

THE I.P.A.

INSTITUTE OF PUBLIC
289 Flinders Lane,



REVIEW

AFFAIRS — VICTORIA
Melbourne — Victoria

Vol. 2

APRIL, 1948

No. 2

CONTENTS

	Page
The Future of Incentive Payments	25
The Marshall Plan	35
Company Taxation	45

COUNCIL OF THE INSTITUTE

- G. J. COLES, C.B.E. (Chairman).
- SIR W. MASSY-GREENE, K.C.M.G.
- CAPT. C. A. M. DERHAM, M.C.
- G. H. GRIMWADE.
- H. R. HARPER,
- W. A. INCE.
- F. E. LAMPE, M.B.E.
- H. G. DARLING
- L. J. McCONNAN.
- C. N. McKAY.
- W. E. McPHERSON.
- W. I. POTTER.
- HERBERT TAYLOR.
- HON. A. G. WARNER, M.L.C.

EDITORIAL COMMITTEE

- G. H. GRIMWADE, M.A. (Cantab), B.Sc. (Melb.), Chairman.
 - F. E. LAMPE, M.B.E.
 - C. D. KEMP, B.Com. (Economic Adviser to the Council).
 - G. R. MOUNTAIN, M.A.
 - CAPT. A. C. LEECH (Secretary).
- (All rights reserved.)

The FUTURE OF . . . INCENTIVE PAYMENTS

AT no time in the latter-day history of the British peoples has the need for greater production and the maximum possible industrial efficiency been more urgent and imperative. And never have the issues depending upon the realisation of these objectives been more momentous and decisive. At root the desperate economic malady of the United Kingdom is a crisis of under-production, and the only lasting cure lies in raising the man-hour output of British industry to levels which will enable it to supply and purchase for the British people the goods they require to regain, and then to improve upon, their pre-war standards of life. In Australia, while the need for greater production may not *on the surface* be so apparent, it is in reality equally important, and almost equally urgent. For the British crisis is in stark fact not a crisis of Britain alone, but a crisis of all the member peoples of the British Commonwealth throughout the world. The decline and fall of Britain as a great political and economic power, would be the decline and fall of Australia, too; not only, and not mainly, because Britain is the chief purchaser of Australian goods, but because in countless ways the welfare of the Australian and British peoples are inextricably bound together.



The FUTURE OF . . . INCENTIVE PAYMENTS_____

AN ASTONISHING PARADOX

Yet we are confronted with an astonishing paradox. For while the need for the highest attainable productivity has never been more necessary, the Australian people have seldom worked less hard, with less enthusiasm, and more spasmodically than at the present time. If the same position obtains in Britain there is at least a partial excuse. The terrible battering endured in the war has left her people run-down, over-strained and now under-fed. In Australia there are no such extenuating circumstances. The Australian people are neither noticeably worn, nor, certainly, are they ill-nourished. But in both countries there are reasons, quite apart from the physical and nervous after-effects of the war why their peoples may be working less vigorously and effectively than is their custom.

These reasons lie basically in the essential character of their post-war economies. These have been aptly described as "feather-bed" economies—that is, economies which provide no penalty for failure, and offer no reward for achievement. Full employment and social security have removed the driving force arising from the fear of loss of income. Steeply-graded taxation and the narrowing of rewards between the skilled and the unskilled, the enterprising and the plodders, the risk-takers and the "security-firsts," the energetic and the lazy have eliminated the incentive provided by special prizes for special efforts. To use what is now a well-worn metaphor—the pre-war "carrot and stick" economy has been transformed into one where there is virtually no stick and only emaciated carrots.

MORE CARROTS!

No one will quarrel with the elimination of the stick. An economy depending for its motive power on the fear of idleness and destitution is to that extent a bad economy. "The bad old days" of the unemployment pool have gone—for the present at any rate—and no regrets should be felt. But we

must face up realistically to the consequences. While the unemployment pool was a disastrous phenomenon from a social standpoint, it was, in most cases, unquestionably a powerful driving force from the economic. The remedy is plain. If the human animal—no matter what his occupation—is to be kept moving without the threat of the stick, the size and succulence of the carrots before his nose must be increased; if full employment is not to lead to under-production, then incentives must be strengthened at all points of the income structure. Unfortunately, in neither of the full employment economies of Britain and Australia has this been done. In fact, both countries have tended to do exactly the reverse. There is today less encouragement to hard work, self-improvement and enterprise than at any time in this century.

WAGE INCENTIVES

It is in this new context that the stormy question of wage incentives—whilst only one aspect of the general problem of incentives—needs to be discussed and examined. Experience leaves no shred of doubt that one of the most potent steps towards raising man-hour productivity, and strengthening the long-range competitive power of the Australian economy, would be the application of wage incentives wherever practicable throughout industry.

The introduction of a 40-hour week as the standard Australian working week provides an added, indeed almost irresistible, reason why this step should now be taken. Considered in conjunction with the average length of annual leave and the number of statutory holidays, the 40-hour week almost certainly means that Australia spends less time at work than any other industrial country. To counterbalance this dubious advantage, Australian industry must produce more per head in every hour of work than countries where the working time is greater and the leisure is less. There is no escape from this simple logic. The Commonwealth Arbitration Court in giving judgment in favour of a universal 40-hour working week assumed the expansion of wage incentive plans

The FUTURE OF . . . INCENTIVE PAYMENTS

and stated "given incentive systems Australian industry could take the 40 hours step in its stride."

THE WAGE-EARNERS' INTERESTS

Moreover, in the wage-earners' own interests there are the strongest reasons why every conceivable means of increasing output should be eagerly embraced. During this century, and particularly in the last decade, the standards of living of the worker have been raised, principally through the acquisition of a larger share of the total national production, by means of heavy taxation on the higher incomes and improved social services and working amenities. The battle for a larger share of the national cake has been well won, and there is little, if anything, to be gained by continuing this struggle. Further advances in the worker's income and further improvements in social services can now come only out of a bigger cake. By accepting the principle of wage incentives the worker can make a substantial contribution to his own self-betterment; by rejecting incentives he condemns himself to a lower standard of comfort than he could otherwise enjoy.

WAGE COMPARISONS

The wages earned by workers operating on "payment by results" afford a striking contrast with the wages earned in similar occupations organised on a time bases.

The following examples, provided by two Australian companies, illustrate the higher earnings for a 40-hour week which incentive workers regularly obtain in relation to what they would receive if they were paid on time rates.

Company Engaged in	Sex.	Weekly award rate based on time worked	Average weekly earnings on an incentive basis	Typical weekly earnings of more efficient workers
Food processing	adult female	£5 2 9	£5 19 10	£6 17 0
Food processing	adult male	7 4 0	8 8 0	9 12 0
Metal Trade	adult male	7 10 0	10 9 7	—
	(sheet metal worker 2nd class)			
Metal Trade	adult male	7 7 0	11 0 6	—
	(plate & machine moulders)			

These examples indicate that in the food-processing company referred to above, average incentive earnings are 16 $\frac{2}{3}$ % above award time-rates and that the more efficient workers earn approximately 33 $\frac{1}{3}$ % above time-rates. In the metal trade company the average piece-workers referred to earned about 40% above the award time-rate for their occupation. In the same factory a moulder recently earned £18/7/0 for 47 hours under piece-rates. It is claimed for the incentive scheme of Lincoln Electric Company in the U.S.A. that its workers are the highest paid employees in the world; yet production costs and selling prices are low and profits satisfactory.

OVERSEAS AND AUSTRALIAN PRACTICE

Despite many instances of payment by results, Australian industry is still largely organised on a time-wage basis. The wages paid over the greater part of Australian industry bear no relationship to the productivity, diligence, and enterprise of the individual. Accurate figures of the extent of "payment by results" are not available, but Mr. O. de R. Foenander, lecturer in Industrial Relations at the University of Melbourne, estimated that in 1937 about 20% of Australian wages were earned on a piece-work basis. Industrial observers are agreed that incentive plans are in much greater use in overseas countries—notably the United States, the United Kingdom and Russia—than in Australia. For instance, the Commonwealth Tariff Board in its latest Annual Report states:—

"The question of payment of labour by results is now prominently before the public, and evidence was seen by the Board of its satisfactory operation in some Australian factories. It is apparent, however, that the system is much more widely practised abroad than in Australia. In the few cases since the war in which the Board has been supplied with cost data from the U.K., such data has always shown payment by results to be in operation in that country, but evidence submitted on behalf of Australian manufacturers has rarely shown the system to be applied here."

The FUTURE OF . . . INCENTIVE PAYMENTS

There was a notable expansion in the use of incentive schemes in British industry during the war—particularly group schemes which are regarded more favourably by the trade unions. Many of these have been retained in the post-war period. Noteworthy examples of wage incentives in Britain are to be found on the waterfront—where payment by results now governs about 90% of workers—and in the revolutionary attempt which is being made to apply incentives to the building industry. The Trade Union Congress has given its general blessing to the expansion of incentive schemes.

A survey by the United States Department of Labour in 1945-6 of 34,000 representative establishments in U.S.A. employing 5,500,000 workers, indicated that 30% of the employees in these factories were paid on an incentive basis. Over 80% of the plants employing incentive systems had piece-work plans based on individual output.

In Russia, incentives in some form or other have been universally adopted. At a very early stage in the Communist experiment, the Russian bureaucrats were compelled to recognise that managers and workers will not give of their best work without the prospect of personal gain.

TRADE UNION ATTITUDE

The restricted area of wage incentives in Australia is almost entirely due to the fact that the labour movement as a whole has in the past maintained an uncompromising attitude toward their introduction. A host of arguments has been raised, and is still raised, by the unions against payment by results, but the real bed-rock objections can probably be narrowed down to three:—

1. The fear of over-production and under-employment.
2. Suspicion of employer motives, arising from rate-cutting and the absence of satisfactory safeguards for employees in the past.
3. The fear of the unions that incentive plans tend to weaken the influence and solidarity of the union movement.

The traditional trade-union attitude on incentives is the product of "old unhappy far-off things" and of a more primitive era of industrial relations. Today, with modern personnel practices, the protection afforded by industrial tribunals and the undisputed authority of the trade unions themselves, their criticisms lose most, if not all, of their force. In a renowned judgment delivered nearly twenty years ago, the late Judge Beeby stated:

"Those who voice the official attitude of unionism assert that the 'cutting of rates' and the unfair speeding up of past days still exist, and refuse to admit that our system of regulation of industry furnishes proper safeguards. I have no hesitation in saying that this is a mistaken attitude. In every State of Australia exists means of creating machinery which will safeguard systems of payment by results from abuse."

It is the practice of the Commonwealth Arbitration Court to provide a minimum wage for piece-workers, varying from 10% to 25% above the minimum time-wage for similar occupations.

Moreover, the objection to incentive payments arising from the fear of over-production, has little weight now that Australian Governments are committed to policies of full-employment. In any event, depression and unemployment are caused not by over-supply but by under-demand for the goods and services the community is capable of producing. It is the demand side of the economic equation, not the supply side, which is at fault. When demand falls away then some goods may appear to be over-produced in relation to the demand for them. In reality they are not over-produced but under-consumed. It is important to emphasise that over-production is a consequence of unemployment, not a cause. The fallacy arises from failure to distinguish cause and effect.

OVER →

The FUTURE OF . . . INCENTIVE PAYMENTS

The strongest argument, however, against all the objections, theoretical and otherwise, raised by the unions lies in the hard practical fact that those workers operating under incentive plans, who have experienced the benefits of such plans in terms both of the size of their pay envelope and of interest derived from the job, have shown no desire to return to time-wages. In fact, there is no doubt that they would bitterly contest any suggestion of abandoning their present basis of payment. It is difficult to resist the conclusion that in their opposition to payment by results, many union leaders do not correctly interpret the real wishes of the rank and file union members.

A GRADUAL TRANSFORMATION?

Over the last twelve months there have, however, been some signs that the official labour attitude may be undergoing a gradual transformation. An important body of opinion within the labour movement appears to be swinging round in favour of increased production as a first objective of national policy and to be taking a more reasonable attitude toward incentives.* At the conference in August last year at Canberra between the manufacturers and the A.C.T.U., the union representatives agreed to investigate modern wage incentive schemes. This was a notable shift from their previous policy, the significance of which has been under-rated.

And this can be said despite the fact that the undertaking entered into at Canberra was subsequently vetoed by the Trade Union Congress—largely because of the opposition of militant union leaders. Immediately after this decision was made the Secretary of the A.C.T.U. announced that the A.C.T.U. Executive intended to see if there were any means of honouring the Canberra agreement without transgressing the resolution passed by the Congress.

* Some union leaders in urging increased production, tend to place all the responsibility for its achievement on employers. But this is a political line of talk, and it is hard to conceive that they really believe this fantastic doctrine themselves. No one knows better than the experienced union leader that, while modern equipment is important, labour can determine how effectively and efficiently it is applied.

Moreover, the political leaders of labour have on one or two occasions publicly urged the wider use of incentive schemes. In an appeal on September 10, 1947, to the workers to join in an effort to achieve greater production, the Minister for Labour said: "I urge you to suspend all restrictions on production and, wherever proper safeguards are given, to allow members to earn more by legitimate incentive practices."

It may not be very far from the truth to say that the only members of the labour movement who have set their faces inflexibly against incentive schemes are the militant extremists, and that the moderate common sense leaders are at least beginning to waver in their opposition.

THE EMPLOYERS PART

This is of the utmost importance. Although a wholesale overnight conversion of the union movement to incentive payments cannot be expected, the trend is, on the whole, in a favourable direction. The policy of employer organisations should be to encourage the re-consideration of incentives by the unions by every means in their power. Mere appeals will not be sufficient—in fact, by themselves, they will be futile. Management must give full evidence of its willingness and capacity to apply incentives efficiently, honestly and justly. By comparison with overseas industrialists, Australian managements have much to learn about the technique of wage incentives and the pre-conditions of their successful application. If it is important that the A.C.T.U. should make good as soon as possible its undertaking of August last year to investigate modern systems of payment by results, it is equally important that employers should give clear proof that they are endeavouring to correct the deficiencies in their existing knowledge. Given a more favourable attitude on the part of the unions, no greater harm to the ultimate cause of incentive systems in Australia could be done than by employers rushing in to institute hastily-conceived schemes, lacking the essential conditions of success. One of the most important things is to investigate how workers in occupations to which incentives cannot readily be applied, may share on a just basis



The FUTURE OF . . . INCENTIVE PAYMENTS

in the benefits of increased output. Otherwise, dangerous industrial unrest might easily result.

Group schemes, as opposed to individual schemes, need to be carefully considered. Not only is the application of the latter impracticable over large fields of industry, but the group basis would appear to have advantages—particularly in inculcating the all-important team spirit—not possessed by plans related to the individual worker.

The broadest interpretation needs to be given to incentive schemes. It is a far wider matter than individual piece-work. All forms of remuneration by which the worker benefits in proportion to his efforts and output legitimately fall within the scope of wage-incentives—production bonus, profit-sharing, group incentives, task and contract systems. The introduction of incentives would in no way lessen the responsibility of management for improving man-hour productivity by all available means within its power—for instance, through more efficient organisation, research and better equipment.

THE ENTERPRISE OF ALL

The need on both sides now is for vision, tolerance and willingness to investigate new ideas, even though opposed to traditional thought and accepted practice. Big issues are at stake. Wage-incentives are one of the means by which the Australian economy can be strengthened and fitted to meet the tests and trials which lie ahead of the British peoples throughout the world.

Enterprise is the need, whether public or private, not just the enterprise of the few at the top, but of all those in industry. Payment by results offers the road by which the enterprise and ability and interest of the worker can be enlisted to the full in promoting the efficiency of industry, and in building for himself a new 20th century standard of life and comfort.

