no means the most important.

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