PROFIT SHARING FOR WAGE EARNERS*

1. Principles, Opinions, and Experience

American Machinist (330 W. 42nd St., New York 18), May 5, 1937.
"Should the worker share in profits?" pp. 360-362. 15 cents.

Argues that "the payment of wage bonuses contingent on profits is at best an unsettling procedure" and that the tendency "to push risk down into the wage-earning groups" will result only in "ever more severe criticism of the capitalistic system." The author favors instead extension of benefit funds with joint contributions and joint benefits and payment of wages on a more regular basis.


Records experience with profit sharing in the United States and Great Britain, discusses the place of profit sharing in a comprehensive personnel program, and outlines the questions of policy and technique which need to be considered before adopting a plan.

"The following policies are suggested:

1. The regular wages should be at least as high as the going rate paid in the community and by competitors in communities of the same size and with approximately the same living costs,

2. The profits to be distributed to employees should not be regularly paid in cash but should be placed in a fund to be used primarily to further employee security,

3. Funds created through the operation of a profit-sharing plan should be trusted and administered jointly by management and employees,

4. A substantial portion of the fund should be placed in investments such as are suitable for savings banks. Employee savings certainly should not be invested in the company's common stock,

5. Funds created through profit sharing should be so administered that, although an employee is limited in his use of the funds placed to his account to prevent them from being dissipated, his right to join any labor or other organization he may choose or his right to leave the employer's service is in no way affected."

* Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.

Concludes that, "For the rank and file of employees there is no logical or moral compulsion to share profits. The employer is at liberty to do so or not, according to what he believes will be the best interests of the business and of the stockholders." Touches on cautions to be observed in introducing a plan, whether for rank and file or for selected groups.


Discusses various factors to be considered in adopting a profit sharing plan and includes brief descriptions of seven current plans.


Considers profit sharing as one of the various approaches to the problem of "inspiring the employees to work more nearly as they would if the business were their own," and discusses the nature of profits, variations in profits by years and by industry, and who creates profits. Believes cash profit-sharing to be weak as a stimulus to employee efficiency and morale, but raises the question whether some form of "the profit sharing principle might contribute toward continuity of employment, by adjusting labor incomes to the employer's ability to pay, in a less spasmodic manner than is afforded by the mechanism of standard wage rates and layoffs when the employer cannot pay them."


Discusses relative merits of various types of profit sharing plans, factors determining their success, labor attitudes, and accounting problems. Concludes that, "The effectiveness of the plan is likely to be a result of the particular combination of circumstances surrounding the particular business firm plus the degree of skill and judgment used in adapting the plan to the existing circumstances."

"In final analysis, unless we are to assume that the wage earner is entitled to a share in the profits because of the risks which he assumes, profit sharing is really nothing more than a particular form of wage determination and is not profit sharing at all."


Both of these studies are particularly concerned with the reasons for success or failure of individual company profit sharing plans, but the reported opinions as to accomplishments of plans are conflicting. The 1937 study includes an analysis of the chief provisions of 24 selected plans and concludes in part, that, "The success or failure of profit sharing does not seem to be closely related to the particular specifications of the plan under which it functions. The details are far less important than the administration and interpretation of profit-sharing plans. . . ."

"It is well to remember that profit sharing alone will not promote more cordial understanding between employer and employee. On the contrary, it is but one phase of a well integrated personnel program, and to secure the best results it must be adapted to the other industrial relations activities, including the wage payment system. Actual experience proves little or nothing in respect to the practical value of profit sharing."

—"Experience with profit sharing." By F. Beatrice Brower. Conference Board Management Record, February, 1946. pp. 33-38. Membership. Presents data on plans included in the Conference Board's 1937 report as well as on more recent plans. 60% of the 161 plans surveyed in 1937 had been discontinued. An analysis of the causes of failure of British and American plans indicates that success or failure of plans depends more on "psychological factors" than on the details of the plans. Basic factors for success are summarized, and features of 27 recent plans are given.

Stewart, Bryce M. and Walter J. Couper. Profit sharing and stock ownership for wage earners and executives. Industrial Relations Monograph No. 10. New York. Industrial Relations Counselors, Inc. (30 Rockefeller Plaza). 1945. 143 pp. $1.25. Brings together in compact form much essential information about profit sharing, including a brief review of past experience, a discussion of new legal and tax factors affecting the installation of plans, characteristics of 209 plans together with information about their administration and experience. Especially useful are the excellent abstracts of the major findings of 15 American studies of profit sharing published between 1889 and 1942 which are given on pages 83-104.


For the purposes of this investigation the definition of profit sharing was broadened to include "all employee-benefit plans to which the employer contributes any sums, or because of which the employer incurs any expenses which in the final analysis must of necessity be paid from profits." The hearings include testimony or written statements endorsing profit-sharing from 97 leading industrialists, labor leaders, and others with special interest in the field. The greater part of the document published as Senate Report No. 610 consists of the findings of the survey conducted by the committee's technical staff and represents a sympathetic approach to the subject. The committee itself, while endorsing the principle of profit sharing as defined above, recommended no legislation on the subject, nor could it agree on a proposal for incentive taxation to encourage extension of the practice.

2. FINANCIAL AND LEGAL ASPECTS


Profit sharing and pension plans (practical planning and administration). By C. Morton Winslow. 1946. 272 pp. $6.50 a set.

In the first volume, "The treatment . . . is limited to include primarily tax factors as they affect the employer, trust, and employees. There is added an examination of certain legal problems relevant to the creation and maintenance of a valid plan and the legal relationships established by the terms of a plan." Appendices include pertinent sections of the Internal Revenue Code and of the Federal Income Tax Regulations and a table of cases.

The second contains practical suggestions helpful in the formation, installation, and administration of plans with emphasis on the deferred distribution type.


Discusses relative advantages of formal profit sharing plans such as quality under Section 165(a) of the Internal Revenue Code and of pension plans.


Partial texts of addresses before the Controllers Institute of America.