

# PAYMENT

## BY RESULTS

**P**RODUCTION remains the No. 1 problem of the Australian economy. Except in certain items of consumption there is hardly one field of production where output is adequate to meet the demands of the Australian people or the needs of an economy striving to meet the triple requirements of defence, development and migration.

We have repeatedly pointed out in these pages that, by any standards of overseas comparison, the Australian performance in production over the last decade falls a long way short of what should be possible to a people possessed of such undoubted resources of skill, improvisation and energy.

Since before the war industrial production in the United States has substantially more than doubled. Canadian production is little behind—it has increased by 110%. To take one item only: steel production in the U.S. has risen by 120% since 1938/39; in Australia it has risen by 20%. Britain, a country labouring under manifold handicaps, has expanded her industrial production by around 35%. No official figures of overall industrial production in Australia are available, but it is extremely doubtful whether our performance would better this, notwithstanding our many fortuitous advantages over the Mother Country. A world-renowned statistician has estimated that output per manhour in the manufacturing industries of the United States is three times output per manhour in Australian manufacturing. *It is true that in a limited number of fields the Australian performance in production is highly meritorious, but taking it all round, every statistical indication confirms the view that this country is achieving very much less than that which should be within our reasonable capacity.*

How, then, can production be increased? There is no single simple solution. A radical improvement depends upon

a combination of strong measures, political, financial, technical and industrial. But one method, immediately to hand, would be a wider application of wage incentives, or payment by results.

## AN I.L.O. REPORT

A comprehensive survey of payment by results (possibly the best yet produced and a most valuable document) published this year by the International Labour Office,\* suggests that Australia makes considerably less use of wage incentives than any other of the modern industrialised countries. A survey made by the Commonwealth Bureau of Census and Statistics in September, 1949, showed that only 10.9% of the workers in the establishments covered were paid under either piece work or a bonus system based on output. In manufacturing, 17% of all manual workers were remunerated on a payment by results basis.

What of other countries? In the United States, a survey conducted by the U.S. Bureau of Labour Statistics in 1945 and 1946 suggested that about 30% of all plant workers in manufacturing were paid on an incentive basis. Statistics for the United Kingdom indicate that a somewhat higher proportion of workers (close to 40%), operate on payment by results. The socialist government and leading trade unionists have supported a campaign since the war to widen the use of wage incentives. In many European countries there has been a considerable increase in recent years in the use of piece rates—the commonest type of payment by results.

The I.L.O. Report publishes a table showing the number of hours worked at piece rates of every 100 hours worked in industry of certain European countries.

- \* The purpose of the I.L.O. is to promote social justice in all countries. To this end it collects facts about labour and social conditions, formulates minimum international standards and supervises their national application. It is financed by governments and controlled by representatives of government, management and labour. The Survey referred to above, "Payment by Results," was published this year and is obtainable from H. A. Goddard Pty. Ltd., 255A George Street, Sydney.

## PAYMENT BY RESULTS (continued)

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### PROPORTION OF HOURS WORKED IN INDUSTRY AT PIECE-RATES IN CERTAIN EUROPEAN COUNTRIES.

	1938	1946	1949
Czechoslovakia .....	—	38	55(1948)
Denmark .....	41	37	41
Western Germany .....	—	—	37
Hungary .....	—	36	70
Norway .....	39	41	57
Sweden .....	48	52	58
United Kingdom .....	34	—	38

Countries behind the Iron Curtain, notably Czechoslovakia and Hungary, show a remarkable increase in the use of piece rates over the last five years and also suggest a remarkably high proportion of piece rate workers. This is, to say the least, sweetly ironical in view of the stubborn opposition of communist-controlled unions in Australia to anything that savours of payment by results. Communist opposition in Australia was instrumental in preventing the 1948 Trade Union Congress from even proceeding with an official investigation of incentive schemes.

### UNION OPPOSITION

*The limited application of payment by results in Australia is in very large measure due to the strong official opposition maintained by the trade union movement.* This has continued in the face of repeated expressions of opinion in favour of payment by results by highly regarded industrial experts, and despite the fact that Judges of the Commonwealth Arbitration Court have, for many years, urged the general adoption of incentive schemes. When the 40 hour week was introduced in 1947, Judge Foster made his famous—but unheeded—pronouncement that “*given incentives Australia could take the 40 hour week in its stride.*”

Admittedly, over the last few years, there have been some signs that moderate unionism is beginning to relent in its attitude to payment by results. At the national conference between the manufacturers and the A.C.T.U., called by the then Prime Minister (the late Mr. J. B. Chifley) at Canberra in 1947, the union representatives undertook to investigate modern incentive payments to determine where they could

be of advantage to the workers and the community. This undertaking was later vetoed by the A.C.T.U. Congress in 1948 under pressure from the militants. However, at the Congress held in September this year, the moderates obtained a reversal of this decision and permission was granted the A.C.T.U. executive to conduct a full-scale inquiry and submit a report to the next trade union congress—probably in 1953. This is, at least, a promising move. Of course it is well known that in many industries incentive payments are already operating successfully, if not with the full acquiescence of the trade union concerned, at least without its overt opposition. Moreover, it is safe to say that the majority of workers under existing schemes would strongly resent any attempt to reimpose time rates of payment.

But time and the needs of the Australian economy, and the interests of the workers, do not wait upon the slow pace of the trade union movement. And there is, in the report of the I.L.O., something for trade union officials to get their teeth into without delay. The report, after a frank examination of the disadvantages and difficulties of incentive systems, gives a clear decision in their favour: *"Most of these disadvantages and difficulties can, however, be avoided in many industries by appropriate safeguards. Given such safeguards there would appear to be a wide range of cases in which well-designed systems of payment by results, introduced after the necessary consultation and agreement between workers' representatives and management, can yield a substantial balance of advantages to all concerned."*

## OBJECTIONS

Some of the main objections raised against incentive payments are that:—

1. They lead to speeding up and endanger the health of the worker.\*
2. They increase the risk of accidents.
3. They reduce the quality of the product.
4. They affect adversely employer-employee relations.
5. They lead to ill-feeling between workers.
6. They involve costly overhead expenditure.

\* On this point the I.L.O. survey reports: "Most Governments and workers' and employers' organisations stated that the introduction of payment by results had not brought about any noticeable change in the health of the workers concerned."

The I.L.O. report examines these alleged disadvantages and shows that generally they are not inherent in the nature of incentive schemes as such. They arise only from wrongful or inefficient administration of these schemes and can be avoided through the use of proper safeguards.

Moreover, against any possible disadvantages, the whole body of experience proves that payment by results leads to substantial increases in output, to higher earnings for the workers concerned, and to lower costs of production and therefore selling prices. For instance, surveys by the Institute of Industrial Management in Victoria show that, on average, workers on incentives earned something like 30% more than would have been possible on time rates. In the U.S.A., investigations by the Bureau of Labour Statistics in 1945 and 1946, showed that in many industries incentive earnings were between 15% and 25% higher. Often the margins between earnings on piece rates and time rates are very much greater. Considerable increases in production as a result of incentive schemes have also been reported from different countries which have tried to assess the overall effect of such schemes. The Labour Minister for Transport in N.S.W., Mr. Sheahan, stated last October that in one railway workshop where incentives had been introduced, the amount of work accomplished had increased by 150%.

### WORK STUDIES

There is, too, an advantage arising from payment by results, which is often overlooked but which is perhaps even more important than the stimulus given to greater individual effort by the worker. *This is the stimulus given to management to improve factory organisation, work methods and production processes. Before satisfactory standards of performance can be set, the job of the worker must be closely studied together with all the details of factory organisation bearing upon it—such as layout, equipment, materials, machine speeds and so on.* This detailed preliminary work, which now goes under the technical appellation "work-study," cannot but lead to greatly improved factory efficiency and productivity.

One of the fears at the root of the opposition of some workers to "payment by results" is that higher output per manhour may result in some workers becoming redundant. This is a fear that should be frankly acknowledged and adequately met by industrial managements. The I.L.O. Report suggests that managements should guarantee that if any workers are rendered redundant through the introduction of an incentive system, they should not be laid off for a period of time. The Report indicates that in practice such a guarantee would not prove difficult to apply since normal labour turnover should be more than sufficient to offset any reduction in labour requirements.

#### A NEW ATTITUDE REQUIRED

The basic economic context in which any general application of payment by results is feasible is that of full or high employment. This context exists today. It calls for and justifies a new policy by the trade union movement to all methods designed to raise productivity, and a transformation of old-time attitudes shaped by long periods of chronic under-employment.

The *raison d'être* of the trade union movement is the welfare of its members. Today, it is broadly true that the well-being of the workers can be only advanced through greater productivity. Gone are the days when tangible gains could be secured through obtaining for the worker a larger share of what is already produced. This is a battle that the trade unions have already won, and won well. The trade unions in this country should therefore now devote themselves energetically to the task of raising production and of securing for the workers their just increment of the additional output. In adopting this policy they would not be doing anything revolutionary. They would merely be following in the footsteps of their fellow unionists in the United States and, today, in Great Britain. In payment by results they have something to which they can devote their immediate attention.

Here is an extract from an article that appeared in "The Sunday Times" (26th July, 1951), written by the General Secretary of the United Kingdom Chemical Workers' Union.

"New equipment and plant are not sufficient in themselves; they are only the means, the tools, of abundance. The chemical industry, and indeed all industries, must bring average production up to the highest in the industry; this involves the general application of incentive schemes. Our own experience is that in every factory where these schemes have been introduced—on the basis of co-operation rather than arbitrary management decision—higher productivity and greater output at lower cost have resulted, and workers' earnings have increased from between thirty per cent. to sixty per cent. over national basic wage rates. The incentive schemes adopted have varied according to local conditions and products; they have been based on payments by time and motion study, piece-work and payment by results, and on a combination of all three.

"Our members, like those in other industries, feared the introduction of these schemes (not without good reason in view of experience between the two wars). But during the post-war years there has been an entirely new approach and a new appreciation of their purposes and consequence. The workers generally, and particularly our shop stewards, have themselves accepted the new responsibility and understand the principles and methods of the incentive schemes. Consequently the demand for these new methods of industrial management have come from the rank and file workers themselves."

