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PROFIT-SHARING AND INDUSTRIAL PEACE.

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AMONG existing movements for reforming the distribution of wealth in the interest of the working class, profit-sharing is one of the oldest—if not as a theory or a propaganda, at least as a program in actual operation. The first profit-sharing system in industry was established more than three-quarters of a century ago—five years before the appearance of the *Communist Manifesto* of Marx and Engels, a generation before the beginning of the Single Tax movement. From 1842 to the present day there have always been experiments in profit-sharing going on, and there have always been both business men and social philosophers who have vigorously advocated the general adoption of the plan. While the movement has, in these seventy-eight years, made some headway, it has made less than its early enthusiasts expected. In view of its age, its progress has been by no means notable, either in Europe or America. There have appeared, however, within a few years, some indications of a considerable growth of interest in the plan in the United States. Two somewhat influential leaders of opinion, President Eliot and the late Mr. G. W. Perkins, came forward not long since in enthusiastic advocacy of the plan. "Through the smoke and din of the present combat," writes Dr. Eliot, "it already appears to many disinterested lookers-on that profit-sharing combined with co-operative management . . . is the only road to industrial peace." Much the same conclusion was expressed in a widely circulated address by Mr. Perkins. "Our laboring people," he declared, "are no longer striking for a definite increase of wages, but for what they regard as a fairer proportion of the profits of the business in which they are engaged. If I am right about this, then we are rapidly leaving behind the period when labor disputes could be settled by a mere increase in wages, and are entering the period when profit-sharing in some form must be practiced." There have also been published during the past three or four years several important volumes in which the records of American experience in profit-sharing have been collated much more extensively and analyzed more critically than ever before.[1] These include the report of an elaborate investigation of "all genuine profit-sharing establishments" in the country, conducted for the United States Bureau of Labor Statistics by Dr. Boris Emmett; an illuminating collaborative study by Professors Gay and Heilman and three business men, Messrs. Burritt, Dennison and Kendall, designed "to enable the management of a business to determine whether profit-sharing might profitably be introduced among any portion of its employees, and what methods would prove most practicable"; and an extensive collection of reports and discussions brought together by the National Civic Federation, and now issued in a much enlarged second edition. In view, especially, of the new material thus available, the time seems opportune for an attempt to sum up the state of the argument with respect to the significance and possibilities of profit-sharing, both as a means of increasing industrial efficiency and as a "road to industrial peace."

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[1] *Profit-sharing in the United States.* By Boris Emmett. (Bulletin No. 208 of the United States Bureau of Labor Statistics.) Washington, Government Printing Office. 1917.

Profit-Sharing: Its Principles and Practice. By A. M. Burritt, Henry S. Dennison, Edwin F. Gay, R. E. Heilman, Henry P. Kendall, N. Y., Harpers. 1918.

Profit-sharing by American Employers. Published by the National Civic Federation. N. Y., 1920.

A word of definition is a necessary preliminary. In much current speech the term profit-sharing is applied too promiscuously; some specialists, on the other hand, have sought to restrict its meaning somewhat arbitrarily. Profit-sharing may properly be said to exist in any establishment in which, in addition to a fixed wage, the employees, or some portion of them, receive, as part of the promised compensation for their labor, either periodically or as often as dividends are declared upon capital stock, some proportion of the net profits of the enterprise—"profits" being reckoned only after the payment of the current rate of interest upon capital has been provided for. So defined, "profit-sharing" excludes all those numerous systems by which fixed bonuses are, under various conditions, added to the basic wages of employees; for in such systems the amount distributed does not depend upon and fluctuate with the net earnings of the business. The definition given likewise excludes all plans for distributing fixed amounts of stock, or for selling stock upon especially advantageous terms, to employees; for though, after the stock is acquired, the employee's income varies with the profits of the company, this fluctuating portion of his income is not received by him as a compensation for his services, but as a return upon the capital which he has invested. In the present article I shall be concerned solely with wage-earner's profit-sharing, that is, with the extension of the system to the rank and file of industry, and shall disregard those plans under which only managerial or other "discretionary" and relatively highly paid employees participate. It may be said in passing, however, that the case for the sharing of profits by all responsible higher officials of a company seems so clearly made out that it no longer need be discussed.

Within the limits of this general definition, three essentially distinct and, indeed, conflicting kinds of profit-sharing must be discriminated. The distinction between these kinds lies in the different purposes which dominate them; though in each of these different purposes there is implicit a fundamentally different theory of general social policy, and from each of them there result—or should result—different practical plans for working out in detail the general profit-sharing principle. Unhappily both the discussion and the practice of profit-sharing have been, and usually still are, profoundly vitiated by a failure to define sharply the principal purpose in view, and to realize the mutual irreconcilability of the three ends, one or another of which those who adopt such a plan may conceivably seek to realize thereby.

1. Profit-sharing has sometimes in the past been merely a device, not very skilfully disguised, for keeping wages down and trade-unions out; and examples of the same type are by no means lacking in contemporary American industry. As Mr. John Graham Brooks recalls in a recent volume, a great English engineer welcomed profit-sharing half a century ago because it would "prevent inroads on the capitalistic structure and protect the manager from all interference from the unions." One American "profit-sharing concern," mentioned (as an example of how not to do it) by Professor Gay and his associates, reports that on January 1st of each year "any employees who insist on securing an advance of salary are dropped from the profit-sharing list." Where a share in problematical profits is thus held out to an employee in lieu of a part of the fixed wage current or obtainable in his trade, the advantage to the employer is obvious; the advantage to the wage-earner is, in ordinary cases, worse than dubious. When, furthermore, this questionable boon is made to serve as a justification for repressing those organizations which skilled workers usually regard as the most promising agencies for protecting their own interests and improving their condition, profit-sharing is certain to seem to employees, and usually is in fact and in presumable intent, a plan for maintaining or enhancing dividends at the expense of wages, or of the wage-earner's liberty of action, or of both. When, in addition, workers are required to take their share of profits in securities of the company employing them, profit-sharing

becomes a means for coercing employees with respect to the investment of a portion of the recompense of their labor—and sometimes for coercing them into highly injudicious investments. By the same requirement, moreover, the employer obtains, as a labor leader has remarked, a species of "insurance against strikes," while the employee gets no corresponding insurance against conditions which would ordinarily lead to strikes. That trade-unions should bitterly oppose "profit-sharing" of this type is natural and justifiable; though they have sometimes too hastily transferred the antagonism aroused in them by such schemes to plans having both a different purpose and different actual effects.

2. There is possible, and there sometimes is found, a second type of profit-sharing which, while it, also, is essentially designed to benefit the employer, seeks to gain this result by means of a real increase of employees' earnings and a genuine improvement in their condition. The logic of the plan is summed up in the classic anecdote of Robert Owen: when a factory owner once said to him, "If my men liked they could save me £10,000 a year by better work and avoidance of waste," he replied, "Then why don't you pay them £5,000 a year to do it?" It is, in short, assumed, by those who adopt a system of this type, that profit-sharing will produce an increase of profits in which both employer and employed will participate—whether the effect be brought about by an increase of the productive energy and efficiency of individual employees, or by the fostering of economies, or by the creation of a better industrial *morale* and the avoidance of "labor troubles," or by all of these together. It must be emphasized that it is no part of the intention of a company, in adopting this sort of profit-sharing, to reduce the dividends of its stockholders for the benefit of its wage-earners; its ruling purpose is, on the contrary, to gain greater dividends than before. The wage-earner's share is to be limited to the additional profits resulting from the profit-sharing and, ordinarily, to only a fraction of these.

Since, however, the essence of this plan consists in the provision of an incentive which will actually increase the total, long-run productivity of the working force (or of some part of it), it is obviously necessary that the incentive be one which really appeals to employees, and that it be not attended by incidental features which arouse their hostility or distrust. No scheme, therefore, is well adapted to the end in view, and none is likely to be exempt from the suspicion that its real purpose is rather of the sort first mentioned, unless it fulfills at least these five fundamental conditions: (a) the union scale, or at least the rate of wages usual in the industry and district, must be paid to employees irrespective of their shares in the profits—which thus become in all cases a clear addition to the customary wage; (b) the percentage of net profits (after normal interest on capital and necessary reserves have been provided for) which is to go to employees must be definitely announced in advance, and also the ratio of distribution among the several classes of employees; (c) the percentage of addition to "normal" wages, in a successful year, must be large enough to make its attainment seem to the average participating employee worth some special effort; (d) employees must be permitted to examine the books of the company, either through representatives from their own number or through accountants selected by them, in order that they may satisfy themselves that the terms of the profit-sharing agreement are being carried out in good faith; (e) there must be no attempt to use the profit-sharing system as a means of preventing or impeding trade-union organization, or as a substitute for collective bargaining in the determination of the ordinary wage.

When these conditions are not realized, profit-sharing naturally tends, at least in large establishments, to arouse the suspicion of the wage-earners and the opposition of the trade-unions, and is more likely in the long run to produce friction, lowered *morale*, and diminished efficiency, than the contrary. For it is manifest that where such requirements are not fulfilled there are plausible grounds for the fear that, whatever the intent of the plan, its eventual effects will be unfavorable to the interests of the employees.

It is, apparently, systems fulfilling these requirements that Mr. Brooks has lately hailed hopefully as "the new profit-sharing." But what may be called pure cultures of this "new profit-sharing" are not abundant in the United States. Most of the plans now or recently in use in American profit-sharing establishments are of an ambiguous character, lying upon the border-line of the type first mentioned. The probable intent of the firms adopting them has been to offer their employees a real, and a really effective, inducement to increased efficiency and to a more cordially co-operative spirit. But only a small number of employers seem to have been able to keep this purpose clearly and steadily in view, when working out the details of their schemes; the temptation to try, incidentally, to accomplish other (and incongruous) objects—and, in particular, to take a thrust at the trade-unions—has usually been too strong. Most employers, in short, have failed to do what was most obviously requisite in order to make their purpose to benefit their employees, as well as themselves, unmistakable to a hard-headed and perhaps inordinately suspicious body of wage-earners; and they have, in consequence, often found their more or less well-meant experiments in profit-sharing highly disappointing. Both the Civic Federation's investigators and Mr. Emmett find that (in the words of the latter) "under the majority of the plans the prospective beneficiaries are not even given an inkling as to the specific proportion of the profit that their employers are willing to share." Mr. Emmett also reports that "no profit-sharing firm is known to have in operation any system of collective bargaining or of definitely established friendly relations with trade-unions." Even when some of the fundamental conditions above indicated have been met, they have often been granted grudgingly and after controversies which have worsened rather than improved the relations between employer and employed. Thus one corporation reports in the Civic Federation's volume that it tried profit-sharing for two years. "During the first year it was distinctly understood in the rules of the game that members of labor organizations would be barred from participating in the profits. At the end of this period this restriction was withdrawn"—but it had, of course, been enough to prejudice the whole experiment from the start. At the end of the second year, the only labor organization in the works demanded "that a committee of their organization be allowed to examine the books and accounts of the company with a view of determining whether they had been cheated or not," and also asked for a representative on the board of directors. Both these demands seem to have been regarded as unreasonable by this company; yet the former only required the observance of ordinary businesslike procedure. If one of two "profit-sharers" of the more usual sort—namely, business partners—were to refuse the other access to the books, it is unlikely that the partnership would long continue. It is surprising that men of affairs should hope for beneficial results from "profit-sharing" conducted under conditions which—as either an acquaintance with the history of similar undertakings, or an elementary knowledge of human nature, would have shown—rendered its success impossible.

It is the purpose of profit-sharing of the second type to increase profits by increasing the amount or diminishing the unit-cost of production. But is the system really capable of bringing about a material increase of the productive efficiency of the average individual worker in the rank and file of industry? That it has not in fact done so, except in a few relatively small establishments, is the conclusion reached by most of those who have carefully studied American experience. Messrs. Burritt, Dennison, and their associates write:

"One fundamental conclusion may be formulated: Regarded purely as an efficiency method, as a business arrangement for increasing profits by sharing them, 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." . . . "It is a notable fact that all the plants which have operated genuine profit-sharing schemes for any considerable period have been comparatively small concerns in which one or a few managers conducted a long campaign of education, largely by personal contact with the participants." . . . "We make no appeal for the widespread or universal introduction of profit-sharing among the rank and file."

Mr. Emmett reports that only three out of sixty profit-sharing employers "stated definitely that the system had increased the individual or collective efficiency of the participating employees." But it is difficult to judge how far these negative results are due to an inherent weakness of profit-sharing as a type of incentive, and how far they are due to peculiarities of the specific plans adopted. The effectiveness of an inducement to the putting forth of special effort obviously depends upon two principal factors—first, upon the amount of the inducement, and second, upon the directness and certainty of the relation between the effort demanded and the attainment of the desired reward. In the latter respect, profit-sharing is inevitably weak. The individual employee, under it, gets no certain or directly proportional return for any exceptional energy or care which he may display. True, he will, under such a system, probably receive some actual increment of wages; but he does not necessarily see this increment as the consequence of particular efforts of his own. In point of fact, its attainment depends not so much upon him as upon others—upon the efficiency of his fellow-workmen, which he can control but little, and chiefly upon the ability and energy of the management, which he cannot control at all. There is, therefore, among those who have most thoroughly considered the matter, almost universal agreement with the conclusion expressed by Professor Gay and his collaborators: "profit-sharing is not urged as a means of promoting individual efficiency when there is any basis for measuring and [directly] rewarding individual effort."

Yet an inducement may be effective even though its attainment is uncertain and indirect, if it is sufficiently great in amount. And it is probable that the apparent failure of many American profit-sharing schemes as incentives to efficiency is also due in part to the fact that they have offered too small an addition to the employee's wage. Gay and his collaborators are of the opinion that "an additional share amounting, as a minimum, to five or six per cent of wages is required to excite and sustain the interest and effort of any group of employees"; but it is not clear upon what empirical basis this opinion rests, and it appears doubtful whether the minimum is not underestimated. One manager reports in the Civic Federation's volume that "6% on wages was not enough to make it a decided factor." Of thirty-four establishments reported upon by Mr. Emmett, the addition amounted in more than half the cases to less than eight per cent of the employee's "normal wage"; and in one third of the cases it was less than six per cent. And it is significant that he finds that the three employers who alone, out of sixty, stated explicitly that profit-sharing increased the efficiency of their force, all paid unusually high profit-sharing dividends to their employees. Evidently, by making the potential return great enough, the inertia due to the indirectness of the relation between the employees' effort and result can be overcome.

Merely as an inducement to greater efficiency, profit-sharing is questionable on theoretical grounds and it has not vindicated itself in American practice; though no certain conclusions can be drawn from experiments so ill conducted as most of those in this country have been. The most unequivocal success of the plan has been as an inducement to greater continuity of service. As an employer quoted by Mr. Emmett observed: "It works precisely like an increase in wages, but is more valuable because the employee, in order to receive his share, has to wait till the end of the distribution period, a fact that makes him hesitate before quitting." The testimony of profit-sharing employers is almost unanimous that the scheme has in this way reduced materially their "labor turnover." Since permanency in the same employment is a factor in productivity, this tendency of profit-sharing is of some importance to the public at large as well as to the industrial manager. But it must be observed that there is no reason why an inducement to permanency in service should take the form of participation in profits—in other words, why the inducement should fluctuate with the earnings of the business. The desired result could more simply and with much less misunderstanding be reached by a fixed system of graduated bonuses for length of service. Consequently, only those firms which seek to disguise their real object, or those which are doubtful of their ability to pay such bonuses and therefore wish to hold out to their employees speculative inducements which they may not be able to realize, have much motive—so far as the present consideration is concerned—for adopting profit-sharing. It is evident also that the continuity of service induced by profit-sharing, as a system of deferred payment of a part of wages, may often be contrary to the worker's interest. An employer quoted by Mr. Emmett remarked that his "valuable help would certainly have been stolen had the plan not been in operation." He apparently meant by this that his best employees would have been tempted away from him by higher wages offered in other plants or other industries. However gratifying this effect of profit-sharing may be to the employer, it is hardly such as to commend the plan to those of his employees who are intelligent enough to perform a simple arithmetical calculation.

It is not, however, as a direct inducement to efficiency or to length of service that profit-sharing is chiefly commended by its most earnest advocates, but as a means of bringing about better relations between capital and labor. I have already quoted remarks of President Eliot and Mr. Perkins to the effect that the adoption of this plan of distribution is the "road to industrial peace." To this hopeful view the testimony of American firms conducting profit-sharing establishments lends some apparent support. Dr. Emmett found in his investigation of sixty such firms that there was an "almost unanimous consensus of opinion that the plans did have a very decided tendency to establish more satisfactory relations between employer and employee. This seems to be particularly true of establishments where the profit-sharing plans have been in operation for a considerable length of time." More recent examples of similar favorable reports may be found in the Civic Federation's volume.

Yet to this seemingly weighty testimony from experience little real importance can be attached. For, in the first place, the number of wage-earners in these establishments is an almost negligible fraction of our industrial population. Mr. Emmett found not more than 30,000 employees "coming under genuine profit-sharing plans." In the second place, the experience of most of the establishments thus reporting has been brief. Of the profit-sharing schemes existing in 1916, nearly half were less than five years old; two-thirds had been in operation less than ten years. More important still, these establishments are by no means typical of American industry as a whole. With a few exceptions, they are small. Scarcely any of them, it would appear, are union shops, practice collective bargaining, or have regular relations with trade-unions. In this respect their situation is conspicuously different from that found in most of our great industries. It is evident that no conclusions drawn from the experience of non-union establishments under profit-sharing can be applied to the probable relations of union workers to their employers under that system—especially when the fact is borne in mind that the opposition of trade-union leaders to such schemes is vigorous and almost if not absolutely unanimous. Of twenty-five of the principal officials of American unions whose opinions were elicited by the Civic Federation's investigators, not one spoke well of the plan. In highly "organized" industries, then, profit-sharing is unlikely to prove a very direct road to industrial peace; its most immediate effect may be expected to be increased friction with the unions. Moreover, the testimony of employers as to the "better relations with labor" resulting from their adoption of profit-sharing, is not always unambiguous; it sometimes means only that they believe that the system has helped them to keep the unions out of their plants. This hardly means "industrial peace" in the long run. It must be remembered, also, that the favorable testimony on this point is largely offset by numerous reports of unsuccessful experiments, many of them now abandoned. These, however, have been less carefully collected; so that it is not possible to assess the relative weights of evidence on the two sides. Finally it is evident that we cannot conclude from the effects of profit-sharing when it is an exception to its effects when it should be the general rule. Where it now actually gives to the workers in a plant a somewhat greater reward than is customary in other plants, it doubtless tends to better relations between employers and employed. But would the same result necessarily follow after profit-sharing became the usual thing?

It is not, then, from the rather meagre, conflicting, and eminently equivocal evidence of American experience that any trustworthy conclusion can be drawn respecting the general effect of profit-sharing upon the relations of labor and capital, under American conditions. To judge of the probable effect, we can only analyze more closely the plan itself, and endeavor to infer—human nature and the present temper of "labor" being what we pretty well know them to be—how the minds of wage-earners would in the long run react to such a plan. And here it is important to remember the distinction between three types of profit-sharing, of which two have already been defined. Many of those who are most hopeful of the effects of profit-sharing upon industrial relations appear to have in mind what I have called the "second type." The essential characteristic of this type is that, while it aims at an actual increase of employees' recompense, it aims also at an increase of owners' dividends; it is, in short, a form of profit-sharing for profit. That it is to this type that President Eliot and Mr. Perkins refer in their articles already cited seems plain from their language. "Every good profit-sharing scheme," writes Dr. Eliot, "turns out to be for the advantage"—which here presumably means the pecuniary advantage—"of both parties." The question now to be considered, then, relates to the effect upon industrial relations of that type of profit-sharing which is conditioned by the requirement that the adoption of the scheme shall yield a return to the individual employer, or to stockholders, additional to the profits otherwise obtainable.

Now the principal, chronic, and increasing cause of "industrial unrest" is dissatisfaction with the existing division of the collective income of the community. Wage-earners at present, as Mr. Perkins has said, not only want more wages; they also want "what they regard as a fairer *proportion* of the profits of the business in which they are engaged." To that fraction of labor which has imbibed the Socialist philosophy of distribution—a class much more numerous than the membership of organized Socialist parties—a "fairer proportion" means the whole of profits, including the interest now paid on loaned capital. Demands inspired by these principles will naturally not be satisfied by profit-*sharing*. "The industrial problem will never be solved," writes an American trade-union organ of Socialistic tendency, "until capital ceases to be regarded as an active participant in production, rightly demanding profits, and becomes what it really is, a mere instrument in the hands of labor, no more entitled to dividends than a pick or a shovel." To a Guild Socialist, again, such as Mr. G. D. H. Cole, profit-sharing is simply "one of Labor's red herrings," an attempt to divert it from its true goal.

Yet it is probably true that most wage-earners hold both a less definite and a less extreme view as to what constitutes a just distribution; they doubtless are, in the words of Mr. Perkins, "willing that capital should have its fair reward." But what reason is there for thinking that they will eventually regard profit-sharing, of the type under consideration, as assuring its "fair reward" to both labor and capital? What, in fact, does labor in general hold to be that just proportion of the produce of industry which should be allotted to it? The only answer that can confidently be given is that labor claims, at any rate, a much greater proportion than it at present receives; and that no clear limit can now be set to the future expansion of its demands, when situations arise favorable to the pressing of those demands. The policy of orthodox trade-unionism is, in the words of the Secretary of the American Federation of Labor, "to take advantage of every lawful opportunity to better the condition" of the wage-earner; that is, to seek to obtain a continuously increasing share of the national dividend, by the use of methods of economic and political pressure. To the trade-unionist, no share which he sees a prospect of obtaining by these means is likely to seem more than a "fair share."

To a body of workers in this general state of mind, profit-sharing, of the type under consideration, offers nothing which seems fitted to alter that state of mind—unless, perhaps, it be to exacerbate it still further. For, in the first place, the program of profit-sharing for profit neither brings, nor attempts to bring, any solvent formula of distributive justice. It is, it is true, described by its advocates as a plan for "giving the worker his fair share." But it contains no principle whatever for determining what his or anyone's fair share is. It offers to the laboring masses, stirred with a vague but potent sense of injustice, no clear and simple argument to show it which of its aspirations are equitable or practicable, and which are not. In so far as it is consistent, it is concerned not at all with the question of equitable division, but solely with the question of effective incentives to a specific end—the end, namely, of increasing corporate earnings. It therefore fails to touch those explicit or (more usually) tacit but deep-rooted and pervasive presuppositions out of which "labor unrest" is continually generated anew. Second, this type of profit-sharing does not necessarily promise *any* increase in the proportion of the earnings of a company which go to the wage-earners. Whether in any given instance it has this effect depends upon the ratios of the several factors in the equation. It is possible to increase the worker's recompense through profit-sharing while actually decreasing his proportional share in the earnings of the industry. Assuming, however, that only those plans are to be considered in which some increase in the proportion going to the wage-earner is assured, there remains even in these cases the essential requirement of all profit-sharing for profit, *viz.*, that the adoption of the scheme shall be "for the advantage of both parties." This, of course, can only mean that the profits already obtained or obtainable by individual owners or stockholders on existing investments must in no case be touched. But it is, in the main, against profits now received by capital or business enterprise on existing investments that the claims of malcontent labor are directed. Of the *present* produce of industry, say the spokesmen of these discontents, the worker receives less than his rightful proportion. What, then, is the likelihood that such discontent will be allayed by a plan which begins by announcing, without argument, that no change is to be made in the apportionment of the present produce of industry, as between employer and employee?

The workers' shares, by the intent of this plan, being thus limited to a part of what may be termed "excess profits"—those attributable to the effects of profit-sharing itself—it must further be noted that the whole of these excess profits is likely to seem to the worker to be the product of his own efforts. The employer is not required, in order to gain his part of this increment, to invest any further capital in the business or to take any new risks. By the theory underlying the plan, the increment is to be wholly due to the greater zeal or increased efficiency or more continuous service of the employees, under the incentive which the scheme provides. "I alone," the worker is therefore likely to say, "am asked to *do* more in order to create this additional product; even supposing, then, that the boss is entitled to all his present profits, by what right does he claim any part of this addition?" This reasoning would scarcely pass muster in the American Economic Association; but its effectiveness at a union meeting or a Labor Day picnic, as a means of damning this type of profit-sharing in the eyes of workers, cannot be doubted. And labor would be entirely right in concluding that, at any rate, no special gratitude was due from it over the adoption of a scheme of which the primary requirement is that it shall increase the profits of the employer through additional efforts of his employees, at no cost to himself. For precisely this, of course, is the essence of all forms of profit-sharing for profit. It is not a sharing of anything which the employer had, or could have had, apart from the sharing.

It is clear, then, what our conclusion must be with respect to the probable effect of this type of profit-sharing on industrial relations. When its details are intelligently and liberally planned, its introduction may sometimes—under certain conditions and within very narrow limits—help to create a somewhat friendlier and more co-operative attitude on the part of the wage-earners, at least in non-union establishments; though even in such cases, the persistency of this effect over a long period of time is questionable. But we shall deceive ourselves if we look to such a plan for a solution, or even for material aid towards a solution, of the social problem. The deeper causes of industrial unrest remain untouched by it. The belief that any substantial, general, and lasting improvement of the relations of capital and labor to one another and to the rest of the community can be brought about by the adoption of a simple device which is to cost nobody anything, is but a curious survival of a disappearing kind of economic optimism. It is a form of the theory that omelets may be made without breaking eggs.

3. There is, however, a third type of profit-sharing, constantly confused with the foregoing, but differing from it fundamentally in purpose and underlying theory. It may be described as profit-sharing not for the sake of profits but for the sake of sharing. In the long run, it is true, it may turn out to be profitable to all concerned; but it is not subject to the initial condition that its adoption shall be to the

pecuniary advantage of capital as well as labor. It consists in a voluntary surrender by the present owners of an enterprise of a substantial portion of *any* profits which may be earned by it—not merely of a portion of the excess profits produced by the sharing. If no increase of earnings should result, the purpose of this type of profit-sharing would not be defeated. Such a plan implies a conviction that the existing method of distributing the earnings of industry between the two classes of participants therein is in some degree inequitable or socially inexpedient; and that the employer is therefore under a moral obligation—after interest upon capital, and wages, have been paid at the current rate—to divide the remaining profits with all those actively engaged in the business.

Examples of profit-sharing of this type are not numerous in America or elsewhere; in the Labor Bureau's investigation in 1916, only three profit-sharing companies, out of sixty, gave it as the main object of their plans to furnish "an equitable distribution of the profits of the undertaking, irrespective altogether of hopes for increased efficiency." Among the small number of such companies is one of the two oldest, and in many respects the most interesting, of American profit-sharing enterprises. Its plan is summarized as follows:

> "After a 6 per cent dividend is paid upon the outstanding stock, the entire remainder of the year's profit is invested in the business and in the form of 6 per cent stock is distributed among the employees and customers. Every participating employee receives his regular wage, a 6 per cent cash dividend upon the stock which he already owns, and the year's dividend in the form of additional 6 per cent stock."

The employees now own one-third of the capital stock; their shares have full voting power, and they are represented on the Board of Directors. Dividends on wages have fluctuated between 10 per cent and 30 per cent. In this case, it will be observed, the original owner of the capital stock takes no part of the profits, other than 6 per cent on the portion of the present capital owned by him. A similar plan is in force in a department store in Boston, except that half the profits (after 7 per cent has been paid on capital) go to six managerial employees, the remaining half to the 2500 other employees in proportion to salaries.

It is not, however, essential to the type of profit-sharing under consideration that no profits (in addition to ordinary interest) should go to capital. The general adoption of this feature of the two plans mentioned would probably be economically disastrous; for it is unlikely that the entrepreneur's, as distinct from the lender's, reward can safely be eliminated from among the motives on which the maintenance of adequate production is to depend. This third sort of profit-sharing, like the second, contains no principle for definitely determining what fraction the workers' share should be; but, if it is hoped to affect materially the relations of labor and capital, that share must, at the least, be far greater than would probably be immediately justifiable in any system of profit-sharing for profit. The most promising form which such a plan might take, at least experimentally, would be an offer by capital to "go halves" with labor in the entire net profits of the enterprise, in which the two constitute equally indispensable factors. That labor, having been granted half, would presently be found demanding the whole, is, indeed, possible; but it is very far from certain, since the working of such a plan would mean for labor a liberal education in economic realities, such as it now lacks.

If there were much chance of its extensive adoption, profit-sharing of this type would deserve serious consideration, as a program of reform in distribution from which both an increase in production and a very great improvement of industrial relations might be hoped for. Compared with many other schemes of social reform which now have the support of large organized movements, this program seems compact of wisdom and prudence. It leaves ordinary interest untouched—and therefore does not destroy nor diminish the incentive to thrift. It presupposes no abandonment of the competitive régime in production and marketing. In the form of an equal sharing by entrepreneur and labor, it leaves an appreciable, though a diminished, incentive to the spirit of industrial and commercial enterprise, and provides a recompense for the taking of risks. Since boards of directors would still be free to reserve, as at present, a large proportion of corporate income for reinvestment in the enterprise, and since a part of the worker's share might also be regularly reinvested in the business, the provision of new capital for the expansion of industry would probably be not much less secure than at present. Such are the negative merits of the plan which we may call profit-halving. Its positive merits consist in its probable effect upon production and its probable effect upon industrial relations. The incentive to increased efficiency which profit-sharing on this scale would hold out would probably be great enough to yield actual results. And it would at least tend strongly to produce changes in the state of mind of the worker which would profoundly affect his attitude towards his work, towards his employer, and towards the rest of society. It would, if generally adopted, bring about to a great degree an actual identity of economic interest between what are called capital and labor. Since the worker would get half the profits, methods and policies favorable to the increase of profits would be not only actually but—what is more important—also obviously and directly to his advantage, as well as to that of the employer. Capital and labor would be in the same boat, and would *know* that they were; because every laborer would become in some degree—and eventually in no negligible degree—a capitalist, and the economic class distinction would be in great measure obliterated. Until that is, by some means or other, accomplished we need expect no peaceful or secure social order. The profit-halving plan would gain an incalculable moral momentum from the start from the worker's knowledge that the employer was not—as in profit-sharing of the second type—gaining additional profits through the introduction of the scheme, but was on the contrary making an actual sacrifice. Combined with co-operative management or an "industrial republic," such as already exists in one great American plant described by Mr. Paul W. Litchfield in a recent volume, such profit-sharing would develop into a genuine co-partnership between the organizer of industry, representing invested capital and directive ability, and the working force—a co-partnership in which labor would be sobered by an acquaintance with the actual economic problems and difficulties of the enterprise and by the fact that a large part of its own income would depend upon the success of the business.

Profit-halving, no doubt, like other types of profit-sharing, would be opposed by trade-union leaders; its natural tendency would be to make unionism seem less important to the workers, and to diminish their class-consciousness, since it would, as has been pointed out, partially and progressively diminish the economic class-distinction. It would make all workers direct and certain and substantial participants in the interests and gains of capital (in which alone lies much hope of lasting industrial peace). In short, it is quite possible that a program of this sort might gradually kill the labor-unions—kill them "by kindness"—as it apparently has already done in the few plants in which it has been honestly tried. And there is already, as Mr. John Graham Brooks has recently remarked, a field in which profit-sharing may well enter, not into conflict, but into competition, with trade-unionism. If, Mr. Brooks writes, the union leaders

> "are to capture the superior millions of the unorganized, they must make a better bid than the profit-sharers. For many years we are likely to see a very pretty competition here between those who believe that capitalism is to be reformed, but maintained in its essence, and those who would abolish the wage system and substitute control by labor organization."

But a better, or at least a more effective, bid can be made only by profit-sharing of the third sort; only by those whose willingness to share is not restricted by the condition that they thereby make additional profits for themselves.

The plan is, of course, applicable only in a part of the industrial field. It obviously could not be introduced in industries not operated for profit, such as government-owned public utilities. It would be without effect in industries which habitually earn only ordinary interest on capital. It touches only a part of the problem of distribution; for wage-earners' profit-sharing does nothing for the consumer. It might, in fact, as some economists have suggested, tend to shift the principal line of economic conflict from the relations between employer and employed to the relations between producers (including both employers and employed) in the more "vital" and the less effectually competitive industries, on the one hand, and the rest of the community, as consumers, on the other hand. But we already have in the United States one successful working example of the combination of consumers' with producers' profit-sharing. And in any case, the situation of the consuming public could be no worse than it is now, when the workers in industries of this character hold and exercise—through the threat of disastrous stoppages of production—immense power to compel their employers to increase prices, in order that wages may be raised.

Yet, be the plan itself never so practicable and desirable, the prospect of its adoption on any great scale is slight. For—at least as conceived by most of its advocates—it has not behind it the driving force of self-interest. Reforms affecting the distribution of wealth are usually accomplished not by those who will lose but by those who will benefit by them. But profit-sharing of this type, if it is to be introduced at all, must apparently be introduced by the voluntary action of persons whose incomes would—certainly for some time, and perhaps permanently—be diminished thereby. The consent of the stockholders of thousands of corporations to a considerable reduction of their dividends would be necessary for the general establishment of such a system, under any conditions which would make it conducive to industrial peace and social harmony. In short, a potentially costly act of civic virtue on the part of great numbers of men must be presupposed by those who look to such a plan for a solution of the labor problem. And there is nothing in modern history to encourage the belief that great numbers of men are capable of such acts of civic virtue. Their lives most of them will, indeed, cheerfully enough hazard in the cause of the community, in time of war. There is no evidence that, in time of peace, they are equally ready to hazard their incomes. Whether there is any other real "road to industrial peace," upon which no costly acts of civic virtue are needful, is a question which it would perhaps be discouraging to discuss.

But whatever the future of profit-sharing, the beginning of wisdom in any discussion of the subject is a recognition of the irreconcilability of the three purposes which have here been distinguished. The attempt to combine them is the sure way to fail to realize any one of them. The most misleading thing that can be said about profit-sharing is the remark, in an otherwise illuminating and judicious book, that "profit-sharing for business reasons and for humanitarian purposes are not inconsistent"—if "humanitarian purposes" include a substantial and enduring improvement of industrial relations. No profit-sharing which "business reasons" will be likely to prompt tends in any significant degree towards the lasting establishment of a more harmonious and co-operative social order; while the kind of profit-sharing that might bring us far nearer to such an order is one which ordinary "business reasons" would in all probability condemn. Those advocates of profit-sharing who fail to face this fact, fail in consequence to point out the sole possible means to the consummation they desire.

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