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SURVEY OF EXPERIENCES IN PROFIT SHARING AND POSSIBILITIES OF INCENTIVE TAXATION

REPORT

OF THE

SUBCOMMITTEE OF THE COMMITTEE ON FINANCE
UNITED STATES SENATE

PURSUANT TO

S. RES. 215

(75TH CONGRESS)

A RESOLUTION PROVIDING FOR AN INVESTIGATION OF EXISTING PROFIT-SHARING SYSTEMS BETWEEN EMPLOYERS AND EMPLOYEES IN THE UNITED STATES

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SURVEY OF EXPERIENCES IN PROFIT SHARING AND POSSIBILITIES OF INCENTIVE TAXATION

——————, 1939.—Ordered to be printed

Mr. HERRING, from [the Subcommittee on Finance, submitted the following

REPORT

Pursuant to S. Res. 215 of the 75th Cong.]

AUTHORITY AND OBJECTIVES OF THIS SURVEY

The Senate of the United States, in the third session, Seventy-fifth Congress, adopted Senate Resolution 215, introduced by Senator Arthur H. Vandenberg, of Michigan, the preamble of which stated:

Whereas the maintenance of the profit system is essential to the preservation of the competitive capitalistic system under which the United States has attained the largest measure of general economic welfare enjoyed by any people in the world; and

Whereas the exploration of all available means for extending the direct benefits of the profit system to the largest possible number of citizens is highly desirable and important.

The resolution authorized and directed a complete study of all existing profit-sharing systems, between employers and employees, now operative in the United States with a special view—

(a) to the preparation of an authentic record of experience which may be consulted by employers who are interested in voluntarily establishing profit-sharing plans;

(b) to the consideration of what advisable contribution, if any, may be made to the encouragement of profit sharing by the Federal Government, including the grant of compensatory tax exemptions and tax rewards when profit sharing is voluntarily established;

(c) to the consideration of any other recommendations which may prove desirable in pursuit of these objectives.

This committee has concluded the labors assigned to it, and submits the following committee report together with statistical tables, industrial charts, and other material prepared by the committee staff. It takes no responsibility for the staff report which is presented solely in the nature of testimony, just as the free testimony of other witnesses is presented.

Particular attention is called to the authoritative résumé of the facts with regard to the history of profit sharing, which was made a part of the hearings of this committee, and therefore is not reproduced in the present text, although valuable and worthy of thoughtful consideration.

In interpreting the data and appraising the value of the factual material herein presented, it is of first importance to remember that the statistical tables and industrial charts are to be construed merely as providing a dependable gage as to various and probable results, and while prepared with great care from reliable sources of information, they are often subject to the usual limitations of all statistics. As used, the data are intended to be illustrative of relative changes in the factors discussed rather than absolute measures of the values expressed.

Under authority of Senate Resolution 215, we have undertaken a limited but thorough investigation of businesses throughout the United States having industrial relations policies with profit sharing and other extra compensation and employee benefit plans.

The appropriation for the survey was insufficient to undertake a canvass of each of the estimated 2,000,000 businesses throughout the country. While our research has thus been limited, we cannot feel justified in seeking an additional appropriation, which, if granted and expended, could only augment the statistical and other factual data already available, and confirm, from a wider investigation of business enterprises, the facts herein presented.

The results are sufficiently tangible, and cover enough businesses in various types of industry to justify, we believe, drawing certain definite conclusions with respect to industry generally, and the further conclusion that the experience of those concerns, which we have thoroughly investigated serves as a dependable yardstick by which like businesses having somewhat similar conditions may be measured.

The survey was conducted in a spirit of mutual helpfulness without the issuance of a single subpena, or recourse to any arbitrary means to secure the necessary information.

No authentic list of profit-sharing concerns being available beyond the few outstanding companies famous for their satisfactory employee-relations policies, it was necessary to invite the cooperation of local banks, insurance companies, service clubs, chambers of commerce, farm and labor organizations, and citizens in various cities and towns in the preparation and final compilation of such list.

Busy workers and executives alike gave of their time and thought unremittingly, in their desire to serve the committee and to enable it to accomplish the objects of the survey. Our grateful acknowledgment and thanks are here expressed to each and everyone of those who have rendered assistance in the successful conduct of the survey and the preparation of this report.

The several thousand firms with which we have communicated have accorded us every possible consideration. The policy of good will which was shown toward us was found to prevail throughout the business establishments, and was reflected in the contented efficiency of the workers with whom we came in contact.

Our efforts have been directed to fact-finding, rather than fault-finding, and we have received from business executives and employees complete cooperation in precisely that spirit.

Pursuant to instructions under the resolution, we have sought to ascertain the number of concerns throughout the United States operating a profit sharing or extra compensation and employee-benefit plan of some kind, and to learn all pertinent facts relating to management, personnel policies, and employee relations, particularly in relation to the public welfare.

Without prejudice for or against any specific program or plan of employee relations, we have collected, colated, and analyzed all important facts, information and opinion.

We submit in the following pages, in as simple and intelligible form as possible, the results of our research. We realize that this information is complete only insofar as it relates to businesses which we have investigated, and data which we have accumulated. The conclusions offered are based upon our digest and analysis of that material. It should be accepted merely as pointing the way to a better understanding of the problems of business, and as presenting a possible formula by which to meet some of the more pressing questions in the field of employer-employee relations as they affect the general welfare and the national economy.

The staff report is the free report of the staff itself. The committee commits itself only to its own report herewith. It cordially commends the observations of the staff to the consideration of American public opinion. It expresses its great appreciation for the faithful, painstaking work which the staff has done, and hopes for the widest possible distribution of the facts, observations, and conclusions which are herewith presented.

We further express the belief that these documents should stimulate far-flung interest in the examination and adoption of some one of the many various plans which, according to testimony produced herewith, have proved so successful.

This committee recommends no legislation whatever, but in this factual report will be found material of more concrete benefit to employer and employee than might be contained in volumes of legislation. If the committee and its staff had done nothing more than provide this authentic record of American experience with various types of employer and employee benefit relations, broadly classified as "profit-sharing," we are convinced that its labors would have been more than justified.

Witnesses representing both employer and employees were heard in public hearings in respect to a wide variety of social-minded relations and in reference to employer and employee benefit systems.

In addition to these hearings, schedules of information have been obtained from industry throughout the entire United States. The transcript of these hearings and the analysis of both hearings and schedules of information by the committee's staff of experts provide the most complete and authentic information ever made available in the United States for the study of industry and labor in respect to this subject. Both the hearings and the analysis are made a part of this report.

The economic life of America is beset by a series of extremely complex problems, of which a fair and equitable distribution of the fruits of industry is one.

It would be unreasonable to assume that profit-sharing could either be standardized or solve all of the problems confronting industry.

That it is a very real step in the right direction is indicated by the reports of companies employing a successful plan as contrasted with the experience of business concerns, having no profit-sharing plans, which have been afflicted by recurring labor disorders.

The profit-sharing theory provides a rational method for dividing the fruits of industry at the source where wealth is created. Each participant is rewarded in proportion to his contribution. By that device numerous persons are invested with economic independence and come into the possession of that measure of material substance which, in turn, not only encourages but enables them to expand their economic interests, thus creating new and added community values and providing larger opportunities and incentives for others to duplicate their performance.

Individual responsibility is the cornerstone of any sound profit-sharing system.

Profit-sharing with employees is not profit-sharing unless a fair and just wage is paid before there is a division of net profits and, technically speaking, the share should be a percentage or sum fixed in advance.

These results, it should be added, are not automatic. There are successful profit-sharing systems, and there are also unsuccessful systems. The employer who explores the subject should carefully study the detailed exhibits presented by the committee in conjunction herewith. They point the dangers as well as the advantages. Profit-sharing will not succeed if undertaken by the employer as a substitute for the full, going wage in any given enterprise in any community. If thus undertaken, it is a libel on true profit-sharing; because true profit-sharing is the employee's stake in the net result of a mutual undertaking after normal wages have been paid. Profit-sharing will not succeed if undertaken by the employer as a sudden, strategic alternative to unionism or to legitimate collective bargaining as established by law. It must develop by mutual consent. It must contemplate the full, free disclosure of facts respecting the profit-operations of an enterprise. Wherever possible it should develop out of mutual consideration and mutual action.

It is conceivable that without one single piece of legislation, industry may reassert its leadership and demonstrate its ability to run itself through voluntarily placing itself under that measure of self-discipline which will make restrictive measures on the part of government unnecessary. It is well within the power of the industrial leaders of any community to undertake the establishment of a profit-sharing plan, coupled with a program of reabsorbing into private enterprise such workers as are now available as employables, and by the intelligent coordination of effort turn into a community asset tomorrow that which stands as a liability today.

The selection of the plan is an important consideration. Good faith is the essence of any contract. Profit sharing, entered into wholeheartedly by both sides with a sincere determination on the part of both employer and employee to do his share, will produce results, the value of which can be estimated in tangible figures at the end of every fiscal year.

Nor is profit sharing restricted to companies already making a profit, as is popularly believed. The experience of various business concerns reveals that profit sharing has been employed to carry companies out of the red and into the black by securing that measure of enthusiastic cooperation and contented efficiency which is the direct result of a belief on the part of the workers that they will not only be treated fairly by their employers, but that they have a material and predetermined interest in the results of the efforts of both workers and management.

It would be folly to assert that a profit-sharing plan without proper management and without absolute sincerity in administration would produce the favorable results which have been found to exist in such companies as Proctor & Gamble, Eastman Kodak, Sears Roebuck, Westinghouse, Joslyn, Nunn-Bush, Jewel Tea, and several hundred other companies whose profit-sharing plans and experience over a long period of years we have carefully studied.

In the committee's opinion there is no standard profit-sharing formula which can be uniformly applied to all American industry and commerce, although there are a few general principles which are rather constant in all successful profit-sharing systems.

The committee finds that profit sharing, in one form or another, has been and can be eminently successful, when properly established, in creating employer-employee relations that make for peace, equity, efficiency, and contentment. We believe it to be essential to the ultimate maintenance of the capitalistic system. We have found veritable industrial islands of "peace, equity, efficiency, and contentment," and likewise prosperity, dotting an otherwise and relatively turbulent industrial map, all the way across the continent. This fact is too significant of profit-sharing's possibilities to be ignored or depreciated in our national quest for greater stability and greater democracy in industry.

The profit-sharing ideal, as an ideal, is invincible. The subjoined hearings and analysis present indisputable evidence to sustain this contention.

We are of the opinion that while profit sharing (and we continue to use the term in its broadest sense) may not be practical in its application to all employer-employee relationships, nevertheless it is applicable over a far wider field than has yet been undertaken, and that every employer-employee unit will do well to examine its own opportunities to establish this reality of partnership between capital and labor. Profit sharing is the essence of true cooperation which must embrace not only a wage relationship but also a profits relationship (after labor and capital have both had their fair "wages"). It represents social-mindedness, and distinctly comports with the American system because it is business democracy. It appropriately acknowledges the full contribution which employees make to an employer's success; and thus it adds both to the dignity and the rewards of those who, without a direct stake in ownership, make ownership worth while. It carries the spirit of capitalism to mass citizenship. In many instances it provides old-age security without the intervention of government. In all instances it invites an intimate, mutual understanding of the common interest which employer and employee must have in their common enterprise.

In the midst of a tendency generally to condemn private business as selfish and reactionary and unsympathetic, the committee takes pleasure in pointing to the accompanying record as proving that there has been a vast, voluntary experimentation with various types of profit sharing which demonstrates the existence of widespread social-mindedness in American business, and this fact deserves the emphasis we give to it. It should be added that this report carries no implication that profits are not frequently "shared" through the payment of high wages for labor which often leave capital with the short "share" of the partnership. Furthermore, let it always be remembered that profits must be made before they can be shared; that a profit-sharing formula is not a panacea to produce something from nothing; and that this whole ideology is a quest for mutual betterments from mutual cooperation. We simply present the record and the possibilities; and we let them speak for themselves.

A second duty committed to your committee has been to "consider what advisable contribution, if any, may be made to the encouragement of profit-sharing by the Federal Government, including the grant of compensatory tax exemptions and tax rewards when profit sharing is voluntarily established." Broadly speaking, this is the subject of "incentive taxation." We do not believe it is practical to apply "incentive taxation" to the profit-sharing motive—at least, not until the theory and principle of "incentive taxation" has been more deeply explored and perhaps subjected to preliminary experiment.

Opinion respecting "incentive taxation" is sharply divided in the committee and in the country. One school of thought insists that the taxing power should never be used for either "incentive" or "punitive" purposes, and that one is the complement of the other. The other school of thought insists that we already have the "punitive" tax, and that—confronting a condition rather than a theory—we should also have the "incentive" tax either as an off-set or a substitute. In the latter field of action, serious consideration has been given to "incentive taxation" which, by compensatory tax exemptions and tax rewards, could, for example, encourage plant expansion and equipment replacements in industry. Other appealing examples are indicated in some of the discussions in the staff report.

It is interesting to note from the transcriptions of the hearings subjoined hereto that without exception those witnesses now operating under profit-sharing systems are opposed to "incentive taxation" or "compensatory tax benefits" either as an effort to expand the use of profit-sharing systems or rewarding those now sharing profits with employees.

The committee is agreed that some prudent experiments in "incentive taxation" could be usefully undertaken in a spirit of exploration and experiment. But since there is no agreement upon the appropriate nature of these experiments; and since the authority of the committee in respect to "incentive taxation" is probably confined by Senate Resolution 215 to profit sharing upon which we have already reported; the broader aspects of "incentive taxation" are left to individual members of the committee, in the light of all the appended information, to develop in connection with amendments which may be subsequently offered if, as, and when new tax legislation comes to issue.

The committee renews its expression of appreciation to its staff and to all of the witnesses who voluntarily cooperated with the committee in the creation of this record. We believe the record itself is an epochal achievement which offers the country an invaluable encyclopedia of information and advice upon employer-employee relationships and upon the moot question of taxation.

CLYDE L. HERRING,
A. H. VANDENBERG,
Subcommittee of Senate Finance Committee.

REPORT OF THE SURVEY

BY THE STAFF TO THE

SUBCOMMITTEE OF THE COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-FIFTH CONGRESS, THIRD SESSION

PURSUANT TO

S. RES. 215 (75TH CONGRESS)

PROVIDING FOR AN INVESTIGATION OF EXISTING PROFIT-SHARING SYSTEMS BETWEEN EMPLOYERS AND EMPLOYEES IN THE UNITED STATES

JUNE 1938 TO MARCH 1939

DONALD DESPAIN, *Director of Survey*

SECTION 1

PRESENTING A STUDY OF POLITICAL AND SOCIAL TRENDS WITH A REVIEW OF LABOR CONDITIONS IN AMERICA PRELIMINARY TO A DISCUSSION OF THE PHILOSOPHY, HISTORY OF DEVELOPMENT, AND PRACTICAL EXPERIENCES OF PROFIT SHARING IN AMERICAN INDUSTRY

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The purpose of the Survey of Profit Sharing and Extra Compensation Plans in Industry has been to prepare an authentic record of experience, and to ascertain whether the brilliant results which have been achieved by certain institutions under systems of profit sharing can be applied in sound and practical form to general industrial operation within the United States.

The hope actuating this search emerges from a definite fact, i. e., that opponents and critics of the capitalistic economy of the "American plan" center their attack on the "profit system" with the contention that the profits of the system are not diffused or distributed equitably to all the human elements contributing to the productive process.

The objective, therefore, was and is more far-reaching and directed to a higher plane than any previous research or study into the field of human relationship in industry. Ways and means for insuring the preservation of the American plan of competitive capitalism are of first consideration. It naturally follows that if this is achieved and a united harmonious front of ownership, management, and labor is assembled for defense and maintenance of this system, the resulting benefits will be reflected in a substitution of cooperation for conflict in industrial operation through the creation of a consciousness of participation in the capitalistic profit system "by the largest possible number of citizens."

In pursuing the study of profit sharing there has been no hope of finding or presenting an all-encompassing panacea for our industrial and economic ills, but rather the obviously missing element or technique in worker compensation which will provide the sorely needed flexibility in industrial operation as well as the mutuality of interest essential to removing the existing conflict of interest. We have not regarded profit sharing as an end, but as a means to an end.

If the data, experiences, comment, and factual material presented are conducive to penetrating the prejudice and confusion prevailing on the subject of profit sharing, and thereby develop clearer understanding of this potential philosophy, the hope of the committee and staff that this survey and study will be a helpful contribution to the industrial and economic stability of the Nation will have been fulfilled.

There has been no thought of developing material as a base for legislative action and this report presents no recommendations whatsoever for legislation with respect to the adoption of profit sharing by compulsion. The record of factual data, opinions, comment, and recommendations is presented solely as an aid to those who may desire to voluntarily adopt the principle of profit sharing.

ACKNOWLEDGMENTS

To whatever degree this survey, of which this report is the final expression, may contribute to the enlightenment of public opinion and to the constructive guidance of industry, the greatest measure of credit must be given to those who have extended their splendid voluntary cooperation toward the accomplishment of the objective.

DONALD DESPAIN,
Director of Survey.

INTRODUCTION

PREVIEW AND OUTLINE OF THE REPORT

This report is the result of cooperative research and objective study * * * a search for ways and means of industrial self-government.

It must be remembered that America is predominantly an industrial nation, the foremost of the world, and upon the preservation of its industrial structure the future of the Nation depends. Unless industry develops practical self-rule *within* industry, it cannot avoid rule from *without*.

Judgment of the future being governed largely by an understanding of the events of the past, there is presented in the following chapters, a review of contemporary social trends and their relation to current problems; the labor situation in America with respect to the evolution of relationship between employee and employer, followed by a general analysis of the weaknesses of existing employee relations policies in industry, whose general ineffectiveness are more or less apparent—from which general approach we enter into a presentation of the subject of profit sharing, and the experiences of employers throughout the United States, as specifically directed by the Senate resolution.

Many social scientists like to believe, or have led themselves into believing, that economics, sociology, psychology, and labor problems have finally been reduced to scientific formulas. Experience of the past decade would seem to have amply demonstrated how utterly untenable is this idea. While it is true that all sciences, as we know them today, were at one time philosophies, that does not provide any basis for concluding that because economics and sociology started as philosophies, that they are now full-fledged sciences.

The reader is urged to keep in mind that in a study in the field of social sciences, which this actually is, it is extremely difficult to prove or disprove any factor by the use of figures and that reliance must be placed upon practical experience, logic, human reactions, individual opinions, insight into group sentiment, and a study of case histories in the field in order to form conclusions.

In attempting to use statistics as an index to employer sentiment, we find the opinion of employers often confused and misdirected. There are those who conceive profit sharing as, first, impossible of application because of lack of profits, as a stimulant to higher wages, as being a forerunner of worker ownership, as leading to control of management, and various other misconceptions. Profit sharing has been the victim of such mishandling and improper application that employee sentiment is dependent upon where and how the principle has been used and applied within their immediate knowledge and contact with it. Union labor has consistently held to certain erroneous impressions, namely, that profit sharing will reduce wages, that it will prevent collective bargaining, that it destroys the independence of the worker, and so forth.

In view of these extremely varied conceptions, confused thought, and prejudices, the value of statistics is limited. We have sought, therefore, to avoid the overloading of this report with a vast array of statistical data. In a changing world, wherein mass sentiment has changed with startling rapidity and where the traditions of yesterday have been supplanted with the theories of today, we do not feel that conclusions regarding human wants, impulses, and attitudes can be arrived at or formed on the basis of statistics alone. On the contrary, we have directed our attention and search toward experiences in dealing with human problems and have attempted to apply logical analysis rather than statistical analysis.

We do not propose to confuse the issue with diversions into byroads of complementary economic subjects * * * which while related, * * * lead too far away from the channel of thought which it is advisable to follow.

In order to weigh and judge the value and effectiveness of profit sharing we must likewise analyze and study all other forms of employee-relations policies as to their effectiveness, in comparison with profit sharing, in solving the labor problem within industry.

If institutions having profit-sharing plans have achieved superior results in the relations with labor and have increased labor's efficiency and cooperative spirit such experience is germane to this study. If such a superiority exists, what particular type of plan is most successful? * * * What are the characteristics of its structure? * * * Why has it achieved these results?

QUEST FOR THE MISSING ELEMENT

The study in brief is a quest for the facts with regard to profit sharing and the *hopes* held by many that profit sharing may provide the "healing element," the "satisfying factor," to create the missing element so often absent in industrial relations—made obvious by the multitude of failures in varied employee-relations policies as exemplified by widespread unrest and recurring turmoil.

We are not approaching this subject with the impression that profits exist everywhere, and, therefore, should be shared. We are realistic enough to recognize that wealth must be created before profits are available and that profits must be made before they can be shared.

However, the capitalistic system is essentially a profit system. If, as a system, it cannot make profits, then it will fail as a system. Likewise if it cannot create and stabilize employment it will fail. The fact that some 40 percent of companies show income statement losses instead of profits, plus the fact that for a long period of years several million workers have been in the "army of unemployed" are evidence of a weakness in our capitalistic economy. Is it not intelligent and logical that search and study be made to ascertain if some new principle or technique may be adopted for the improvement or fortification of the system?

The safest way to protect the profit system in a democracy is to make the largest number of our people conscious of what a "profit" means, how it is produced, upon what it depends, its interrelations and our mass dependence upon it. When that is accomplished, the capitalistic system with its profit motive—and our democracy as well—will call more dependable and intelligent defenders to its support.

PROCEDURE AND METHODS OF SURVEY

No survey or research of this character has heretofore ever been authorized by the Federal Government. No past records or data of official character were available for basis or guidance of this survey. Private research in this field has in no instance been intensive or comprehensive enough to offer factual data upon which to build the foundations of the survey.

Therefore this survey was of necessity started from "scratch." Funds, facilities, and time for this research were too limited to permit of a widespread circularization of every individual company or corporation within the United States. To learn the identity of all institutions in the country utilizing some form of employee-relations policy involving the principle of profit sharing, the cooperation of all available commercial organizations was solicited. Chambers of commerce, trade associations, industrial groups, employer associations, banks, and other like avenues were contacted for the solicitation of information as to the identity of any business, commercial, banking, or industrial establishment in their community or their membership which may have adopted some form of profit sharing. From this combing of every community and trade organization, the file of establishments from which we sought to secure data and information was compiled.

To this extensive file of several thousand companies and corporations a "Schedule of Information for Employers" was mailed with the request that they supply all pertinent and informative data regarding the plans or programs they were operating. This "Schedule" asked for data as to nature of the corporation, size, age, and period of service of employees; figures as to income, pay roll, dividends, taxes, and profits; information pertinent to corporate operation, stability of the enterprise, and history of earnings; in fact, all data which would permit of actuarial analysis of the plan now operating as well as for the basis upon which to judge the possibility of the practical operation of any other plan which might be suggested or desired.

The most stimulating, helpful, and encouraging feature of this survey was the cooperative spirit displayed by the many thousands of companies and their executives, together with the hundreds of employees who lent their aid and cooperation to the success of this study. Without this splendid assistance the objective of this survey would never have been possible of achievement. This extraordinary collective support is all the more remarkable from the fact that never in a single instance was a demand or a threat to use the subpena power of the committee made in connection with any company or organization.

COMPENSATORY TAX EXEMPTIONS

("Incentive Taxation")

The approach and treatment of the subject of tax rewards or tax abatements is wholly exploratory.

Section (b) of the Senate resolution directs that a study be made as to "the consideration of what advisable contribution, if any, may be made to the encouragement of profit sharing by the Federal Government, including the grant of compensatory tax exemptions and tax rewards when profit sharing is voluntarily established." Section (c) of the resolution directed study "To the consideration of any other recommendations which may prove desirable in pursuit of these objectives."

The fundamental basis upon which the American tax system is built is one of raising funds to defray necessary costs of government and to exercise social control of the traffic in liquor, narcotics, and tobacco in the interest of the public welfare. With heavy increasing costs, many believe our tax structure has become punitive in character.

If "the power to tax is the power to destroy," may it not be worth while to study and explore the entire theory of taxation to ascertain whether the power to tax may not hold the "power to encourage and construct?"—whether we may not reduce the burden on productive dollars?

The idea of "compensatory tax rewards" does not contemplate the imposition of additional taxes. On the contrary, it envisions the trading of tax credits for dollars actually expended by taxpayers for their contributions to the national welfare, whether it be—

(a) by creating more harmonious relationships between employer and employee;

(b) by more equitable distribution of the benefits of the productive processes of industry;

(c) by more expenditures for the expansion and rehabilitation of industry, construction of homes, or through adding the unemployed to the permanent pay rolls of commerce and business.

Businessmen, industrial executives, economists, tax experts, and others have contributed to the survey constructive and enlightening thought and material upon this new philosophy of taxation. The consideration and discussion of the subject is solely for the purpose of ascertaining whether "incentives" incorporated into the tax philosophy and structure of the Nation may not prove more stimulating to industrial activity and for the common welfare than a continuation of what may be termed punitive taxation.

CHAPTER I

THE RISE AND FALL OF DEMOCRACIES

While the main object of this survey is to provide the country with a comprehensive record of profit sharing in industry, the broad underlying *purpose* is to strengthen the foundations of the democracy in which we live. Before embarking on a detailed study of profit sharing, we may well pause and note what the past has to tell us about democracies. Have they flourished in other countries and in other times? Have they had a tendency to long life or have they given way rather quickly to other forms of government? If the latter, then Americans will have less reason for being complacent about the outlook for their own country.

A careful reading of history gives little ground for the belief that democracies were either numerous or lasting, before our era.

The most famous of all democracies, prior to our own day, were the Greek city-states, of which Athens was the chief. In one sense, these states were more truly democratic than those of today, for all citizens actually took part in the government. But more than half of the population were slaves or foreigners, without any civic rights whatever. And the Athenian democracy, one of the first experiments in popular government, lasted hardly more than 250 years. Why did it fall?

Partly because there was no curb on the majority; the rights of minorities were forgotten, and the majority became tyrannical. Then, too, there was no unified, central authority to deal with the foreign invader, whether that enemy was Sparta, Persia, or Rome. Whatever the causes, the fact is that this first and greatest of democracies perished in relatively short order.

The next experiment in democracy, if such it really was, is to be found in the Roman Republic. There, the plebeians struggled long before they gained a share in the government, and the period of their greatest influence extended only from the early years of the third century B. C. to Julius Caesar's time, or less than three centuries. In the latter days of the Roman Republic, Caesar and Pompey obtained control of the masses by means of gladiatorial combats and by the dole, and the masses voted as they were told. It was a short step from the supposedly popular rule of Julius Caesar to the absolute rule of the emperors.

It is difficult to discover all the reasons for the decline of democracy in Athens and Rome. But in neither place was the period of popular rule of long duration. Foreign and civil wars, *heavy taxation*, and the *indifference of citizens to affairs of state*, were among the important causes. Their fate is eloquent proof of the maxim that "eternal vigilance is the price of liberty."

After the fall of the Roman republic, the masses turned their minds away from political problems, and more than a thousand years elapsed before that sleep was broken. It was not until comparatively modern times that anything approaching popular government came into being. Modern democracy, in reality, is the product of the rise of the Dutch republic, the English political revolutions of the seventeenth century, and of the French and American revolutions in the eighteenth century. By the middle of the nineteenth century, suffrage had become universal in the United States and in a large part of Western Europe.

Political democracy had been achieved, but only after a struggle of centuries. Yet while mankind had succeeded in throwing off its many chains, and civil, religious, and personal liberty had been won, economic freedom was slower in arriving.

Our hard-won democracy is in danger largely because of continuing economic ills. That Germany and Italy turned to dictatorships was primarily due to the fact that their economic position was so precarious. Only the relatively prosperous countries like the United States of America, Great Britain, France, Holland, Switzerland, and the Scandinavian countries continue to cling to democracy. In all these States, the profit system and private capitalism still prevail. The system of private enterprise is a vital element in popular rule, and our purpose has been to seek out those industrial policies which will serve to bring the fullest degree of prosperity and contentment to workers, as well as to capital and management, without the sacrifice of liberty.

There are two schools of thought about democracy. One holds to the belief that democracies arose as a result of natural law and that, in spite of temporary set-backs, the final triumph of the democratic principle is inevitable.

The other school questions this line of thought and points out that the growth of democracy has been slow and painful, and that we can by no means take it for granted that our modern American democracy is any more permanent than those which have had their brief day and have then disappeared.

Had it not been for the object lesson of Europe since the World War, a period during which dictatorships have been substituted for democracies in many countries, we here in America would have been rather inclined to adopt complacently the view of the first school of thought. The whole of our own history had been such that we hastily and rashly came to the conclusion that democracy was safe from all attacks, at least in the Western Hemisphere. But the events of the past few years have caused us to alter this attitude, and we now see that unless we put our own house in order, there is no definite assurance that we shall be able to escape the fate of Germany, Italy, and Russia, where whatever liberty and democracy existed before have been swallowed up in an all-powerful state.

The American Republic is the oldest republic in the world. Since 1900 most of the governments of Europe, including England, have either completely reconstructed or made drastic changes in their form of government. In view of this spirit of change pervading the world, it behooves America to look carefully toward the safeguarding of its democracy. It is well to remember that governments fall or change their form when they fail to take care of social needs. What the individuals and the peoples of all lands have sought is social security.

Today on the world's horizon are seen the forces of political and economic reaction * * * fomenting revolution against private capitalism and free enterprise which flourished until thrown out of equilibrium—a repercussion of the World War.

The all-important factor of the future is the struggle on the part of free men and women of the democracies to defeat the forces of reaction and to break through the depression barriers into the open field of free opportunity where the possibility of reasonable reward will again encourage individual enterprise to put money and men to work.

This brief review of the course of democracy in the past, will have accomplished its purpose, if it serves to make us all less indifferent to the dangers America faces and more alert to the necessity of devising a program for industry which will help to perpetuate popular government.

The lessons of the past teach us that the right to vote is not a sufficient stake in democracy to hold mass support. That one right (to vote) has been used to destroy democracy unless the greater rights of participation in the benefits of the general economy are granted and established.

Throughout history democracies have been short-lived. Their mortality during the last decade has been truly disheartening to lovers of liberty. Possibly, however, such a republic as the Founding Fathers intended the Government of the United States to be, may survive and endure, provided a philosophy of constructive and rationalized liberalism, such as is presented in this report, receives consideration and adoption into our industrial life and national economy.

CHAPTER II

SOCIAL TRENDS AND MASS SENTIMENT

The United States is one of 20 nations that maintain an international labor bureau at Geneva. In 1937, under the operation of Federal laws which promised and were supposed to establish and insure labor peace, the United States had more strikes, more labor violence, more loss of wages by workers and more loss of money by employers because of those strikes than all the other 19 nations *combined.*

Under existing laws and prevailing governmental policies, the relations between capital and labor in the United States have been marked by more violent dissension, by more disregard for and violation of property rights, than any other like period of time in our national history. This represents mass discontent, translating itself into mass action. It is symptomatic of other critical periods and crises in world history.

In the greatest nation of individual capitalists on earth—a nation made superlatively great by capitalism—we find a wide spread condemnation of capitalism and a submissive approval of its attempted destruction.

We behold a country profoundly conservative at heart accepting radical, reckless, and revolutionary theories that would have been scorned with contempt and rejected with popular rage only a few years ago.

We see the greatest property-owning people on earth believing they can protect their own property by destroying that of their neighbors.

In short, we witness the most successful and *really* benevolent governmental system ever devised by the mind of man, which in 150 years of it's free operation has produced and distributed more wealth than was produced by all the world in all history prior to its birth in 1776, being denounced as unsuccessful, a failure, and in need of complete change.

These are the astonishing paradoxes and inconsistencies which prompted the English writer, H. G. Wells, to recapitulate the national condition in America in 10 challenging words—"The situation in America is a race between understanding and catastrophe."

These ominous developments in a land where such mass sentiment and mass action were never thought possible, recalls the startling prophecy of Gustave Le Bon, one of the world's most scientific students of the mass mind, who in his book The Crowd, A Study of the Popular Mind, in 1921 made these pertinent observations.

The age we are about to enter will in truth be the *era of crowds.* The destinies of nations are elaborated at present in the heart of the masses, and no longer in the councils of rulers. Today the claims of the masses are becoming more and more sharply defined, and amount to nothing less than a determination to utterly destroy society as it now exists. Limitations of the hours of labor, the nationalisation of mines, railways, factories, and the soil, the equal distribution of all products, the elimination of all the upper classes for the benefit of the popular classes, etc., such are these claims.

Little adapted to reasoning, crowds, on the contrary are quick to act. As the result of their present organizations, their strength has become immense. The dogmas whose birth we are witnessing will soon have the force of the old dogmas: that is to say, the tyrannical and sovereign force of being above discussion.

Civilizations as yet have never been created and directed by crowds. Crowds are only powerful for destruction.

Certainly it is possible that the advent to power of the masses marks one of the last stages of western civilization, a complete return to those periods of confused anarchy which seem always destined to precede the birth of every new society.

The problem in America today is a human problem. Economic shocks and dislocations which have disrupted and unbalanced the economy, not only of America but of the entire world, are being too much approached and attended by scientific, financial, and economic consideration. The cause of the destruction of democracies, the adoption of fantastic economics and the following of false leaders are to be found in distorted and misguided mass thinking—wherever the trouble exists, whether it be European or American. The remedy, the finding of the way back to the high road of traditional and fundamental sound philosophy, can only be found in correcting this mass sentiment which supports the unsound theories and philosophies now sweeping the national and international map of the world.

DIAGNOSIS OF MISGUIDED SENTIMENT

As diagnosis is the first essential step toward *intelligent* prescribing, may it not be a *logical* approach to the discovery of a helpful program in America to diagnose the development of the misguided sentiment of this country?

There are many who blame the World War not only for its economic reactions but for its destruction of values, the disrespect for property rights, and disregard for the rights of others in the minds of the masses. But so far as America is concerned, there were other contributing factors. The crash of 1929 and the bursting of the boom bubble of the twenties not only swept away in a flash the money and hopes of some 20,000,000 American citizens who had "placed their bets" on the unbeatable industrial power of America whose growth, expansion, and prosperity they thought could not be stopped, but at the same time, dethroned industrial prestige and business leadership.

The faith and fortitude of the American people might have risen above that disaster, and they might have forgiven and forgotten the wrong done them by false leadership, had it not been for the greater shock which quickly followed—the shock that shook the greatest bulwark of the people's confidence—the crashing of over 5,000 banks in 3 years which destroyed more than $3,500,000,000 of the personal deposits of 15,000,000 trusting, confiding depositors.

In the wake of these terrible disasters, all within a period of 15 years, followed an intensive political capitalization of these events as offering proof that capitalism had failed and that the American plan of independent enterprise is in need of complete change to a system of centralized governmental control.

Simultaneously, there has been a kaleidoscopic change which has come so quickly as to be indigestible. Organized labor has become much stronger within a decade, the right of collective bargaining is established, hours of labor have been shortened: Labor is committed to a belief in the power of strikes and capital puts its faith in armed guards and the police. Wealth in America today faces more handicaps than ever before—the income tax and inheritance tax have barred potential accumulations; the undistributed-profits tax forces distribution in an attempt at a "leveling" process; the capital-gains tax prevents the birth of new industries and resultant profits which might accrue, and inventions lie dormant—all of which is hailed as progressive steps toward the control of organized capital. This is more than democratic evolutionary progress—it is revolution on its way.

How tangible is this revolution? In a recent book, one of the most prominent newspaper writers, after careful investigation, makes the statement—

> that more property has changed hands through the violence of foreclosures, bank failures, bankruptcies, and receiverships since 1929 in America than changed hands in the French and Russian Revolutions combined.[1]

There is a social revolution at work in America. To survive, industry and business must develop a fundamental principle of labor compensation which will make our capitalism intelligently democratic and our democracy intelligently capitalistic.

Is not the report of the Balfour Committee on Industry and Trade, made after 5 years of research into conditions confronting England, applicable to the American situation? It says:

> A new situation faces our country, and one whose main features are now perceptible, and not transitory. Elsewhere, a rapid and general transformation in the economic organization and industrial structure is going on, largely assisted by a reciprocal action on the part of the state, on a scale and at a rate which, when 1929 conditions are compared with those of pre-war, or even of 10 years ago, *constitute a revolution*—the key to the new order is not competition, individual acquisitiveness or self-seeking, but *coordination*, science, and service.
>
> To us these facts and the manifold difficulties in which there are varied angles, indicate the inadequacy of capitalism as we have known it, and the progress of a *change from a predominant individualistic* to a *predominant social type*. Insofar as our country accepts and acts on the principle of rapid, conscious, and planned adaptation of its productive and distributive apparatus *to this new, social type it can recover:* and the more speedily and thoroughly it does accept and act upon it the more rapid will be the recovery.

SYMPTOMS THAT CALL FOR A REMEDY

There can be no denying the fact that the American economic machine is not functioning, when there are more unemployed in the United States than in all the major powers combined. The truth is that private capitalism cannot and never was intended to function under such environment and handicaps as exist at the present time in this country.

The stoppage of economic progress and the existence of large-scale unemployment, mass discontent, and deprivation—fanned by constant labor disputes and outbreaks—are symptoms which can only be diagnosed in the light of similar conditions in the past which have destroyed democracies.

The fact that 21,300,000 of our inhabitants, according to current estimates, are receiving one or more forms of governmental relief, a human load of one-fifth of our population dependent on those who can still pay taxes, and whom this load has cost $12,000,000,000 from 1933 to 1938, inclusive, with no positive program for, or definite signs

[1] Harper Leech, the Paradox of Plenty.

of, reduction, presents a peril which has its potency not in figures alone but also in human equations. This peril is all the more menacing when it is remembered that after the 1921–22 depression, relief burdens did not return to the predepression level, but continued to mount in spite of the fact that the period following was the most prosperous in our history. If that experience holds good, what of the future?

It is incomprehensible how so many of our business and financial leaders ignore the imperative necessity of industry designing a constructive working principle of compensation which will unite the two forces of industry—workers and management—into a cooperative alliance to prevent complete Government control of industry. Unless industrial management can establish a new principle of relationship between labor and capital which will win public support, it appears inevitable that the collectivist, fascist, or centralized control of industry is ominously impending.

The industrial situation in America today resembles two armed camps, both desirous of peace, but each deeply suspicious and fearful of the other. Industrial relations will never be removed from the arena of conflict until the question of wages and income is removed from the possibility of sudden and arbitrary change at the hands of employees or employers.

THE CHALLENGE TO INDUSTRY

The industrial employee has become an economist. He has heard more economic discussion in the last 10 years than was ever brought before the American public in the previous century. He has heard about economic democracy, as well as political democracy. He is beginning to feel that he should have some similar relation to industry that, as a voter, he has toward government. He feels that he should not be a commodity, a tool, nor a machine, but should be accepted as a partner in industry and that that partnership should be *recognized* by some form of closer relationship and participation than the pay check.

The capitalistic order stands challenged. The answer and the defense must be made—and soon! The answer is in the hands of industry.

What are the potentialities of America if a spirit of mutual confidence and cooperation can be substituted for class consciousness and organized selfishness?

A more important question is, What are the people going to be *thinking* and *doing tomorrow?* Industry and business are not giving this question the serious attention it deserves.

The problem before American industry is that of having increased production without the stimulus of increasing population. The closest cooperation between all the human factors engaged in industry is the only answer. Industry should recognize its responsibility in starting this cooperation where it should start—at the top.

If the profit motive—that is, the lure of gain, the hope of reward * * * is the heart of the American plan and the base of the capitalistic system * * * by what logic can we insist that its rewards be available to some and not to all—or that its incentive power will induce greater effort from some men but not from all?

Both employers and employees have too often lost sight of the necessity for a unity of interest, a bond of cohesiveness, between employer and employee which is the concrete base upon which a sound, enduring, individual capitalistic economy must be built. If a profit system is to be used as a spur to production, and a regulator of distribution, the profit incentive must be made applicable to the greatest possible number of individuals within the system.

Capitalism and democracy will have trouble living together unless capital and its benefits are spread out and diffused as is democracy. Capital, centered in the hands of the few may have the same social effects and reactions as does government when centered in the hands of a few. If we proclaim the equality of man, in law and in government, may not consistency as well as necessity demand the distribution of the ownership of capital to the same group of people as we include in the class to which we proclaim equality?

In confirmation of the philosophy herein expressed in support of the imperative need for a new technique in the social relation between labor and capital, the following statement of Philip Cabot, professor of business administration, Harvard University, is pertinent and of interest:

> Today the high executive is in the position of "a pilot flying blind" and the instruments by which he guides his course are such abstractions as the balance sheet, the inventory, the pay roll. They are not adequate, for they cannot be applied to the human relations that are the essence of all our activities. Unless the managers of large-scale business can produce social inventions on a scale comparable with that on which they have produced mechanical inventions, the increasing instability long observable in our economic structure will end in collapse. * * * The major problem that confronts the businessman today is the gathering of the facts about the human relations in modern industry that are needed to form the basis of a new social theory which will take form in new social inventions.[1]

[1] From "Foreword" to "Social Problems in Labor Relations" by Pigors, McKenney, and Armstrong (McGraw-Hill Co. 1939).

CHAPTER III

THE LABOR PROBLEM IN AMERICA

THE EVOLUTION OF RELATIONSHIP BETWEEN EMPLOYER AND EMPLOYEE

One of the most important and perhaps least understood factors in the industrial situation of America today is the human element. Labor relations and labor laws present American employers with the most complex problem in our history.

Within the last century American genius has presented to the world a hundred major inventions and discoveries, any few of which would be sufficient to excel the progress of all previous ages.

From the days of the cave and stone hatchet, we have come to a day when man is housed, fed, clothed, and enlightened as never before, with improvement always a constant tendency. A palace in medieval times did not contain the genuine comforts of a mechanic's home of today. A European monarch of two centuries ago could not command half the real conveniences and luxuries that are readily within the possession of any average American homeowner.

Why the violent social upheaval of today after such progress and universal benefits? This, indeed, is a question for deep thought. Some cannot recognize the social change which has occurred in the last half century. It is imperative that we recognize and admit this change. It is equally essential that we study the drift of social thought, what it seeks, its grievances and to what it is leading unless satisfied. Clear thinking and intelligent decision must be made as between the extreme of the radical who sees no good in anything that ever happened and demands that everything be changed, and the conservative who insists that nothing has changed.

Modern industry, in its social aspect, is a form of cooperation among capital, management, and employees for the production of goods wanted by the community. The immediate motive on one side is profits—on the other wages and what they will buy. Modern industry is an organized method of cooperation in production—individuals find it a divider of men into hostile camps. This paradox arises from the fact that the elements in production must combine or be sterile—land, labor, capital, and management. Isolated they are barren; only in cooperation do they bring forth commodities which satisfy human wants.

Employers are really groping for knowledge of what to do and what not to do; employees are in an attitude of doubt and partial distrust, and the whole outcome of the undertaking hangs in the balance.

One of the ablest and best known industrial executives of the Middle West says:

> We could double our annual profit if labor acquired management's viewpoint.

It can be said with equal force that industry could double its earnings if management and labor acquired a common viewpoint.

PASSING OF THE PERSONAL RELATION

Mutual understanding is reached with difficulty partly because modern industry has made personal relations limited or even impossible. In small industries employer and employee talk out their difficulties and work side by side * * * but in a great steel mill, for instance, the capitalists are thousands of unknown stockholders; the managers are great men, in offices, far removed from the worker. We may regret the passing of the good times when employers and employees were comrades, but weeping will not save the ancient system. The social necessity for some basis of mutual interest and adjustment is apparent. The waste and loss through social friction are enormous; there is a recrudescence of savagery in "sabotage"; victory of either side after a strike is purchased at awful cost no matter which side wins. Men are degraded by hatred; political stability is in peril from class conflict; and democratic institutions are threatened.

The lack of personal interest on the part of workers, the abnormal costs of production, and the spirit of unrest which embarrass the industrial world today represent the cumulative waste of business development and progress—the "slag" of success and prosperity.

King Solomon experienced difficulty in building the temple because the undertaking was so large that the workers became confused in thought, lost their unity of purpose, and allowed contentions to arise among them.

When any business reaches that point in its growth where a portion of the help must be hired by assistants, foremen, and department heads, a certain amount of the personal influence of the head of the business among his people is lost. We can no longer keep in personal touch with the rank and file of workers, and it is more difficult for those thus removed from his direct influence and leadership to understand his ambitions, aims, and ideals.

Advanced organization, automatic operation, specialization, and all the other innumerable refinements in the "mills of business" have so far removed the individual worker from the personal influence and direct leadership of the employer that he often comes under the personal influence of false leaders.

The rank and file of workers do not conceive the great struggle as a whole with all its rivalry, competition, and absorbing interest—they do not realize or appreciate that they are playing an important part in the great game—they lack the perspective necessary to have them feel a proper degree of individual responsibility—they are "just working there."

While it is true that opportunities are greater today than ever before for the individual who puts forth maximum effort, the complexities of modern business and advanced organization, combined with the activities of the propagandist, cloud the vision of many otherwise conscientious and dependable workers, and create a force that destroys morale.

You cannot afford to have confusion of thought and lack of unity among the people who make, handle, and ship your goods—the people who wait on your customers, answer the telephone, keep your books, write your letters, and help you run your business—their loyalty and goodwill are vital to the permanent success of your business.

NEED OF A NEW BOND OF RELATIONSHIP

With the disappearance of the personal contact between employer and employee some new bond of relationship needs to be found by executives to establish and maintain morale, personal interest, allegiance, and loyalty. This relationship can most efficiently and effectively be established by creating a "consciousness" of partnership—a relationship which will appeal to that all-human instinct which seeks reward, self-advancement, and security. This is one instinct, deep in every human being, which, if satisfied, will rebuff all false leaders.

An employee of a Detroit heavy-hardware manufacturer expresses his opinion thus:

> Private business can still save itself from its sins by meeting communism on its own battleground—not with tear gas and blackjacks—but by mending the wounds and ending the abuses which are the spots for communistic infection. It doesn't do much good to swat flies while the garbage pail is still breeding them.
>
> Put prosperity back in the hands and pocketbooks of the American laborer, on a fair and sharing basis, and the Communist can talk his head off, but he won't be able to get a crowd to hear him.

And this from a worker in a textile mill in Connecticut:

> The cure for communism is to allow labor fair treatment and a share in what it earns. It can be laid down as a law of human nature that nobody gives up a good profit-sharing job to join a revolution.

BRIEF REVIEW OF THE CHANGE IN AMERICA

In two generations America has changed from an agricultural to an industrial nation. Frontiers are gone. Before they disappeared, a workman could move "over the mountain" or follow Horace Greeley's advice and "Go west" to a homestead on the western prairies if he were dissatisfied with his working conditions. Today he must accept conditions which are to him unsatisfactory or resist by united action with his fellow workmen. This changing condition brought about organization of the workers, and union labor.

In the span of a century between 1789, when the "Association of Mechanics and Manufacturers" was established in Providence, and the year 1886 when what is now known as the American Federation of Labor was born, the American workingman learned in truth that "in union there is strength" and that by united, organized action, he had economic as well as political power in a democracy. The recognition of this truth brought about the organization of union labor.

Here arose a new antagonism between labor and capital. Capital sought to purchase labor at the lowest possible price, and labor in self-defense and in pursuit of self-preservation, began to fight capital in order to obtain the highest reward for its contribution to industrial production. The tendency of both to build up large and powerful organizations, each one for its own interest, developed the conflict of interest which has been steadily growing and becoming more bitter as limitations of frontiers, restrictions of markets, narrowing of profit margins, increased cost of living and other conditions have forced each

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side into what appeared to be a titanic struggle for self-preservation. This struggle will continue until both sides recognize that there is a common ground of compensation and cooperation upon which both can agree and unite for common protection and prosperity.

With the advent of the machine age, the growing inequality in the distribution of the national money income and the displacement of workers by automatic machinery had a tremendous influence upon the operation of our industrial system.

Steadily labor asserted itself on behalf of higher wages and reduced hours of labor. It must be remembered that united action to strike was adjudged a criminal conspiracy about a century ago. Since then labor has won the right to organize, the right to strike, and the right of collective bargaining. During this struggle for these rights, labor has also emerged from a period when the hours of labor were from "sunup to sundown" to a 44-hour week under Federal regulation. These, are the salient facts which should be remembered regarding labor's long struggle for recognition and for better conditions of work, which has been fought for over a century in America.

Considering that Ohio wage earners lost 3,938,000 workdays during 1937, costing them $20,000,000; that the workers of Michigan lost 3,925,000 workdays or more than $19,600,000; that New York wage earners lost $16,000,000, those of Pennsylvania over $18,000,000 and those of Illinois over $7,000,000—with a conservatively estimated loss to industry in those five States of more than $500,000,000 from 1 year's upheaval—need the question be asked as to whether industry should seek a new basis of relationship?

Does the fact that 1936 witnessed 2,172 strikes involving 188,648 workers and that 1937 recorded 4,740 strikes involving 1,860,621 workers need further evidence to show the growing discord which must be cured in order to not only assure political stability but industrial harmony?

If the foregoing figures are not impressive enough, let us view the labor-capital battlefield for the 5 years, 1933 to 1937, inclusive, wherein more than 12,000 labor disputes and strikes are recorded, involving 6,469,331 employees who lost 96,005,400 man-days of work, or more than $500,000,000 in wages, as pointing to the very definite need—the imperative necessity—of a new and improved fundamental technique or principle in our system of worker compensation.

The most important problem which has confronted our capitalistic society is that of the division of available national money income (the proceeds of production) among those who furnish the factors of production. In brief, this is a problem of dividing the proceeds of production between those who furnish labor, land, capital and management in the creation of goods and services.

A grave error committed by both capital and labor is that of quarreling over wages and hours. Many think that wages should be regulated by the cost of living. A little thought brings the realization that the cost of living is regulated by wages. The higher the wages, the higher the cost of living, temporary variations due to over or under production excepted.

If wages are too high, and hours too short, American industries cannot compete—capital lies idle or migrates to more attractive fields, and labor goes unemployed. If wages are too low, labor loses its purchasing power, sales of consumer goods fall away and business in substantially all lines stagnates. In either case, both employee and employer suffer unnecessary loss.

Between these two extremes there is a scientific wage or a flexible basis of compensation which would lend itself to adjustment and work for the common good of both workers and employers. When employer and worker learn that their interests are mutual, and that they are partners, that what injures one injures both, they will begin a careful study of this scientific or differential wage formula.

The cause of practically all conflicts between capital and labor has been the "wage system." It always has been and always will be the cause of contention between employer and employee until we create a system whereby profits are equitably divided among those who produce them, thereby providing a differential which will eliminate a wage scale as the sole basis of worker compensation. So long as wages are the only link connecting the interests of employer and employee, just so long will conflict continue. Allowing the relationship to rest upon wages or hourly wage rates is likely to perpetuate the conflict—an issue never settled—a succession of concessions, truces, temporary peace pacts, but always dissatisfaction, unrest, and continued "collective bargaining." This great truth was stated by Ruskin: "No amount of pay ever made a good soldier, a good teacher, a good artist, or a good workingman."

Our industrial wage system requires flexibility. This can only be accomplished by basing the worker's compensation upon values produced. The worker's income should be related automatically to the rise and fall of the price structure. If this is done, a proper balance will thus be established and maintained.

Blend the wage scale with a profit-sharing differential and the same human being who was previously concentrating his attention on higher wages, will discard the combative spirit and move in a cooperative direction. With a share in the profits added to his wage rate, he becomes cooperative on the whole question of compensation. This means removing the contentiousness of the wage rate by blending it with the "mutualized interest" and "instinctive cooperation" generated by profit sharing.

SOURCES OF UNREST

The two fundamental conditions upon which real economic progress depends are: (1) A consistent increase in the annual production of industrial goods and services per inhabitant of the country; and (2) an increase in the real incomes of each economic group (especially that of the low-income group) proportionate with that of the growth in the per capita production of the Nation. Prior to the World War, the United States enjoyed a substantial increase in the annual production of economic goods and services. Despite a growing inequality in personal incomes, the national income was distributed in such a manner that practically all economic groups received increasingly larger incomes.

The war brought a great period of prosperity not only to agriculture but to all industries in the United States. From 1922 to 1929 the profits of industrial and commercial business enterprises were larger than they had ever been in any peace-time period. Examining the situation during that period from the side of the low-income group we find that in 1922, 83.58 percent of those gainfully employed received 58.99 percent of the national income; in 1925, 90.48 percent of those gainfully employed received 66.99 percent of the income; in 1929, 90.85 percent of those gainfully employed received 63.9 percent of the income.[1]

In studying this trend (of conditions) it is well to note that in 1929 the value of the net production (value added by manufacture) of the manufacturing industries was 73.9 percent greater than in 1921, but that the number of wage earners employed in 1929 was only 27.2 percent larger than in 1921, and that the value added by manufacture per worker employed in 1929 was 36.7 percent larger than it was in 1921, while the annual wage paid each worker in 1929 was only 11.3 percent more than was paid in 1921.

The average weekly wages of all laborers in 1923 was $26.61 and in 1929 the average was $28.54. This was an increase in the average weekly wages of labor, between 1923 and 1929, of 7.3 percent. During the same period the index of industrial production showed an increase of 18 percent and the general price level in 1929 was a little lower than in 1923. During the same period the national income increased more than 30 percent. During this period, therefore, it is clear that the wage earners as a whole did not receive an increase in their purchasing power in proportion either to the increase in the national money income or the increase in the value of the goods and services produced.

The growing inequality in the distribution of the national money income and the displacement of laborers by automatic machinery had a tremendous influence upon the operation of our industrial system. The decrease in the percentage of the national income paid as wages was due to the fact that wages per laborer did not rise in proportion to the increase in production per laborer. This, of course, was due in part to the introduction of automatic machinery.

In brief, the trend of industrial development up to 1929 was favorable to increasing profits and higher property income, and was unfavorable to increasing wages. The economic advantages and opportunities of owners and operators of business enterprises and possessors of property, gained over those of workers. That was why, relatively speaking, profits and property incomes secured a greater percentage of the national money income, and wages a declining percentage thereof.

Because the low-income earners, who are chiefly employees, provide most of the purchasing power of the Nation and because the high-income earners, accumulate most of the savings of the Nation, it is obvious that the employees' share of national income flows into consumptive channels to a far greater extent than that which is retained by the high-income group, who are principally the owners of industry. When, therefore, too large a proportion of the national income is retained, most of that excess will be saved and because it is saved in prosperous years, will be used to expand production still further.

[1] The National Income and Purchasing Power, by W. I. King.

This is the basis of an unbalanced economy which produces our peaks and valleys of prosperity and depression.

The following is quoted from an editorial in Business Week of September 1932, which is pertinent to the subject:

> The purchasing power of consumers in the lower income brackets, which depends principally on industrial wages and farm earnings, was too low even in 1929 to buy and pay full cost value plus normal profit for the goods and services they consumed. It is these consumers who absorbed the bulk of the goods and services sold, and it must have been in competing for a share of their inadequate income that the losses of business capital must have chiefly occurred.
>
> One might go further and suggest that what was not paid out in wages to workers or in dividends to small-income recipients, or in fair prices to farmers, sufficient to enable them to purchase the goods and services produced was in the end lost to business profits and to business capital anyway.

Analysis of the report of family incomes for the year 1929 by the Brookings Institution discloses how the distribution of income affects the balance between productivity and consumption. In that year, 27,474,000 families, averaging 4 persons, had total incomes, including realized capital gains, of $77,116,000,000. Selecting and consolidating these families into groups, we find the following distribution of national income:

Class	Income per family	Number of families	Percent of total	Aggregate income by classes	Average income per family
Poor	Under $2,000	16,354,000	59.525	$18,879,000,000	$1,154
Lower middle	$2,000 to $5,000	8,864,000	32.263	26,452,000,000	2,983
Upper middle	$5,000 to $25,000	2,096,000	7.629	17,651,000,000	8,421
Rich	Over $25,000	160,000	.582	14,749,000,000	92,181
		27,474,000		77,731,000,000	

Combine the general facts as above set forth, as an index to the maladjustment of distribution of the national income, with the harrowing events and shocks which followed with the collapse of 1929 and the bank failures from that day to 1933, and it is not difficult to see and understand where and why the seeds of unrest took root and developed in the mass mind of the country, which has led today to the proposals of fantastic economic theories and their acceptance by a large portion of the public.

The American people want and demand economic security. Most of them demand the economic security which comes from an opportunity to work and to receive a just compensation for their work. Acceptance of security through doles and pensions is agreed to, for the most part, only in cases of necessity. The majority of people want that economic independence which comes from their own efforts, from the opportunity to earn a good living for themselves. It is this spirit that distinguishes the average American. It is that independence which must be preserved.

Increased production is the solution to our problem of unemployment, and the establishment of a higher standard of living for all, not the distribution of present wealth, by a "leveling down" process. More must be produced in order that there may be more to be divided. The problem is one of addition and multiplication, rather than subtraction and division.

THE AMERICAN PROBLEM

Viewing the present trends, it is apparent and probably inevitable that labor will have a constantly broadening share of the fruits of production. The record of the last 10 years certainly indicate that the demand and the acquisition has been "constant." There is nothing to limit the demand, but there is a limit to the income with which to supply that demand. Common sense dictates a program for stabilizing the wage scale and placing the "acquisitive demand" on the basis of "ability to produce."

One of America's leading industrial managers had the foresight several years ago to express the following thought:

> The changes that have taken place in modern industry, as contrasted with 20 years ago, give the worker far less chance to become economically independent. The chances for rising have lessened as specialization has increased. Hence, the man who goes to work in any industry which is largely depending on labor is entitled to a share of the profits of that industry. And where that principle has been applied it has not been found to fail. And it has never cost anything, but, in addition to paying for itself, has produced a dividend for the employer.

The tendency of combinations of capital and combinations of labor to build up powerful bodies, each one for its own interest, is productive of continual conflict. In the interests of all, there should be substituted something which would increase the incentive for labor to save more, which in turn would cause it to produce more. Economically, labor and capital should have a common interest and the object of their joint efforts should be to work together in harmony.

One of America's most prominent industrial executives has expressed his understanding of the present situation, and his vision as to what must be done, in the following words:

> Capital is nothing but the savings of labor, and it's logical function is to be put at the disposal of mankind to be combined with labor to make that labor more productive. In other words, capital should be put at the disposal of those who labor, for the benefit of the community, and the owners of that capital should be entitled to a fair reward for its use. It is evident that this is something entirely different from the view that humanity should loan its labor to the man who owns capital for the benefit of capital, and it is the difference between these two view-points that is to a large extent at the bottom of the industrial unrest of today.

The right of labor to organize is fundamental in a democratic society. It is up to industry to see that it organizes for and in support of industrial progress in "the American way" instead of against it. Force not only begets force; it also begets animosity and retaliation. If honest work cannot be made to pay, something that is neither work nor honest will inevitably take its place. A new mutuality of understanding in industrial operation is the task for industrial statesmanship to achieve.

When Thomas Jefferson thought of democracy, he thought of the democracy of the rural folk of that time. Albert Gallatin thought of democracy in relation to workers in the industrial field. The word "democracy" must be broadened in its implications and operations. There can be no genuine, full-bodied democracy unless it penetrates to all the corners of our economic life. In an industrial nation, there should be economic democracy as well as political democracy.

Society has been divided into those who have been fortunate enough to achieve some measure of independence and those whose lives have been mainly dependent. As Hegel asserted, such a conflict does not properly come to its solution by the victory of the one side or the other, but rather by the lifting up of the two sides into a new kind of relationship—interdependence.

THE PARTNERSHIP OF CAPITAL AND LABOR

Labor—men with muscle; capital—men with money. In simple terms, there are the two great vital forces which, working together, become productively useful to mankind. Human beings are endowed with the same desires and aspirations, the same virtues and weaknesses. What a travesty to characterize them as opposing and conflicting forces with nothing in common!

It seems inconceivable that these two great forces composed of men, and in an age of enlightenment and advanced civilization, would permit intervening forces, whether of their own inception or by organization of outside influences, to create jealousies, hatreds, and suspicions for the driving of a wedge between them to the destruction of harmony and cooperation.

Capital cannot move a wheel without labor—nor labor advance beyond a mere primitive existence without capital. Labor, like capital, is an indispensable agent in the production of goods. Likewise, it is necessary to recognize that labor is not entitled, just as capital is not entitled, to all of the returns from industry.

Conceding therefore that labor and capital are essential, one to the other, there *is* a partnership. But full partnership, meaning full division of profit, cannot obtain because the laborer cannot meet the first requisite of partnership, namely, responsibility for loss. He cannot be made liable. He is not a part of promoting, financing, managing, buying, or selling. His contribution is restricted solely to the investment of his labor power. Yet it must be admitted that that is a major factor in the production of goods and their sale and distribution.

Again, capital without labor cannot produce income; nor can labor without capital produce income. Income is the only thing that can pay sustained wages, and, likewise, income is the only thing that can pay dividends * * * further continuation of the partnership.

The mutuality of interest must be carried further. Those who produce have an interest in the profits of production. The greater the production, the larger the profits, theoretically at least.

Mr. Melville E. Ingalls, chairman of the board of directors, of the Big Four Railroad, in A Plea for Profit-Sharing, National Civic Federation, ninth annual meeting, 1908, said:

> There is but one thing to my mind that will produce harmony in the future and do justice to all people, and that is profit sharing. I believe if every railroad in this country were run on that basis we would have no strikes. I believe every large manufacturer ought to be put upon that basis. Something should be put aside for the subsistence of the employees, something for the pay of capital, and then the balance should be divided. Make every man your partner. We will then have, just as near as it is possible to have on this earth, the good times when the laborer shall have his fair share and do his fair amount of work.

CHAPTER IV

THE COST OF STRIKES

TO WORKERS—TO INDUSTRY—TO THE NATION

What is the cost of strikes to our national economy?

We read much about the losses to labor, from strikes, but the unanswered question is "What does an upheaval, such as the strikes of 1937, cost general industry? What is the cost to all the people in America? What is the price in waste, losses of income, stagnation of business, and disruption of our national economy?"

Estimates are common as to the losses caused by certain strikes. The general strike in San Francisco was estimated to have cost $100,000,000. Estimates as to the wage losses in the great steel strike of 1919 ranged from $100,000,000 to $245,000,000. Such estimates refer to only a small part of the loss. When we inquire as to what business was "lost," what was the loss to "others" outside the strike, or what was the loss suffered by the disruption in channels of manufacturing, distribution, merchandising, advertising, selling, and financing—figures are lacking and no authoritative answer can be made.

Inasmuch as this survey has had for its purpose the study of ways and means to fortify our democracy and to sustain the American system of independent enterprise, known as capitalism, the consideration of labor strife, known as "strikes," is particularly pertinent and germane to the subject. May it not be well for us to ascertain, as nearly as is possible, the cost of that which we seek to remedy?

In the search for an answer to this question, this survey has sought all possible sources of fact and data upon this hitherto unanswered question. The inability to arrive at estimates with any hope of precise accuracy is recognized. Regardless, however, of whether the approximations reached are definitely accurate or not, it is worth while for all to have some reasonable conception of what these "shocks to our productive processes" really cost. To begin with, it is advisable that we review some of the relevant facts of the recent past.

BRIEF REVIEW OF INDUSTRIAL DISPUTES

History reveals that strikes always accompany recovery and prosperity. In the prosperous year of 1919 there were five times as many workers out on strike as in the depression year of 1932. In 1936, when recovery from the depression seemed to be assured, and the upturn in industrial activity carried on without interruption into 1937, that year witnessed the highest number of strikes of any year in the country's history. There was a total of 4,740 strikes initiated during 1937, in which 1,860,621 workers were involved. These workers lost approximately 28,425,000 man-days of work. As compared with 1936 there were increases in 1937 of 118 percent in the number of strikes, 136 percent in the number of workers involved, and 104 percent in man-days of idleness.

In each of six States there were more than a million man-days of idleness during the year: Ohio (3,938,000), Michigan (3,925,000), Pennsylvania (3,696,000), New York (3,181,000), California (1,941,000), and Illinois (1,435,000). Michigan had more workers (355,000) involved in strikes during 1937 than any other State; Pennsylvania was second with 323,432; New York was third with 221,391; and Ohio was fourth with 207,428.

The States with the largest number of strikes were New York (897), Pennsylvania (641), New Jersey (309), Michigan (306), Ohio (298), Massachusetts (277), Illinois (272), and California (259).

In the following nine industrial groups there were more than a million man-days of idleness because of strikes in 1937:

	Man-days of idleness
1. Transportation equipment	4, 720, 686
2. Textiles	3, 827, 398
3. Iron and steel industries	3, 405, 840
4. Mining	2, 617, 559
5. Transportation and communication	1, 868, 974
6. Lumber and allied products	1, 797, 618
7. Domestic and personal service (hotels, restaurants, and laundries)	1, 447, 465
8. Machinery and manufacturing	1, 344, 258
9. Trade	1, 036, 574

The following table presents a general view of the country, and of the industries affected, where strikes in 1937 involved 10,000 or more workers in each controversy:

TABLE 1

Kind of strike and location	Month strike began	Approximate number of workers involved
General Motors Corporation, 6 States	January	48,000
B. F. Goodrich Co., Akron, Ohio	do	10,000
Shirt workers, New York, New Jersey, Connecticut, and Pennsylvania.	February	12,000
Shoe workers, Massachusetts	do	11,500
Firestone Tire & Rubber Co., Akron, Ohio	March	10,500
Chrysler Corporation, Detroit, Mich	do	63,000
Hudson Motor Car Corporation, Detroit, Mich	do	10,000
General Motors Corporation plants, Flint, Mich	do	13 000
Do	April	14,000
Caterpillar Tractor Co., Peoria, Ill	do	10,900
Coal miners, Alabama	do	15,000
Jones & Laughlin Steel Corporation, Pennsylvania	May	25,000
4 independent steel companies, 7 States	do	90,000
Anthracite miners, Pennsylvania	do	15,000
Shipyard workers, New York and New Jersey	June	15,000
General strike, Lansing, Mich	do	15,000
Coal miners, captive mines, Pennsylvania and West Virginia	do	10,000
General Motors Corporation (Ternstedt plants), Detroit, Mich	do	10,900
Cloak makers, New York and New Jersey	July	12,000
Truck drivers, Philadelphia, Pa	do	20,000
Coal miners, Illinois	do	16,000
Silk workers, Pennsylvania, New Jersey, and New York	August	31,000
Chrysler Corporation (Plymouth plant), Detroit, Mich	do	10,300
Painters, New York City	do	13,000
Hudson Motor Car Corporation, Detroit, Mich	November	10,500
Goodyear Tire & Rubber Co., Akron, Ohio	do	13,500

The following chart shows how industrial production is encouraged to rise when industrial strife remains at low levels, and how the rise in production is first checked and then quickly turned downward when industrial strife increases beyond normal levels as occurred during 1937. It further shows the equally rapid increase in industrial production in the last half of 1938 after a period of relatively low labor trouble.

Effect of Industrial Strife on Production

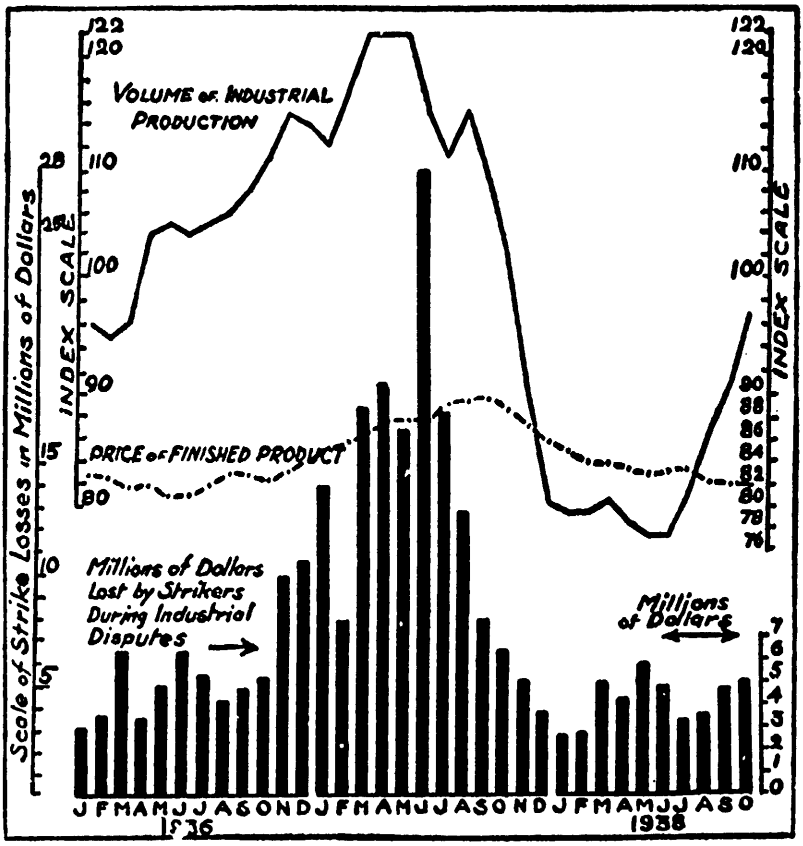


Chart by J. T. Trenholm & Co.

J. T. Trenholm & Co., from New York Herald Tribune, January 3, 1939

In the February issue of Supervision Magazine, Mr. Gustav Richard Stahl, associate editor and industrial relations economist, states:

> Although industrial relations during January 1939 were relatively peaceful, there were enough strikes and labor disputes in the month to cause workers involved a loss of working-time value of more than $3,000,000. This loss of working time compares with $2,641,000 in January 1938, and $13,708,000 in January 1937. The relatively peaceful conditions prevailing in the last half of 1938 are brought out by a comparison of wage losses of $101,181,000 recorded in the first half of 1937 and of $25,116,000 for the last half of 1938.

What is the lesson to be gained from the foregoing chart (I)? Study it carefully. Note the high vertical lines from January to August, inclusive, of 1937. What caused that skyrocketing of labor trouble? Isn't it reasonable to presume that when workers witnessed mills, plants, and factories buzzing with activity that they assumed great profits were being made by their employers and that they should strike for a share of those profits?

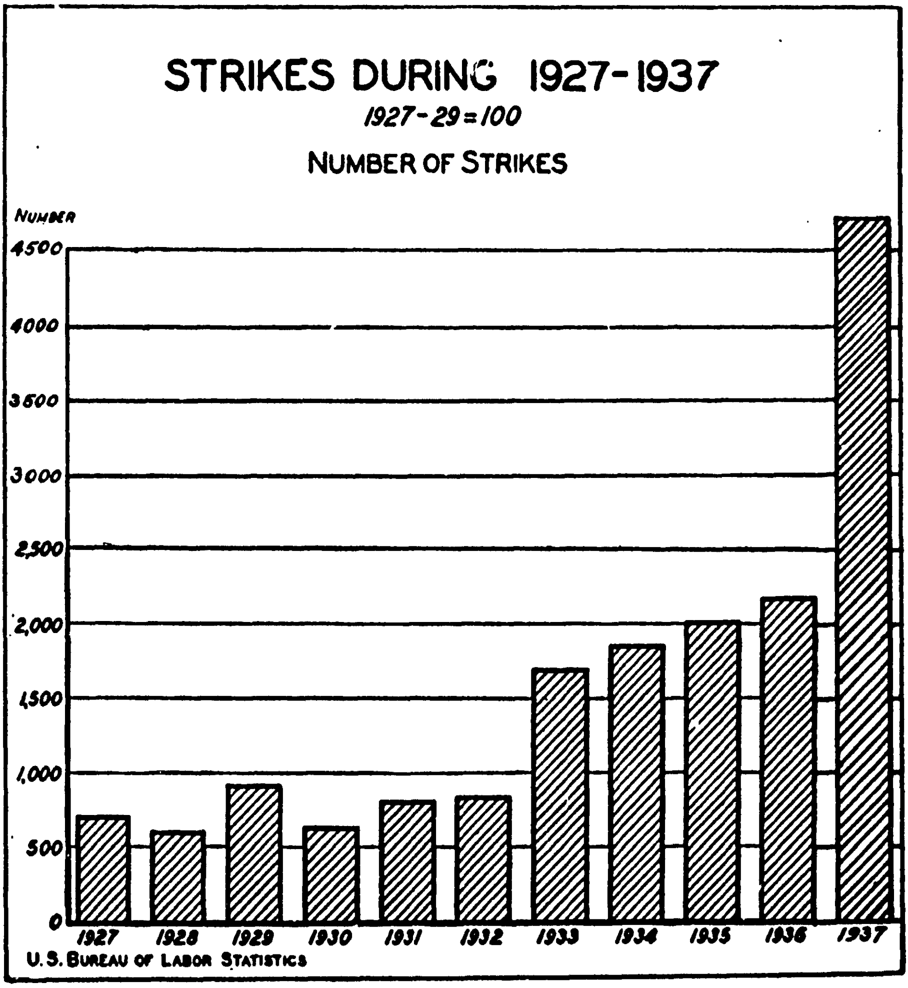
Might not all that strife and its terrific losses be averted by establishing the workers on a profit-sharing basis in advance? Would not the cost of the sharing be more than saved? Would not a sound and practical profit-sharing system increase the production and the profits? Both these questions are answered in the affirmative by scores of institutions which are operating profit-sharing systems and which *did not* suffer from labor trouble in 1937.

TABLE 2.—*Industries in which value of man-days lost by strikes exceeded $1,000,000 in 6 months*

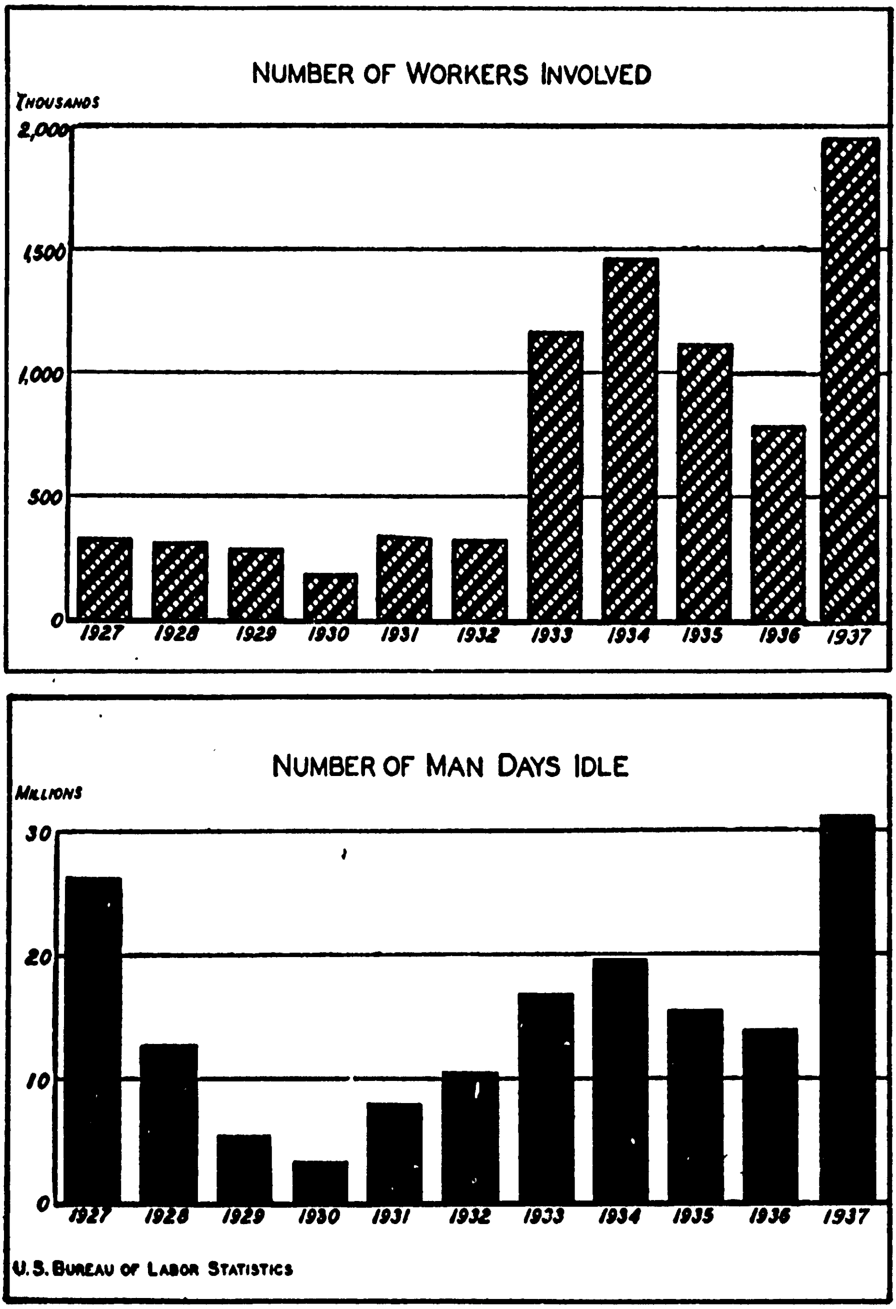
[Computed by Gustav Richard Stahl, Director, Industrial Relations Department J. T. Trenholm & Co.,]

Industry	Equivalent man-day wage	Man-days lost in 6 months	Cash value of man-days lost
Transportation equipment (aircraft, autos, etc.)	$5.67	3,952,000	$22,507,840
Iron and steel	5.69	2,657,000	15,118,330
Extraction of minerals	5.63	1,801,000	10,139,630
Textiles and their products	3.61	2,170,000	7,833,700
Machinery	5.33	967,000	5,154,110
Transportation and communication	4.00	1,254,000	5,016,000
Rubber	5.26	618,000	3,250,680
Lumber and its products	3.76	774,000	2,910,240
Domestic and personal service, hotels, etc	3.00	638,000	1,914,000
Trade	4.00	464,000	1,856,000
Leather and its manufactures	4.13	435,000	1,796,550
Nonferrous metals and products	4.90	357,000	1,749,300
Stone, clay, and glass	4.28	388,000	1,660,640
Paper and printing	5.50	262,000	1,441,000
Building and contracting	4.00	345,000	1,380,000
Food	4.60	299,000	1,375,400
Miscellaneous manufacturing	4.00	271,000	1,084,000

THE STRIKE RECORD—1927 TO 1937



STRIKES DURING 1927-1937

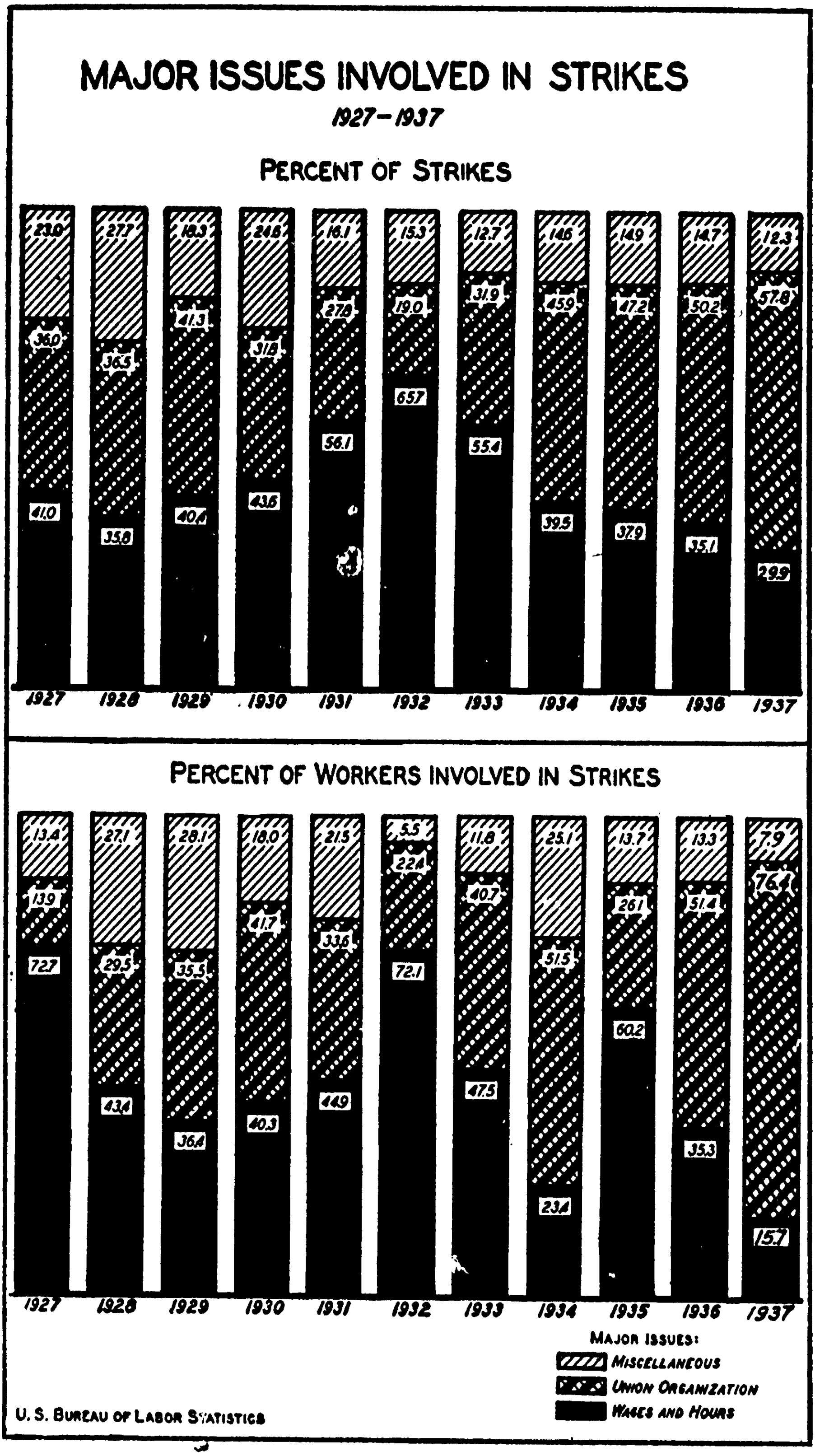


MAJOR ISSUES OF STRIKES—1927 TO 1937

Although the issues involved in the great multiplicity of strikes occurring over the 10-year period would, if detailed, require a score or more of classifications, yet they can be generally grouped into three divisions: (1) Wages and hours; (2) Union organization; (3) Miscellaneous.

Under these three divisions, the United States Bureau of Labor Statistics reports that for the 10-year period 1927 to 1937, 44 percent of the strikes were concerned chiefly with questions of wages and hours, 40 percent with union organization matters, and 16 percent with other issues, such as jurisdiction, work surroundings, objection to certain foremen or working rules, etc. Hours, as a single issue, was the major cause of comparatively few strikes throughout the period although hours combined with wages were factors in a number of the disputes.

About these same proportions pertain to the total number of workers involved in strikes: 44 percent were connected with strikes caused chiefly over questions of wages and hours, 38 percent over union-organization matters, and 18 percent over other questions. About 56 percent of the man-days idle because of strikes between 1927 and 1937 were due chiefly to wage and hour demands, 36 percent to questions of union organization, and 8 percent to other causes.


MAJOR ISSUES INVOLVED IN STRIKES
1927–1937
PERCENT OF STRIKES
23.0 27.7 18.3 24.6 16.1 15.3 12.7 14.6 14.9 14.7 12.3
36.0 36.5 41.3 31.8 27.8 19.0 31.9 45.9 47.2 50.2 57.8
41.0 35.8 40.4 43.6 56.1 65.7 55.4 39.5 37.9 35.1 29.9
1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937
PERCENT OF WORKERS INVOLVED IN STRIKES
13.4 27.1 28.1 18.0 21.5 5.5 11.8 25.1 13.7 13.3 7.9
13.9 29.5 35.5 41.7 33.6 22.4 40.7 51.5 26.1 51.4 76.4
72.7 43.4 36.4 40.3 44.9 72.1 47.5 23.4 60.2 35.3 15.7
1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937
MAJOR ISSUES:
MISCELLANEOUS
UNION ORGANIZATION
WAGES AND HOURS
U. S. BUREAU OF LABOR STATISTICS

A STATISTICAL BASE FOR THE MEASUREMENT OF ECONOMIC LOSSES WHICH ARE CAUSED BY LABOR DISPUTES

In the effort made by this survey to arrive at some approximation of the cost of labor upheavals and strikes to our national economy, we have received a most valuable contribution from Mr. Gustav Richard Stahl,[1] industrial relations economist of New York, who has, from long experience in economic research, presented the following opinion and data for the measurement of economic losses resulting from strikes:

Industrial strife no less than war or disease takes its toll of humanity's economic resources. Like war and disease, labor disputes have their apologists. The warrior says war eliminates the unfit and strengthens the strong. The apologist for industrial strife says business lost by one concern will be handled by its competitors and so there will be no loss within the Nation as a whole.

To accept this philosophy is to disregard the position of the individual or the business unit. The life of a human being is limited and every day lost through idleness whether caused by illness or by strikes, is a real economic loss. It has been said that a business is usually the lengthened shadow of one man, its founder or promoter. This is not the place to discuss the growth cycle, or life curve of a business, but it is patent that the owners of the business have a limited length of life and that idleness of the business is a real economic loss.

Although industrial disputes plagued the economic system in the United States during 1935 and the early half of 1936, they were no source of worry more than a common cold would be for a healthy woodsman. But in the last part of 1936 and the first half of 1937, labor disputes arose to such arresting proportions that they not only checked the Nation's economic processes but they caused such a confluence of ills that more than 18 months had to elapse before the ills were reduced to normal nuisance value. It was as if the throat of a human had been choked almost to the point of stopping the blood and air.

While the monetary value of the time lost by the wage earner who goes on strike is the first and most easily measured quantity, only those unfamiliar with our business system would fail to realize that this is the least of the items included in the Nation's strike bill.

Industrial processes today include the technical design of a product, the planning and execution of an advertising campaign, the marshalling of a selling force, the use of land, plant, and equipment for manufacturing-labor, the arrangements for raw materials, semimanufactured goods, power, and containers, and finally a distributing system through wholesalers to retailers, or sometimes directly to the ultimate consumer. In many cases bank loans are needed by the manufacturer or retailer and in other large fields consumer financing through installment concerns.

Thus a stoppage of work through a strike has ramifications that spread fan-wise through the economic fabric.

It is necessary to emphasize that a stoppage of work through strike action is utterly different from a stoppage of work through other causes, such as fulfillment of specific orders. In the latter case the economic machine comes to a slow-down at a foreseen time as an engine stops, but in the former case the cessation of activity comes with the destructive effect of a derailment. The strikers' own term "a monkey wrench in the gears" aptly describes the wrecking effect.

A strike seldom is a mere stoppage of work with the employer free to hire substitute workers. In today's technique it is plainly designed to extort terms from the employer that could not be obtained by other legal means. The word "other" is used because strangely enough present-day law takes great pains to protect "the right to strike."

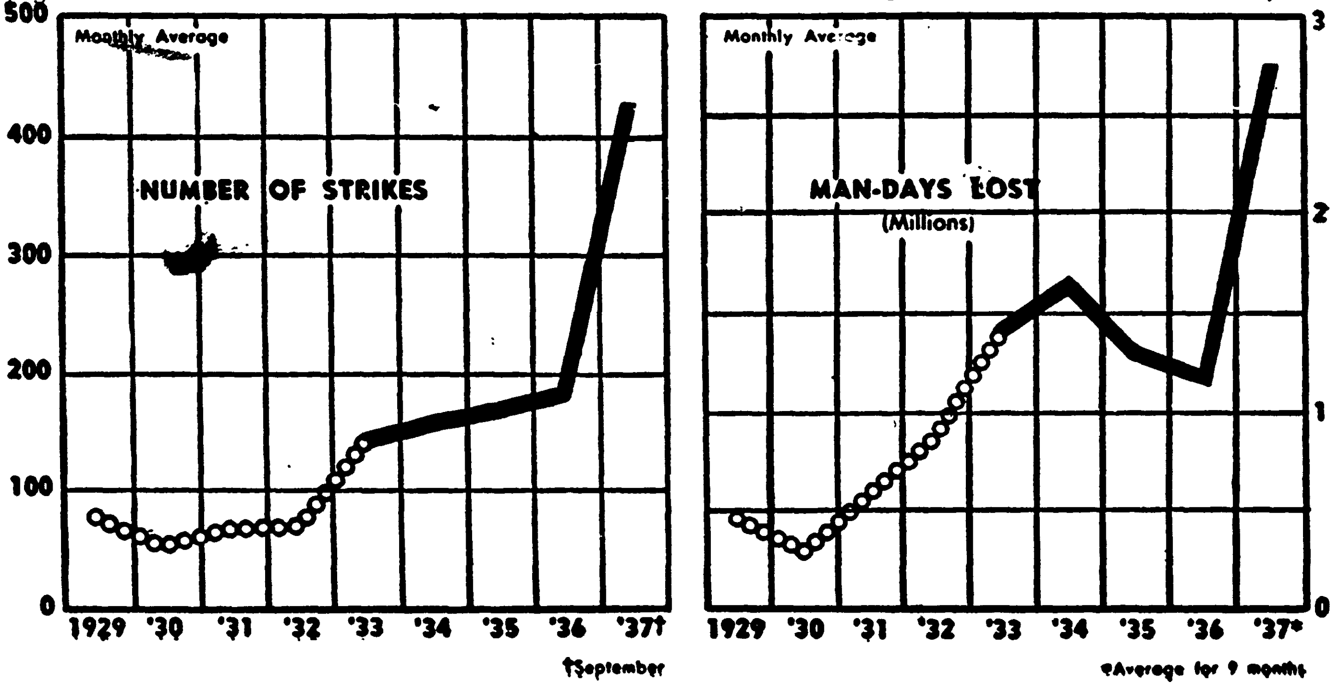
What happens to national productivity when the average worker in an organized strike stops work?

Census figures show that in 1929, an unusually prosperous year and one marked by relatively few strikes, the Nation's manufacturing industries employed 8,839,000 wage earners whose labor together with that of salaried workers, management, investors, and the use of plant and the processing of raw or semimanufactured materials turned out finished products valued at $70,435,000,000. On a per

[1] Associate editor, Supervision Magazine; executive secretary, National Bureau of Economic Research, 1926-31.

Industry's Strike Burden

In the period beginning January, 1933, and ending with September, 1937, the manufacturing industries were handicapped by 11,256 strikes, involving 6,285,539 wage earners, and resulting in a loss of 90,593,455 man-days



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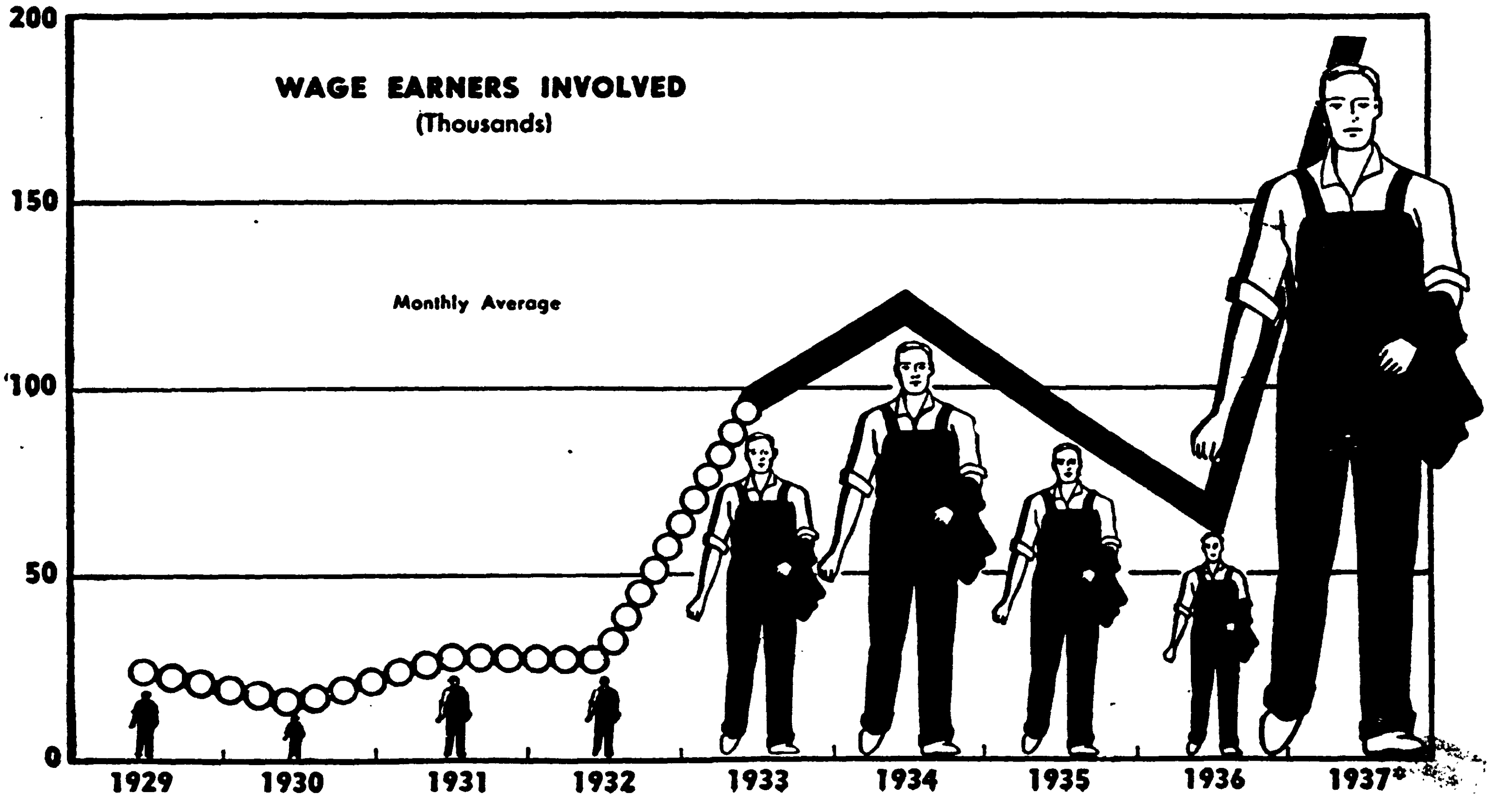

Source: U. S. Bureau of Labor Statistics

*Average for 9 months

wage-earner basis, that would be an annual business of just under $8,000. The value added by manufacture was $31,885,000,000. On a per-wage-earner basis value added by manufacture would be roughly $3,600. Of course, this does not mean that the wage earner's efforts alone produced this value. It does indicate what a veto power labor (or any other element in the manufacturing process) has on industry. Furthermore, it takes no account of interest, overhead, obsolescence, which eat up capital while a plant is idle.

In 1935 American industry employed 7,378,000 wage earners who were paid a total of $7,544,000,000 and who, working with materials costing $26,263,000,000, helped to turn out products valued at $45,759,000,000. Per capita production would be a little over $6,000 and value added by manufacture $2,600. These declines, of course, are due to changes in the price level and in the reduction in working hours.

Production per wage earner per man-day thus may be valued at $20 as a minimum average.

Value added per wage earner per man-day may be estimated at $8.66.

For every day of strike idleness $8.66 of value is not added to the raw materials awaiting processing. Indeed if the strike be prolonged the raw materials may lose their value. In addition, the manufacturer risks cancelation of orders, demurrage, cost of strikebreakers, and the daily share of overhead.

For every day of strike idleness per man $20 is not added to the national stock and the beneficent effect of $50 circulating through the national business system is lacking.

In all estimates consideration must be given to the costs resulting from rioting and civil commotion, deaths, injuries and damage to property, extra costs involved in peace officers' service, and National Guard mobilization.

For the Nation as a whole, the total value of manufactured products divided by the number of wage earners employed, would give roughly an output of $6,000 per annum per worker or on a basis of 300 working days, a daily output of $20 worth of goods, f. o. b. at the factory and at the manufacturer's selling price. This $20 per day, of course, includes all items of cost such as raw materials or semi-manufactured goods used in the plant, the worker's own wages, overhead and profit.

For every man-day of strike, $20 worth of manufacturing activity is cut off.

This is the primary computation; careful analysis of costs, discounts, selling expenses, promotions, and related activities shows that a dollar of manufactured product at the manufacturer's door has a diffused value of $2.50 by the time the economic cycle has been completed.

We are now in a position to measure the damage caused by the strikes of 1937 and the progress of the shock through the economic system which first became apparent in July 1937, and finally left no doubt by December 1937.

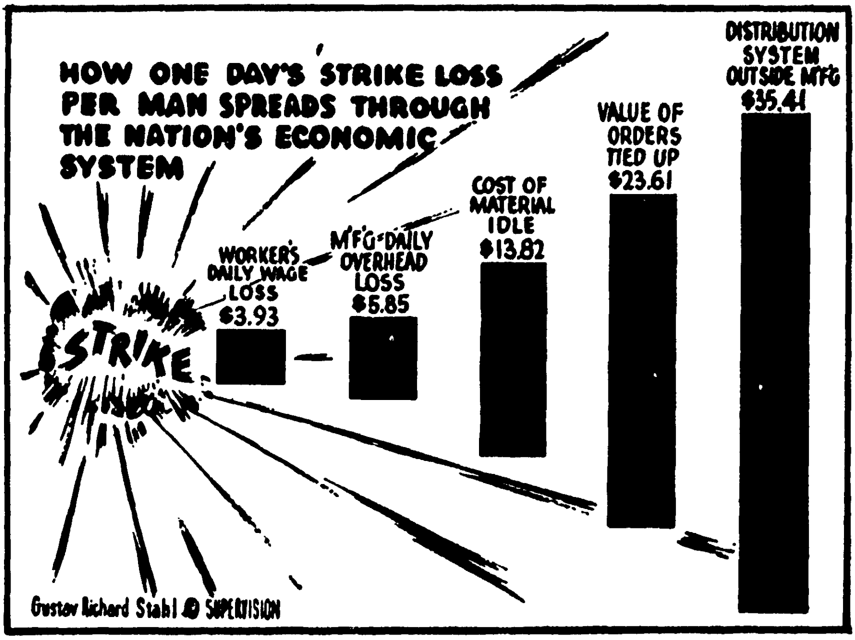

TABLE 3.—*Economic losses due to industrial strife, 1933-37* [1]

[All amounts in millions of dollars]

	Strikers' wage loss [2]	Employers' overhead loss [3]	Employers' added expense [4]	Materials in process tied up	Value of orders tied up	Losses of local business in strike areas	Losses of directly related and affiliated business [5]	Sum total of tied-up transactions [6]
1933	48.0	87.0	7.0	160.0	295.0	54.0	435.0	1,116.0
1934	55.6	101.2	8.0	188.2	345.0	62.0	515.0	1,275.0
1935	52.2	82.1	8.0	187.7	322.0	53.0	480.0	1,185.0
1936	50.0	74.4	8.0	165.6	290.0	49.8	430.0	1,067.8
1937	140.0	210.0	20.0	320.0	670.0	140.0	970.0	2,470.0

[1] Estimated and submitted by Gustav Richard Stahl, associate editor, Supervision Magazine.
[2] Monetary value of man-days lost at national average wage, adjusted by years and by industries.
[3] Employers' overhead includes salaries of management and supervisory staffs, rent, interest, depreciation, and obsolescence and everything usually counted as overhead.
[4] Includes expenses of guards, lawyers, extra fences, repair of damage to property.
[5] Directly related and affiliated business are those which merchandise, transport, finance, or distribute products or services, either raw, semimanufactured, or finished at any stage of the general production-distribution-consumption cycle.
[6] Represents shrinkage in total national business turn-over and represents the tie-up of purchasing power.

The above chart, prepared by Mr. Stahl, presents in graphic form a measuring formula for estimating the concurring and relevant losses suffered as the effects of a strike radiate through our economic processes. It indicates that the loss of the striker's wages is only a small part of the losses that are eventually incurred by the national economy. The chart indicates that the average wage loss per man-day of strike is $3.93. The manufacturer's overhead loss amounts to $5.85 and the amount of materials tied up by the strike have a value of $13.82, leaving a total primary loss of $23.61, representing value of orders tied up each man-day of strike.

However, this $23.61 withdrawn from the circulating channels of the distribution system create additional expenses to that system. These costs have been estimated at 1½ times the value of the dollar at the manufacturer's door. This estimate presents the figure at $35.41 which added to the value of the orders tied up, indicates that the total loss to the national economy of the circulating power of a dollar equals $59.02 for each man-day of strikes, or about 15 times the wages actually lost by the striker. On the basis of this formula the strikers' wage loss of $140,000,000 in 1937, multiplies itself into a total loss to the national economy system amounting to more than $2,000,000,000.

In table 3 Mr. Stahl, on the basis of his foregoing formula, has estimated the costs of strikes for the years 1933 to 1937, inclusive.

RECAPITULATION

Basing computations on the hypothesis developed by Mr. Stahl it is possible to reach some approximate conception of the economic loss to the Nation from the strikes of 1937 which would present itself in figures, as follows:

Strikers' wage losses	$140,000,000
Employer's overhead losses	210,000,000
Value of orders tied up	670,000,000
Grand total loss to the national economy	2,470,000,000

Consolidating the losses shown by Mr. Stahl in table 3 for the 5-year period, 1933 to 1937, inclusive, we arrive at the following approximations as telling the story of the stupendous losses sustained by the Nation from the labor troubles and turmoil of this 5-year period:

Strikers' wage losses	$345, 800, 000
Employers' overhead losses	554, 700, 000
Value of orders tied up	1, 922, 000, 000
Local business losses in strike areas	358, 800, 000
Grand total loss to the national economy	7, 113, 800, 000

It is doubtful whether these imposing figures tell the entire story of the total waste, charges, and losses sustained by our national economy from the warfare periodically waged between employers and employees, or between labor and capital as more commonly expressed. No one knows where the repercussions and reactions terminate.

The statement has been made that "the total cost of labor warfare would be a sum sufficient to pay the entire public debt in less than a decade." The accuracy of that statement would probably depend upon whether the date of its expression was during an era of normal public debt. Be that as it may, the fact is, we shudder to consider the cost to the Nation of a war with a foreign nation, yet view quite complacently a perpetual domestic war which drains the vitality and resources of the Nation more disastrously, because domestic warfare not only takes its colossal financial toll, but also tears asunder a nation which should remain united.

What is the cost of profit sharing as compared with this cost?

CHAPTER V

ADVANTAGES AND DISADVANTAGES OF PRESENT EMPLOYEE POLICIES

In approaching a survey of existing employee-relations policies and plans operating in industry, one is first confronted with the varying attitudes and objectives of the two parties involved in these policies—first, the employer who designs and inaugurates the policy, and secondly, the employee who is the beneficiary thereof.

Frankly it must be stated that the attitudes and ideas found among employers were more mixed, varied, less flexible, and more difficult of general analysis than those of the employees. It would appear to be quite presumptuous to attempt to persuade any, let alone all, employers to adopt any employee program which differs from their present policy, for no less an authority than the National Industrial Conference Board says:

> Every executive has some kind of personal philosophy that is influenced by his heredity, race, environment, or education. The executives who will admit that they are not masters in the art of handling men are almost rare enough for museum specimens.

Yet, the widespread collapse of employee-relations policies all along the line in time of stress, with the resultant loss of public and employee good will, would seem sufficient to compel recognition of the shortcomings and failures in the field of employee relations. Throughout America business executives, concerned with the success and permanence of their institutions, are giving serious consideration to the question "What can be done to establish peace and cooperation in the ranks of the workers?" The absence of an approved labor policy on the part of industry furnishes much of the basis for opponents of industry to claim that capitalism has failed in its own house.

As hundreds of employee-relations plans pass in review—plans of varied form and structure, plans installed for various purposes and all operating with equally varied effectiveness—it is not to be wondered that the average employer seeking a program for his establishment becomes bewildered and joins in the general question, "What can be done?" The answer to this question is of paramount importance.

The president of a nationally known industrial institution presents the problem in these words:

> My company has been successfully engaged in manufacturing for 50 years. We can repeat that 50 years of success if we can maintain satisfactory relations with our employees. Of course, there are other disturbing problems, such as taxes, unfair legislation, governmental interference, and trade barriers, but, those problems hit all industry and place all of us on a par in meeting them, while labor trouble may be localized in our plant, our industry, and our community. Therefore it is a problem we must meet in our household; it is our personal, individualized problem. If we solve it, we stay in the race—if we fail, our competitors who do solve it will leave us behind. Therefore, of all the many troublesome problems of industry, the solution of the labor problem is the most serious and vital.

EDUCATION—A PRIMARY NEED

Confidence and mutual understanding is essential to the establishment and maintenance of industrial peace. The creating of understanding is like the "handshake" preliminary to friendly relationship. From that point negotiations and cooperation can start.

The knowledge of the economics of business, the problems of industry, the causes for prices, sales, wages, and production must be developed in the minds of American workers for they are not only the jury which will decide the prevailing and impending issues in the industrial field, but they, and the sentiment which they reflect to the public at large, constitute the court of public opinion.

Business makes every effort to supply the customer what he wants, not what business thinks the customer should want or what business thinks would be good for him. Likewise, business, as an employer, should try to anticipate and satisfy the reasonable demands of the employee.

How many employers have actually tried to find out just what their employees need and desire? How many could find out by direct efforts. Does any employer think an employee is going to hazard dismissal by telling him face to face what he really wants? If asked, he will say that he is satisfied.

DO PENSIONS SUPPLY THE ANSWER?

Pension plans in industry rarely existed prior to 1900. However, social security as an idea was not born in 1933. Between 1900 and 1933 some 800 industrial institutions adopted and installed pension plans affecting about 4,000,000 employees.

The subject of pensions becomes complex immediately upon entering the labyrinth of types of plans, their structure, and the several methods of financing.

There is considerable lack of accord among executives in industry as to the definition of a pension. Some say it is a "deferred wage," others that it is a "charity," or "gratuity" and others look upon it as a "reward."

From out of this conflicting opinion emerges debate wherein some contend nobody ever "earns" a pension, next that if it is a charity it becomes an improper corporate expenditure, and the idea of its being a "reward" is rejected on the ground of the unsoundness of paying money merely for length of service and longevity.

A pension might be defined as deferred and amortized profit sharing.

The pension is an evolved effort to overcome a hardship of life—poverty in old age. In the past we provided poorhouses for the indigent aged. It is not in conformity with twentieth century civilization that a substantial portion of our population should end a life of labor with an empty reward and nothing for the remaining years.

The *fear of such an outcome* is probably the most important cause of worker inefficiency in the shop and the greatest provocation for unrest and dissatisfaction in the life of the average workingman.

The question is: "Are pensions adequate and sufficient to satisfy the worker and prevent labor unrest and strife?"

In pursuit of the answer let us advert to the well-authenticated statistics presented by Mr. Murray W. Latimer in his "Old Age

Pensions in America," wherein an examination of 466 representative pension plans affecting approximately 4,000,000 workers, reveal that 80,000 retired employees are actually receiving aggregate pensions of $50,000,000 or an average annual pension of $625, amounting to $52 per month.

Interesting is the survey conducted by J. E. Walters, of Purdue University, in collaboration with the National Industrial Conference Board to ascertain the "cost per employee of selected personnel activities" in 1933. Fifty-one companies, with varied size employee groups ranging from 500 to 20,000 reported an average cost of $10.33 per employee per year of their pension-plan activity.

In this connection the sentiment of employees is important. Typical is this expression from an employee of a large Pittsburgh electrical manufacturing company:

> Yes; we have a pension plan, had it long before the Government thought of it. Ours is far better than the Federal plan, but what is either or both of them? Most of us think of a pension as an old-age dole, a charity not far removed from the county home or the poorhouse. All it amounts to is your "keep" from the time you can't work any longer until you can't live any longer. Both plans give us board and room after we have spent our lives and bodies in labor. Would that satisfy the boss?

From an inspector in an Akron, Ohio, rubber company comes this complaint:

> Is a pension of $50 a month, just enough to barely live on, a just reward for a long life of faithful service of labor? Is that enough incentive for a worker to do his best and give his all to a company that pays fortune salaries to a battalion of officials and big dividends and bonuses to a regiment of stockholders? Would they trade places?

An employee of a large eastern company whose friendly feeling for his employers is obvious and who is apparently satisfied at present, suggests a situation fraught with serious consequences both to his company and several hundred others now maintaining sound annuity policies in behalf of their employees. He says:

> Our company has one of the finest and most liberal annuity plans for its employees that is to be found in the United States. But there is doubt expressed as to whether the company can support it if the Federal social-security plan remains in force. Our plan would have paid us two to four times as large a pension as the Government will. What's going to happen if our plan is scrapped? First, we lose thousands of dollars of future income. Secondly, our company plan has created loyalty and faithful service among our workers. We looked to the company as the protector of our future security and comfort. If we lose that, will it turn our eyes and dependence and allegiance to Washington?—or is that the intention?

There are certain pension plans in operation in the United States that are above and beyond any criticism, plans conceived in honesty and sincerity, administered with care and accuracy, and maintained with the honor of a sacred trust. But on the other hand, like the rotten apple that spoils the rest of the barrel, there are other pension plans established by employers none too scrupulous in their management that have served to cast suspicion over the good plans in the minds of too many employees.

Regarding pension plans in general, the expressions and attitudes of employees, the conflict of opinion among business executives, together with the instances of the failure of pensions to "hold the line" against strikes and disturbances, lead to the observation that the pension plan in itself is insufficient as a formula to eliminate labor trouble in this day.

ARE BONUSES EFFECTIVE?

The distribution of a cash bonus, whether annually or at more frequent periods, calls into consideration a deep study of human impulses and human psychology.

It has been said, "You can do a lot of harm or a lot of good with any sum. The amount has nothing to do with it. One may be futile in the use of a billion dollars and helpful with a nickel."

The experiences of many large industrial institutions in the year 1936 seem to completely confirm the foregoing theory. The year 1936 saw industrial employees enjoy the biggest distribution of cash bonuses ever known in the history of America. What followed in the ensuing months, immediately after these cash distributions, seems to provide the answer as to the value of cash bonuses as employment stabilizers. That experience would seem to indicate that the dollar for which a man is grateful is not the dollar he spends but the dollar he still has in his pocket.

Practically all of the industrial institutions which have had the benefit of study and experience in giving employees extra compensation have been confronted with the problem that the great multitude of employees spend their money instead of saving it and in order to create a lasting appreciation for the company, or a real and permanent benefit for the employee, the plan of distribution has had to be changed into some form of accumulation under which the employee would enjoy a more enduring benefit.

The testimony presented to the committee by Mr. Gerard Swope, president, General Electric Co., is pertinent to this subject:

> If your sharing amounts to a large amount and the man does not save it you have really done more harm than good. You've got to associate it, it seems to me, with an educational program impressing the fact that it must not be regarded as a part of their annual income; that it is something extra and should be put aside for the rainy days that do come.

Many other employers have given the committee similar testimony. In this extravagant, spend-tempting age, a cash bonus quickly finds its way to fur coats, new automobiles, and other avenues of spending. As further evidence, 2,000 questionnaires were sent to employees of a great institution which had made a large cash-bonus distribution. The principal question asked was as to how much of the bonus had been saved. Seven hundred employees replied and reported the following:

> Eighty-three percent had saved nothing; 14 percent had saved a portion; and only 3 percent had saved all of the gift.

Such benefactions are fleeting—received today, spent tomorrow—and soon forgotten. There is considerable evidence that a cash bonus which cannot be sustained regularly creates resentment and develops unrest when the distribution cannot be made or even when it is reduced. An additional criticism found quite prevalent throughout industry is that a cash bonus, even though paid regularly, soon becomes recognized as an additional wage payment, and hence, only adds to the contention over wages. Any extra compensation which cannot be kept distinct and separate from wages in the mind of the worker is not only likely to be ineffective in creating a closer relationship and a spirit of partnership but is dangerous because of the likelihood of leading to demands for bigger and better bonuses.

EMPLOYEE STOCK OWNERSHIP

Immediately following the World War, "employee stock ownership" became recognized quite widely as a means of creating a partner relationship on the part of employees in industry. In addition to the objective of developing interest of the employee in his company there existed also a desire to encourage saving and stimulate thrift by employees.

Under this program corporations offered their securities, usually common or preferred stocks, to employees at a price lower than their market value. This lower price was also usually accompanied by unusually convenient terms of payment. In many cases additional features were attached to the ownership of this stock. Extra dividends were promised if the stock was held a certain period of years; in other cases, the security had a premium cash value after so many years, etc.

The experiences of this particular form of employee relations, i. e., the ownership of company stock by employees, has had many unfortunate results and for the most part is looked upon today as a rather unsatisfactory practice. During the years from 1920 to 1930, when the practice was quite general, there was widespread opposition to the idea in principle. Organized labor opposed it from its earliest inception. Some economists, bankers, and corporation executives foresaw the hazards in the general scheme and maintained their opposition throughout the era of activity.

The following excerpt from the report to this survey of the General Electric Co. expresses in a few words the experience of many who adopted the plan of employee stock ownership:

> In 1920 common stock at less than market price was offered to employees. The stock offer was not repeated in subsequent years, because of the unfavorable effects of market price fluctuations; when the price went up, many employees sold, defeating the purpose of accumulation; when the price went down, many employees were dissatisfied with their ownership.

In too many instances the common stock of corporations was sold to employees. This placed the employee in the speculative field and made him the victim of whatever fluctuations in market value might occur. Examination of a group of the stocks of 60 companies sold to employees during the early 1920's shows a drop of between 80 and 90 percent in the value of the stocks held by the employees of these companies. The preferred stocks sold by these companies reached an average high of 115 and during the early years of the depression declined to an average low of 50. The record of the common stocks reveals that they reached an average high of 140 and declined to an average low of 20. It can readily be imagined what effect these changes have had on the morale and attitudes of employee groups toward these companies.

The reactions in many cases caused the destruction of the loyalty which had been hoped for and built up through the initial participation of the employees in the ownership of stock of the company. Generally there was a dual misfortune. Severe drops in market value were generally accompanied by employees suffering unemployment, part-time work, or wage and salary cuts. Thus, when liquidation of their investment was imperative or most needed, the value of their holdings having radically declined, the resultant losses were hard to accept.

The principle of profit sharing was an innocent victim of the unfortunate results of this general practice. In many cases companies, in sincerity and good faith, announced the sale of their stocks to employees as a method by which they hoped to share the profits and prosperity of the company with the employee. Thus the operation, without proper definition, was described as profit sharing and when the results were disastrous, profit sharing was condemned.

Two rather extreme cases which affected quite large groups of employees, numbering some 20,000 in each group, may be referred to. In one of these companies the stock was sold at a price of $30. During the boom in stock-market prices in the late twenties this stock went to $450 a share, accompanied by encouragement to hold it with the general prediction of it reaching a much higher price. Then came the low of $4.25. The other company sold its stock at $60. It rose to more than $200 per share and then crashed to $10. These are but a few of the examples of what occurred in these stock-ownership plans where common stock was sold to employees. Those companies which sold preferred stock to employees did not have so unfortunate an experience, although in many cases heavy losses were recorded.

In other sections of this report we have emphasized the importance of the psychological factors involved in any relationship, especially financial, existing between a company and its employees. This psychological factor is especially important in considering the reactions of the employee to the purchase and ownership of his company's stock. First, there may be the recognition by him that the company is honestly striving to help him and to assist him in developing an estate. If that recognition exists then there is appreciation of the relationship. Secondly, however, the employee may consider that he is doing the company a favor by purchasing its stock and thereby doing his bit toward providing working capital for the company. This attitude may exist regardless of the price or the terms offered by the company. Third, if he loses, his resentment may conjure every form of victimization.

The experience and the results of the policy of stock ownership by employees, therefore, would seem to offer the urgent suggestion that in any case where this policy is adopted the company should establish reserves guaranteeing the purchase value of the stock sold. In the light of past experience such practice might prove extremely costly to the company. The second lesson that seems to come out of these experiences is that common stock should not be sold to employees, thus subjecting them to the hazards and the speculative fluctuations of the market.

EMPLOYEE WELFARE PROGRAMS

"Welfare work" is a voluntary activity of employers carried on for the betterment of conditions among the employees.

Welfare programs or employee-benefit plans are usually prompted first by the humanitarianism of the employer plus his knowledge of the inexperience of employees in conserving and investing funds, and his recognition of the stake of wives and children in the pay envelope, the community interest which is often best served by the medical care, which could hardly be maintained by the individual employee. It would be simpler, by far, for a corporation to disburse the cost of these aids in cash, but in that case the prospect of real betterment and permanent service to employees would be lessened.

Welfare programs carry with them certain dangers of misinterpretation and misunderstanding on the part of employees. It is often charged that they are patronizing and paternalistic. This charge can only be overcome by a program of education as to its purpose. Elaborate outlays of money for hospitals, gymnasiums, community houses, etc., are often accepted merely as advertising for the employer. If this impression prevails, the employer is likely to find his work and expenditures fruitless. This has been evidenced in some noteworthy cases. It can, therefore, be generally stated as correct that welfare work brings an advantage to the employer only when it is an enlightened effort and acceptable to the employee.

Welfare programs for the care, comfort, recreation and the improvement of working conditions are plentiful and varied.

The programs of some companies are most comprehensive, including hospitalization, medical, dental, and nursing services, and supervised social and athletic activities, thrift societies, home building, legal, and every other aid and every kind of cooperation that a humanitarian management can devise to make the life of the employee happy and contented.

Such programs are praiseworthy and call forth the highest commendation. The spirit and motives of the employer sponsoring such policies cannot be questioned. These activities are desirable and necessary and under any general employee-relations program should be carried on.

Any phase of personnel work which helps to create a more friendly feeling between management and employee, cannot help but be of value to the organization. *Better acquaintance always produces better understanding.*

Unfortunately, however, in some institutions conducting the most ambitious of such policies we have witnessed many bitter and severe labor disturbances.

The answer, it seems, is to be found in the inability of the worker to translate these services and favors into dollars in time of stress and unrest. Regrettable as it may be, these benevolences are soon forgotten when the baser passions and sordid selfishness are appealed to by outside influences.

Welfare programs alone cannot "hold the line" in crises. They lack that tangible factor—that holding force—necessary to restrain outbreak when selfishness supplants gratitude—and greed is aroused by the appeals of professional agitators.

WEAK POINTS IN FINANCIAL PROGRAMS

The prevailing weakness in programs for the financial benefit of employees is the almost universal absence of any provision for conserving accumulation of funds granted or paid to workers as rewards, bonuses, or a share of earnings.

Thriftlessness is a human frailty. Only a small minority in all income classes above the definitely submerged class (which constitutes about one-third of the population) manage to accumulate reserves for home building or permanent security.

The workingman, generally speaking, cannot save in this extravagant, spend-tempting age, and if he does save, he finds it difficult to invest profitably and with safety.

Lump bonuses of cash, released savings accounts, and periodical distribution under profit sharing are of little or no avail in satisfying the yearning of the worker for permanent security.

This problem is a social problem with which the whole of society is concerned. Any practical formula for the solution of labor troubles should include mutual accumulation of savings which in turn will provide permanent and substantial social security.

A properly constructed and properly administered profit-sharing plan can accomplish the effects sought by other plans *plus* the additional benefits inherent in profit-sharing.

Some of the doubts and attitudes of employees toward present incentive plans are not only interesting but worthy of consideration for their guidance:

One employee expresses his suspicion and doubt relative to the benefits he will derive from a pension plan, in the following words:

> The one thing certain about the whole scheme is that IF I can earn the allowance, and IF it is guaranteed to me, and IF I get it, then what I will have gotten will belong to me after I get it.

A mechanic in a Detroit auto-parts plant expresses a thought which is typical of thousands:

> I believe in the system of private enterprise, but with amendments. If it's a good thing as an incentive to give executives an option on big blocks of stock with the chance of big profits if they make good, would it be so terrible to give the same incentive to the working group? Give employees the hope of a small fortune years hence, and you would see a grand picture of energy and harmony.

An Ohio Oil employee discusses "percentage" earnings:

> Executives have excused their big incomes by having them given as percentage of profits. Salesmen sell our goods on percentage, but the men (90 percent of the whole organization) work for board and room—but no percentage or share of earnings. Why?

Employee policies for the encouragement of savings accumulations and for the protection of savings investments, constitute one of the great needs for all classes of employees. To provide encouragement of such plans and proper administration is a responsibility of management.

The adoption of any employee-relations plan of ten is dependent on the cost of the plan. Against the cost of securing employee cooperation, energy and loyalty by means of a benefit plan, the employer must weigh (*a*) the cost of strikes, (*b*) the cost of constant labor turnover, (*c*) the cost of careless, indifferent labor, and (*d*) the cost of waste in the handling of material, supplies, and equipment.

The cost and sources of losses do not always appear on ledgers.

The recommendations and formula, presented in the following pages, for establishing a broader and sounder foundation for democracy, as well as for the stabilizing of industrial relations, will receive serious consideration by those executives who have the foresight to see that economic and industrial conditions have changed and that democracy and private capitalism must be able to meet those changes with a program of sane economic reconstruction. It will require more wisdom and courage than the mere repetition of platitudes no longer acceptable to the masses.

The following pages are written in the belief that an enlightened business management has read the signs of the times and is prepared to act with fearlessness and wisdom.

CHAPTER VI

WHAT IS PROFIT SHARING?

The survey in considering the term "profit sharing" for the purpose of the present study, was faced with a problem arising out of the fact that prior to this time the term "profit sharing" had been given varied and often extremely limited definition. In fact, no two writers or students of the subject seem to agree as to a definition of profit sharing.

Practically all of the literature on the subject is limited by the definition designed by the International Cooperative Congress at a meeting in Paris, France, in 1889. Its definition is as follows:

> An agreement freely entered into, by which the employees receive a share, fixed in advance, of the profits.

In the discussions of this Cooperative Congress, profits were further defined as being the actual net balance or gain realized by the final operations of the undertaking in relation to which the scheme existed, and the sums paid to the employees out of the profits were directly dependent upon the profits.

For purposes of technical classification of plans this definition may be practical. However, for purposes of this survey, such limitations are not desirable since our objective is not the analysis of certain plans which might fall within a definition announced 50 years ago, but rather an analysis of the existing employer-employee relationship.

The committee was, therefore, faced with the problem of what should be regarded as profit sharing by this survey.

Practically, a formula should be sought which will not only be satisfactory to the workers but which will create a real consciousness of their relationship to the industrial operation, thereby helping to make capitalism intelligently democratic.

Are we particularly concerned whether or not the appropriations of any concern for employee benefits, in excess of contractual wages, are classified in one or another category or whether they meet the specifications of an accounting technique, which is not standardized for all types of businesses, *or* are we specifically interested in the (*a*) fortification of our democratic form of government; (*b*) preservation of our system of private capitalistism; (*c*) amelioration of labor disputes; and (*d*) cementing of employer-employee relations for the common welfare?

We believe that the determination of whether profit sharing promotes those latter enumerated objectives are paramount, rather than to define within either broad or narrow limits the term "profit sharing."

Is not every unrequested increase in wages a theoretical sharing of past, present or prospective profits; is not every dollar expended for the diverse classes of welfare benefits of the personnel of any business organization a charge against prior, current or expected gains, as much of a distribution of profits as are payments to employees in accordance with results determined by a specific accounting formula?

From a purely accounting point of view, profits represent the income remaining after all expenses are paid. For income-tax purposes generally the costs of profit-sharing plans, while determined by profits, are included as operating expenses, just as are the payments to retirement and other benefit funds. Accounting records can be used as a basis for a technical distinction between a profit-sharing plan and a fixed retirement plan, but such records cannot be used as a basis for segregating actual profit sharing from operating expenses because the existing accounting practices are inadequate.

Profits represent the excess of income over the market cost of land, labor, and capital. Theoretically, therefore, all payments to labor in excess of those required by the market would constitute a sharing in profits. From an accounting point of view, these excess payments are not distinguished from the market wages; in certain instances these excess payments may be included as expenditures and again they may appear as profits. The profit system and the individual capitalistic system are economic concepts. Analyses affecting them, therefore, must be fundamentally economic; they cannot satisfactorily be based on accounting procedures which do not recognize the economic differences.

Fundamentally, therefore, the profits which must be considered as being available for sharing with employees are not limited to those which appear as a result of accounting procedures. All payments to employees, regardless of the form in which they are allocated or distributed, which are in addition to the market or basic wage rate, must, therefore, be included in the concept of profit sharing and must also be included in the considerations of this survey.

A definition of profit sharing satisfactory to all students of the subject, and at the same time in harmony with the opinions of employers and employees alike, is as difficult as satisfactorily defining, for all purposes, values, labor, philanthropy, and even democracy. Academically and politically each have a different significance. It might be well for those who insist upon a limited, narrow, and arbitrary definition of profit sharing to supply a similar restricted definition of the terms mentioned, which if successful, might substantiate their limitations on profit sharing.

Theoretically many students when defining the term "profit sharing" make a segregation of the expenditures thereunder into two or more divisions. For the purpose of this study we shall confine ourselves to the two main divisions—e. g. "Percentage profit sharing" and "Welfare and benefit payments." Some authorities contend that the latter type of expenditures are manifestly not a form of profit sharing because as such they are carried on regardless of whether the results of operations show profits or losses. Obviously, on the other hand, so-called welfare expenditures can be continued only so long as the business shows a profit. Even in those instances where the benefit outlays are included in the costs of operations and passed on to the public, competition of non-profit-sharing organizations may disrupt the well-intentioned plans unless, of course, the benefiting personnel sufficiently contributes increased efficiency and lower costs of production as to justify the continuation of the plan.

EMPLOYER-EMPLOYEE CONCEPTIONS

In any practical, realistic study of specific plans and programs, the student or analyst who attempts rigid and arbitrary definitions of profit sharing will be confronted by—

(a) The employer who conceived profit sharing to be best exemplified by the paying of the highest possible wages—wages substantially above prevailing rates. Said Mr. Edsel Ford, testifying at the public hearings of the committee:

> We started out by announcing a profit-sharing plan in January 1914 by introducing the $5 minimum wage, which was an increase of 28.5 cents an hour over the going rate of 34 cents per hour at that time. This profit-sharing plan continued in force until 1920 when a minimum hourly rate of 75 cents per hour, or $6 a day, was established.

Who can say this was not profit sharing? Who can convince the employees of the Ford Co. that they did not share profits in a most definite and practical manner? Who can logically declare that Mr. Ford did not share profits, or that he violated the rules of profit sharing? And if he did, whose rules?

(b) The employer who predicates the profit-sharing payment on a percentage dividend of the wages and, in connection with this, enforces certain accumulations which will insure thrift being practiced, together with other requirements which are to protect the worker against his own weaknesses. This plan and these ideas embrace the profit-sharing philosophy of that employer. On what ground shall we contradict him? At the public hearings of the committee, Mr. Richard R. Deupree, president of the Procter & Gamble Co., testified as follows:

> The philosophy back of our start in profit sharing was that a workman should be a good citizen and that anything which could contribute toward that would be helpful to our whole economy. Colonel Procter set about to find a way to help a man create an estate, a protection against old age and a decent place in which to work. Our contribution is not distinctly related to profits, it is made regardless of the profits of the corporation. We ask the employee to make a contribution and we add a profit-sharing credit running from 5 to 15 percent of his wage depending upon length of service.

That formula does not conform to the definition laid down by the Paris Congress in 1889, yet it is the plan operated by the company generally recognized by all students and authorities as the oldest and best known profit-sharing institution in the United States.

(c) The company which, in the judgment of its management, decided it could do the greatest service to its employees by adopting a pension plan, thus insuring the comfort and security of its employees in their old age. From its profits the company pays a substantial annual premium for the maintenance of that pension system during the working years of the employee. To contend that such a system is not profit sharing, or a sharing of profits, is to ignore the record of companies which have abandoned such plans when financial reverses appeared and the absence of profits made the payment of the premium impossible.

Illustrative of this form of profit sharing is the efficient and well-administered pension or annuity plan of the Socony-Vacuum Oil Co. It might be well to consider the attitude of the management of this company as expressed in the testimony of Mr. John A. Brown, chairman of the board of that company, who says:

In our view, any contribution from the earnings of the company that goes for the benefit of the members of the organization, above the regular wage scale, is a form of profit sharing. It may take a variety of forms.

We have had a pension plan operating as far back as 1903 which was entirely a company-administered plan paid for by the company. We carried on in that way until 1931 when we changed the form of the plan. The present form is a contractual plan, jointly financed by the company and the employees.

The retirement annuity is based on 2 percent per year of service, based on actual salary classification from year to year, the employee contributing 3.6 percent of his salary, 3 percent for annuity and 0.6 percent for insurance, this being both an annuity and an insurance plan. The company makes up the difference in the current cost which is on the average of about 4½ percent. The insurance feature of the plan is approximately a year's pay. The subscribing employee is eligible for normal retirement at 65 for men and 55 for women, or after 40 years of service regardless of age. If they retire they receive an annuity based on 2 percent for each year of service, based on actual salary or wage classification from year to year for service. The cost to the company, as we are going today, for the old plan that was self-administered and the past service funding which we do from year to year, and the current liability, brings us in the neighborhood of a cost of about $7,000,000 a year. On the basis of 1937 the employees are receiving a sum equal to 28 percent of the sum paid to stockholders in dividends, or 11.8 percent of the net profit. We have about 35,000 employees in the United States.

A profit-sharing plan, such as the foregoing, does not conform to the limited definitions so often attempted to be applied to an interpretation of profit sharing, yet by what perverted logic can it be argued that it is *not* profit sharing?

(*d*) The company which, in addition to certain "welfare" practices, desired to share profits through the payment of a cash bonus at times *when profits permitted such distribution*, but who did not deem it practical to establish a legally contractual obligation which might impair its financial position and at times of low earnings prove embarrassing. An instance of this kind was the case of a large corporation which distributed such bonuses from time to time, the maximum of these being a cash distribution of more than $12,000,000 at one time.

Can it be denied that this was a sharing of profits? Can it be denied the purpose of profit sharing did not motivate such distributions of cash from the profit fund? May not the individual or the corporation who, in effect, says: "I am desirous of sharing profits when we make them, and I will share and distribute profits to employees when business conditions and earned profits permit," be credited with having a sincere desire to share profits? Can such an individual or corporation, acting sincerely and in good faith, yet cautiously, be denied classification as a profit sharer?

(*e*) The employer who from his observation of the social and economic conditions prevailing among his employees, and in his own good judgment based thereon, conceives that the most practical service and benefit he can render his employees is in doing those things which will contribute to their social, health, and recreational betterment by providing comprehensive hospitalization, free medical care, educational facilities, and athletic and recreational opportunities.

Many are the employers who have devoted their sharing of profits in this direction. In this field of "welfare and benefit programs" might be cited the company which originally spent more than $12,000,000 for the construction of a modern hospital, a well-equipped gymnasium, a library, a college for manual training of trades as well as the social sciences, and extensive athletic fields and playgrounds of every description.

There can also be cited the company which expended several million dollars for the construction of four modern hospitals wherein not only every type of medical care was available, but annual clinical examination, both medical and dental, were available to the several thousand employees without charge, the cost to the company being in excess of $1,500,000 annually.

There might also be cited in the field of "welfare service" the corporation which desired to improve the general living and social conditions of its employees by constructing a model industrial city and, in pursuit of that commendable purpose, expended several million dollars in the construction of attractive modern homes of architectural beauty situated in a landscaped area with winding drives and clean avenues, so attractive in fact that there could be no envy on the part of the worker toward those who might live in any other so-called finer section of the city.

By what twist of logic can these institutions be refused classification as profit sharers? Where, if not from profits, could these vast expenditures come? How could these extensive welfare programs be maintained if not from the profits of the company? Does it not appear that to deny such institutions the credit of sharing the fruits of production with those who help produce them, resolves itself into an attempt to question the judgment of these employers as to which was the better way to improve the conditions of their employees? If it is to be a matter of opinion, whose opinion is best—the student, the writer, the theoretical observer, or those who are face to face with the problem and who are handling the physical situation according to their best judgment?

And so one might proceed through the varied types of employee-relations policies which have been adopted, according to the judgment of the employer, as the most practical manner of benefiting the employees; plans established in good faith and with a sincere desire to give employees a larger share in the fruits of their toil. The employer believes and insists he is sharing profits. There are also many instances where employees are accepting and interpreting certain policies of extra compensation resulting from earnings or savings or increased production, as profit sharing.

Who, it may be asked, is to be the judge—the theorist or those actually engaged and participating in the practical operation?

In brief, the attempt to draw fine distinctions between different types of employee policies, and especially to segregate profit sharing within strict and narrow limits, is similar to attempting to say whether a medicine is more superior in value when administered in capsules, tablets, or liquid form—all of which may serve the purpose.

We have approached the subject from the higher and broader purpose of seeking a formula for a wider application of the capitalistic economy by extending the direct benefits of the profit system to the largest possible number of citizens.

Experiences, rather than theories, is the source from which practical results must be drawn. To be practical rather than technical, realistic rather than theoristic; to evaluate effects—values—results—has been the primary purpose in striving for a fortification of democracy—socially and industrially—as well as politically.

CHAPTER VII

THE PHILOSOPHY OF PROFIT SHARING

THE HUMAN EQUATION

Profit sharing has generally been predicated on the importance of balance sheets, financial statements, and production schedules, and their relation to net profit. Its introduction is not wholly dependent upon any of these, but its successful operation favorably affects all of them.

The testimony of executives and employees of institutions which have applied intelligent profit-sharing plans indicate that profit sharing is not dependent upon present or existing profits nearly so much as profit making is dependent on profit sharing.

We are considering a social problem rather than an accounting problem. Social problems have to do with human beings. Therefore, since this survey has been directed to the study of employer-employee relationships as they may influence mass sentiment toward democracy and free economic enterprise, it is imperative that appraisal and analysis be made of the human being involved—the workingman—his reactions, impulses, desires, and ambitions.

No one has epitomized this thought better than the brilliant financial editor and writer, Royal F. Munger,[1] whose understanding of business and finance has as its basis a rare social mindedness:

> Few statesmen, still fewer merchants or businessmen, have adequate realization of the value of a human being as an economic unit. Those who do have this realization achieve a success which the uninformed find incomprehensible. The empire builder who protects the loyal and thrifty is merely oiling and sheltering his own machinery. The landlord who fills his building or his land with good tenants will prosper in the end. The general who keeps his soldiers alive will end with an army of veterans. Human brain and muscle is the only stuff from which ultimate success can be fashioned.
>
> The chief wealth of any country is its people.

Daniel Willard, one of the most successful of industrialists in dealing with labor, advises: "Always put yourself in the other fellow's place." To do this, it may be necessary to transfer the outlook from the mahogany desk to the machinist's lathe and move from the broad avenue of mansions to the narrow street of little homes. Regardless of location, position, or condition, we will find the same basic and underlying desires and aspirations, the same virtues, the same weaknesses. Many seem to ignore this fact in considering the worker group.

Many employers have given little study to understanding human beings. They frequently ignore psychological factors in dealing with human problems, yet psychology controls man and his behavior more than all other factors combined.

[1] Financial editor, Chicago Daily News.

WORKER AN INDIVIDUALIST

The American is an incurable individualist. He is bred in a tradition—that of individual effort. He must have wide range for his ingenuity and initiative. Other races and nationalities, long subjugated and ruled, may lend themselves to regimentation under unlimited authority, but not the American. Neither does he accept kindly the idea or suggestion that he is only one of a "class." His whole experience, and that of his fathers, has been one of individual effort, individual ambition, and individual progress.

He believes his individual rights are not class rights, but human rights. It is foreign to American tradition for an American to think he is fighting for his class against another class. He supports what he believes to be right and in the interest of all humanity. We should strive to preserve this idealistic and individualistic concept.

Certain developments in our industrial operation are tending to destroy the worker's conception of his identity as an individual. Dealing and treating with him as a group submerges his individual status. The assembly line creates in him the impression that he is only a "cog" in the operation. Too often labor is employed and dealt with as a commodity.

In spite of assembly lines and group handling, the employee's individuality can be maintained by placing him on an independent financial basis through a wisely selected profit-sharing policy. Such policy tends to create in every American worker the consciousness of his opportunity to become a capitalist—a beneficiary of the profit system. Whether at the bench, the counter, or the desk, he gains and asserts a new self-respect.

ENEMY NO. 1—FEAR

One of the great enemies of all men—especially the workingman—is fear. Every man, to a greater or lesser degree, fears failure, loss of job or property, physical break-down, poverty, and the uncertainties of the future.

The two fears of the workingman are: (1) Loss of job, and (2) poverty in old age.

From the standpoint of health, happiness, and clear thinking, we must recognize the pernicious influences of doubt, distrust, and anxiety. Does anyone fully appreciate how devastating is the fear of the "pink slip" of dismissal on Saturday night—the fear one feels that personal security is tottering, that his family may soon be in want? Here is the insidious factor which works to break down morale, rendering the victim an easy prey to the leaders of false causes. The "madness of crowds," which history has often chronicled and which some of us have observed at first hand in recent times, can destroy judgment and reason and set law at naught.

Many of our working population have little, if any material security; and inasmuch as we have placed so much emphasis upon such security of late, the lack of it excites a horrible fear, reflecting itself in constant worry and anxiety. This overhanging fear is one of the great underlying causes of mass unrest, and one of the great contributing factors which make the workingman responsive to emotional appeals and gullible to fallacious promises and philosophies.

Over a century ago Victor Hugo wrote "The misery of a child is interesting to its mother; the misery of a young man is interesting to a woman; but the misery of an old man is interesting to nobody." The truth of Hugo's statement that "the misery of an old man is interesting to nobody" is exemplified by the fact that each year in America between eight and ten million people, 65 years of age or more, end their active days in penury or want. Can such a situation be regarded as a personal problem and a matter for individual adjustment? The employer is not obliged to save an employee from becoming a public charge after his years of service are over, but to assist him to a life of independence is social insurance for both. It may not be a moral responsibility resting on the employer, but it is probably the greatest single cause of individual worry and anxiety; it is one of our great social problems.

It may be said that this problem has now been assumed by Government through the Federal Social Security Act; that through a Federal pension scheme the worker will be taken care of in his old age, and that this problem need no longer be considered by industry as a threat to private capitalism or democracy. On this point, therefore, the question is, Is it desirable to have thirty to forty million wage earners turning to centralized government for their protection in the future, or should a relationship between employer and employee be fostered based on interdependence and mutual helpfulness?

LOSS OF JOB

The man with a family is dependent on regular work at fair wages, not only for his own livelihood but for the maintenance of his family. Workers can no longer depend on continued employment through the year, no matter how willing and able they may be. We shall have labor tranquillity only when some form of insurance or protection for the worker has been designed to overcome this weakness in our employer-employee relationship. As long as the uncertainty of a livelihood exists it will remain as a source of discontentment and unrest.

A worker in a watch company in Illinois expresses his thought as follows:

> I believe that after a man works for a company a number of years, he is dependent on the company for his existence. The company should pay him a living wage—not a wage which only allows him to exist, but a wage that enables him to live in a true American way—and guarantee him the right to work as long as he is physically able. In other words, the job would be the worker's property as much as the stockholders. Of course, you can call this socialism or communism, but I believe it to be conservatism. The term means "to conserve or to save." This would tend to conserve the capitalistic form of government instead of breeding discontent, which ultimately leads to radicalism.

From the plant of a New York candy manufacturer, an employee states the case of the worker's needs and desires, thus:

> The average workman wants to make his work count, to advance reasonably in wealth and security, to see his children better off than himself. That is the road he has traveled ever since the founding of this country until we broke the speed laws in 1929. Let us start over again with a square deal, and he will continue his progress, steadily as a tide, as long as waste, greed, or monopoly do not bar his path.

INABILITY TO SAVE FOR OLD AGE

"Life begins at 40" does not describe what happens to the average American industrial worker. If workers are unable to meet their living expenses and at the same time set aside sufficient savings to provide security and comfort for themselves and their dependents in old age the industrial system should strive to make such adjustments as will aid in overcoming that condition.

The situation is summarized as follows in America's Capacity to Produce, issued by the Brookings Institution:

The forces controlling the division of the national income between saving and spending are of great concern. Since the continued functioning of the economic system is motivated by the flow of money incomes, the steady and efficient operation of our economic society depends closely upon the allocation of monetary income between savings for capital and expenditures for consumption goods. If one kind of adjustment is maintained we may have steadily expanding production and rising standards of living; if another adjustment exists, economic growth may be retarded.

Analysis of the report of family incomes and family savings for the year 1929 by the Brookings Institution, not only indicates the distribution of income among the four groups of our population (the poor, lower middle, upper middle, and rich), but strikingly portrays the inability of millions of workers to save for old-age security:

Class	Income per family	Number of families	Percent of total	Aggregate income by classes	Average savings per family
Poor	Under $2,000	16,354,000	59.525	$18,879,000,000	$48.97
Lower middle	$2,000 to $5,000	8,864,000	32.263	26,452,000,000	429.49
Upper middle	$5,000 to $25,000	2,096,000	7.629	17,651,000,000	2,411.26
Rich	Over $25,000	160,000	.582	14,749,000,000	47,593.75
		27,474,000	....	77,731,000,000	

We find that out of 27,474,000 families, averaging 4 persons, which participated in a total income of $77,731,000,000, the average income of 16,354,000 of those families was only $1,154 per family with average savings of only $48.97.

How much hope and ambition is possessed by the individual having such a financial status? How much unreasoned resentment against our economic and political system is engendered by such a seemingly hopeless situation?

However, one company in the United States has so completely solved the problem of old-age security for its workers, and has so thoroughly convinced the workers of the integrity and stability of their plan, that in that institution, through the rank and file of the workers, there is voiced by the workers themselves, the enthusiastic conviction that for them at least, "life begins at 60."

The sentiment expressed by thousands of employees and confirmed by the observations of employers operating effective employee policies would seem to offer strong proof that the consolidation of *profit sharing* with *permanent saving* for (1) insurance against unemployment, and (2) providing for the building up of an estate at "the end of the road" will go far toward solving the major industrial, social, and political problems in America.

SOCIAL OR POLITICAL IMPLICATIONS OF PROFIT SHARING

Aside from the economic factors, profit sharing has political implications.

There is a great struggle in the world today between two competing systems. The system of capitalism or private profits by individual initiative, on the one hand; and the system of state ownership or state control, on the other. Great Britain, America, and the other democracies are functioning under the system of private capitalism. Russia, Germany, and Italy have state socialism in various forms. This difference in policy may be a difference in psychology. In private enterprise the individual tries to solve the problem locally by cooperation within an industry. The government remains the servant. Under state capitalism, private enterprise steps aside and the government attempts to solve the problem centrally and becomes the master. In the former case, the citizen supports the government; in the latter case, the government tries to support the citizen. In one case, administration is decentralized and supple; in the other, it is rigid and and centralized in a bureaucracy. Under private capitalism the standards of living are generally high; under socialism the standards of living are those of meager subsistence.

In the past 5 years, according to the records of the United States Bureau of Labor Statistics, there have been something over 12,000 labor disputes and strikes; these disputes, involving 6,469,331 employees, caused a loss of 96,005,400 man-days of work or approximately $500,000,000 income to labor with a resultant loss of several billion dollars to industry and the country.

In from 55 to 65 percent of such disputes and affecting from 65 to 75 percent of the employees involved in strikes, the major cause was wages and hours of factory labor. A satisfactory method of group compensation has yet to be invoked by industry generally if such a condition is to be obviated. Yet individual companies have applied the principle of profit sharing which provides the differential which is missing.

If we can overcome those wage practices which cause violent shocks to the national economy we can continue to function under our system of private enterprise. Until state socialism has proved more workable, more efficient, a better provider of goods and of a high standard of living somewhere in the world, it would seem foolhardy to abandon capitalism for it.

Not merely the United States but the entire world is in a critical stage of political and economic evolution. State management and control as manifested in the Communist-Fascist-Nazi countries is on the uptrend. It is of doubtful efficiency and not satisfying to the individual. The system of private enterprise has the manifest advantages of flexibility and multiple opportunities for individual effort. Profit sharing between capital and labor opens possibilities of industrial evolution along constructive lines. It would provide the basis for that gradual growth which is essential if we are to avoid the revolutionary violence that has attended the emergence of state socialism elsewhere.

ECONOMIC VALUES OF PROFIT SHARING

Theories as to the cause of business cycles are numerous. The hypothesis which will probably receive greatest support is that the reduction of income and purchasing power of the greater consuming groups results in goods produced finding no market, followed by falling prices, stoppage of production, reduction of jobs, unemployment, stagnation. Here is the "vicious circle" so often referred to. Wages not only constitute the greatest factor in production costs, but are the largest factor in purchasing power. It must be remembered that nearly 85 percent of the national income goes to persons in gainful occupations. When wages remain rigid, the flexibility necessary to effect a balance between selling prices and consumer buying is missing and our economic system is stalemated—no buying, no production; no production, no jobs; no jobs, no pay roll; no pay roll, no purchasing power—and there the circle is completed.

There we have the basis upon which to study the economic significance of profit sharing. Wages, now a fixed and rigid factor, must have a differential which will relate or gear income, profits, and selling prices. Profit sharing will supply that differential. It will cause wages to vary with profits, thereby effecting less rigid production costs to permit adjustment of selling prices whenever consumer buying shows signs of contraction. Profit sharing will stabilize not only industrial production and employment but also consumer purchasing power and profits.

At present, when danger threatens, what happens? Labor fights reduction in hourly wage rates. This forces employers to seek job reduction. They discharge men. Thereupon, under our existing relationship with government, government steps in with relief proposals to repair the damage. It "makes" work and pays relief wages. These wages are often lower than the wages in private employment. In other words, the result originally sought by private owners (reduction of wages) is accomplished in another way by the state. The worker's wages are cut, with the important difference, however, that in public work there is the stigma of charity, whereas in private employment the reduced wage would have been a temporary sacrifice.

Modern economy requires a balance wheel, a shock absorber, during periods of strain when production outruns purchasing power. This subject of economic flexibility gives to profit sharing new and greater significance. To keep up wages when selling prices shrink is bad arithmetic. Wages, as well as all other costs, can only come out of selling prices.

Costs cannot continue to exceed the sales price. Economic society, including organized labor, frequently has been the victim of a fiction that high, rigid wages insure prosperity. High wages are an indication of prosperity but not a cause. The potentialities of profit sharing, as a means toward supplying the flexibility needed in our industrial operation, are worthy of the most serious and careful consideration.

WILL PROFIT SHARING CREATE PROFITS?

Probably one of the most important factors in connection with the philosophy of profit sharing which businessmen might consider is the effect of "profit sharing" upon "profit making."

Heretofore some successful executives, whose opinions must be respected, have claimed that a profit-sharing plan will pay for itself in that it tends to create more profits over and above what normally might be expected from the business under given economic conditions.

No one will deny that the forces producing profits and losses are myriad and complex. It seems obvious that for any company to make a profit there are certain things it must have and certain things it must do. It must produce an economic good or service; that is, meet the needs or desires of consumers; it must have management to guide its efforts to sell, finance, and improve its products; it must have production facilities that meet technical requirements of manufacture and the requirements of the market; it must have sufficient capital to meet the demands of operation; it must have a labor force, sufficiently skilled to produce the goods within the limits of costs deemed necessary to conduct operations in given quantities at a satisfactory price. All these things, and more, are necessary if the company is to achieve some degree of success. If any one of these factors is off balance it is reasonable to conclude that the company would not make the anticipated profits, were these factors properly adjusted. Consequently, it seems reasonable to conclude that no single factor is responsible for profits, although numerous statements have been made to that effect.

Management has said, "Without management there are no profits." Labor has said, "Without labor there are no profits." Capital has said, "Without capital there are no profits." Each of these statements is true. But management, labor, and capital must unite to make a profit. These three factors are dependent upon one another. While now it is generally agreed that they all contribute to the making of profits, the present warfare between the groups indicates more concern as to how the profits are to be divided, than how to unite all interests to make more profit.

It is not so difficult to conceive the other side of the picture where profits are made *in spite of* the efforts of Management or Labor. Presumably, a badly managed business—a marginal producer—operating in a certain phase of the business cycle, might make a profit in spite of the shortcomings of management. Likewise, a highly efficient labor force might overcome the bad effects of poor management or a poor labor force might nullify the efforts of a highly efficient management, and outside influences might overcome the best efforts of each.

It seems reasonable to assume that a given management, having at its disposal sufficient capital and producing an economic necessity in goods or services, will do a better job of profit making under any business conditions—if teamed up with a labor force that is highly efficient and has a distinct interest in the company over and above a mere wage agreement. Likewise, the same management under the same conditions, but teamed up with an inefficient labor force that has no particular interest in whether or not the business makes a profit, will have a harder time making a profit.

Practically every employer or institution now operating a successful profit-sharing plan has presented testimony and evidence in support of the contention that profit sharing is not only a peacemaker, but a profit maker. While some companies have distributed substantial and imposing sums of money through a long succession of years—sums which would appear on the surface and to the uninformed as heavy drains upon the treasury—the executives of these companies almost uniformly declare that their system of sharing profits has in reality imposed no actual cost burden on the company.

This result, which may appear paradoxical and surprising, is explained in most cases by the fact that the system has inspired a greater personal interest in the worker, aroused his selfish desire for greater profits, and brought him into a thoroughly cooperative effort to increase profits of the company by stimulating production at lower cost, conserving materials, creating savings of waste, protecting the product of the institution, stimulating greater sales effort, and bringing into harmonious cooperation all the operating and productive factors of the company operation.

What is the value of a dependable employee? Many employers emphasize the fact that once profit sharing has gained the confidence of the employees, dependability and responsibility in the individual are definitely increased. This is a factor of greater importance than may at first appear. The evidence with respect to conditions prevailing in establishments affected by strikes and labor trouble in 1937 is quite conclusive on the point that invariably the unrest and violence were incited by a small minority group of employees and in most cases by the younger members of the worker group who, having no responsibilities or commitments and being more gullible to the claims and promises of agitators, adopt the militant and violent attitude which in most cases suffered no opposition from fellow workers because the majority felt they did not have a sufficient material stake to warrant physical opposition.

It is apparent that the creation of dependable and responsible employees would be an ever-present deterrent to the irresponsible type of employee who not only foments trouble and unrest, but who wastes time and materials and abuses equipment. It is also quite apparent, and the situation exists in many plants, that the irresponsible type of employee who wastes materials, is careless of machinery and equipment, and who "soldiers" on the job, is made very uncomfortable and either changes his attitude and tactics or is forced to seek employment elsewhere, if the majority have a sufficient profit prospect or profit-sharing fund to protect—something worth fighting for. This means industrial peace insurance.

THE POWER OF INCENTIVE

When you assure a man only a livelihood and offer no grand prize for extraordinary effort, he may do his bit, but he won't do his best.

We are not primarily interested in considering a spirit that fits with the Golden Rule, but rather that which fits with human nature.

Under a scientific and intelligent formula of profit sharing, which properly considers the psychological elements that control human nature, the gearing of the income of each and every worker with the net profit of the corporation as such, should greatly increase the individual and group productivity. The direct increase would result from causing each worker to become selfishly interested in increasing the efficiency of every other worker. The direct gearing would result in harmonizing the selfish interests of each and every worker with the selfish interests of management and ownership, that of being centered in the net profit of the corporation.

As an example of the driving power of proper incentive, an illustration is afforded in the reported action of the General who when his funds were exhausted, paid his soldiers with checks drawn on the banks in the city just ahead which he was desirous of capturing. In order for the checks to be paid the city had to be captured. It was captured!

Just how can we differentiate between the man with money and the man with muscle as to the selfish instinct of each? How can we place them in different categories? Does the fact that one has money and the other hasn't, indicate that the one without money doesn't want to make money? If the man without money were offered an opportunity to invest his manual labor, wouldn't his work, his efforts, be similarly stimulated if the same lure and hopes of gain were offered him, as were offered for the investment of his money, which he hasn't got, but which every normal human wants to get?

The prospect of private gain and the spur of necessity are the only universal incentives to greater effort. The more a man knows he can do for himself, the more he will do for himself. The more the State does for the man, the less the man will do for himself. Self-reliance, under either the spur of necessity or the incentive of high reward, can be as strong as steel, but without these stimulants it can become as frail as a reed and soft as putty.

Whether articulately expressed or not, every workingman wants, and feels he should have, the opportunity to increase his own income by his own greater effort, his own greater efficiency and his own greater loyalty to his task. Given the opportunity he will produce results; denied the opportunity and he reduces results. He should not have to depend upon the good will or whim of a foreman or superintendent. The American worker is an individualist, by tradition, heritage, and teaching. Individual recognition as a partner in an enterprise arouses responsibility, pride of partnership, and the personal selfishness to win the rewards of partnership. His interests become blended with the success of his employer and his enterprise. He and his coworkers will make an "uncomfortable atmosphere and environment" for the faithless fellow worker. Self-supervision supplants managerial supervision. He will not only strive for, fight for, and increase his own income, but he will stabilize and increase the profits of his employer.

Those who produce have an interest in the profits of production. Establish that interest and the result will be more production and more profits, and the elimination of class distinctions, and group warfare.

RELEASING POTENTIAL PRODUCTIVE ENERGY

All recognized authorities on scientific management and students of industrial efficiency agree that under ordinary operating conditions, where no extra compensating incentives are offered, the workers are not giving to their tasks the full measure of their energy or productive abilities. One of the best recognized authorities, Frederick Winslow Taylor, past president of the American Society of Mechanical Engineers, is authority for the statement that the productivity of the average man engaged in industrial work can or could be doubled. In other words, this authority states that only 50 percent of the potential energy and ability of the average workman is exerted. If this be true, it is self-evident that any reasonable sharing of profits which would be sufficient to arouse the profit-urge in each workman, would mean an increase in production and a stimulation of efficiency which would far outweigh in value the profit distribution. This is undoubtedly the factor which supports the declaration made by profit-sharing companies that profit sharing has more than paid its cost. Likewise, this fact may be explanatory of the situation reported by many companies, to the effect that increased profits immediately resulted from the adoption of profit sharing, and in some cases that recurring losses were transformed into sustained profits.

It is not to be construed that the contention is made that all forms of profit sharing will produce such results. There are profit-sharing plans which, by reason of improper design and inefficient administration, will never create such incentives on the part of the worker group. On the other hand, there are profit-sharing systems carefully designed to employ the powerful psychological factors which influence and control men and which arouse to the maximum degree the individual profit-urge, that will unquestionably stimulate each and every individual in the entire personnel of an institution to the highest possible efficiency. The form of the plan is vitally necessary to the success of profit sharing.

CHAPTER VIII

HISTORY AND DEVELOPMENT OF PROFIT SHARING

Although profit sharing has been criticized and declared impractical for a century and a half, it continues to flourish and confound its critics.

The principle of profit sharing seems to possess a vitality which can only be accounted for by the obviousness that it is firmly rooted in fundamental justice. That would appear to be the reason for the zeal displayed in its support through the long years of its rise and evolution. More recently, however, the psychology of its logic and its economic advantages have been recognized and it has emerged from the atmosphere of "socialistic terminology" into the clearer field of practical human relationship.

During the century and a half of its evolution, it has been dealt with and experimented with under varying titles, such as "participation" and "profit sharing" in France; as "product sharing" and "industrial partnership" in England; and as "profit sharing" in Germany and America. It is a study for which there seems to have always existed an economic demand in the never-ending need for a remedy to the long existing problem expressed in the phrase "labor troubles."

Probably no subject related to industrial relations has held its place longer in the arena of discussion, encountered more opposition, been more misunderstood and been the victim of more misconceptions—and yet has continued its growth in popularity and use. Profit sharing has been attacked and declared impossible of application because of lack of profits, because its failures prove it impractical; because it is a stimulant to higher wages or the sedative for lower wages; because it is the forerunner to ownership and control of management; and, lastly, that it may be applicable to small companies but not to large institutions.

As evidence of the persistent opposition to profit sharing, the employers' welfare department of the National Civic Federation made the statement in a report in 1912, as follows:

> It is perfectly safe to say that it would be hard to find a profit-sharing plan operating successfully in this country in the eyes of the employees.

The Committee of the Western Efficiency Society, Chicago, July 24, 1914, embodied in a research report, the following observations:

> In the face of a careful study of practically every known profit-sharing plan in this country, this committee is less settled in its belief that profit sharing is the most logical and practical relief from inharmonious relations or lack of cooperation. In its first report this committee was inclined to advocate profit sharing as an insurance against the unreasonable demands of labor; as a method of stimulating workmen to greater enthusiasm and effort in exchange for an increased income and a share in the business, as well as a means of compelling more open and frank dealing between men and management. Granting, still, that profit sharing may

accomplish these things to a degree, so many disadvantages to the general plan of copartnership have presented themselves that this committee does not feel justified in urging it upon employers without certain reservations.

Not all of us, perhaps, have taken notice of the fact that profit sharing has been practiced by many of our largest concerns for the past 25 years. This, alone, would seem to be convincing evidence of its worth.

Without the slightest intention to reflect on the undoubted merits of profit sharing, but rather with a desire to get closer to the truth, this committee ventures to say that such may or may not be the case. It is possible that concerns having put in a method of profit sharing are continuing it rather than disturb a peaceful relationship by taking it out; or, it may be that it is the best thing for the organization.

Profit sharing has accomplished remarkable results in some places; in others it has been discontinued, not all for the same reason, and while it would be obviously unfair to judge profit sharing by its failures alone, this committee is actuated by these examples to question its general applicability, at least until more thought is given to the foundation upon which it rests.

Profit sharing, when correctly installed, is unquestionably a binding influence for good, but the chief trouble seems to have been that during the period of adjusting it to meet local conditions, prejudices have arisen among the workmen and never entirely been overcome, even in the face of what appeared to be an ultimate success. Suspicion has remained, and suspicion in any degree is the greatest enemy of profit sharing. It is the opinion of this committee that all failures and the disturbances attendant upon the installation of profit sharing have been directly chargeable to prematurity; and furthermore that those plans now considered successful in every essential detail could have been made immeasurably stronger.

This committee does not fully agree with the statement made by the employers' welfare department of the National Civic Federation that: "It is perfectly safe to say that it would be hard to find a profit-sharing plan operating successfully in this country in the eyes of the employees."

By this same token, this committee believes it equally safe to say that it would be hard to find a profit-sharing employer who regarded his plan, at least, as unsuccessful. The fact of the matter is that it has proved extremely difficult to get at what we consider the true facts and, without the aid of unbiased opinions based on actual knowledge, the real situaton must remain, in a measure, a matter of conjecture.

The conclusions of the committee at this time would be that there are two main reasons why profit sharing is not generally popular among employers, and not more universally adopted. They are (1) the opposition of the labor unions, which, with or without cause, regard it as a substitute for high wages and a safeguard against strikes; and (2) the increasing popularity of the welfare and betterment department.

The inauguration of this senatorial survey brought from many quarters the question, "Why this sudden interest in and discussion of profit sharing in industry?" There really is nothing "sudden" about the subject or the interest in it. Nothing happens suddenly in political, social, or economic life. As the seeming suddenness of an earthquake is due to deep-lying strata which for years, perhaps for ages, have been slowly moving, so the affairs of men are the result, and a part, of slow but steadily moving causes. Present relations between capital and labor are no exception to this rule. The advance of labor from the low level of slavery and serfdom to its present status as a self-respecting, organized part of society—persistently seeking a higher status and position—has been one of constant struggle, a succession of advances and setbacks, trials and error, and accomplishments.

PROFIT SHARING IN FRANCE AND ENGLAND

The principle of profit sharing is probably as old as historical record. In the earlier ages there are records of "produce sharing." Nothing is to be achieved, however, by delving into antiquity to ascertain the forms of sharing employed.

In modern times the profit-sharing plan inaugurated by Maison LeClaire of Paris, and announced in 1842 has, by reason of the wide publicity and the long operation of that plan, made it the outstanding European plan of profit sharing and at the same time has brought to LeClaire the credit of being the "father of profit sharing." Edme-Jean LeClaire was a Parisian house painter and decorator. Born of poor parents in 1801, he became apprenticed to a house painter in Paris at the age of 17. In 1821 he set up his own business, which became very successful, and by 1840 he was employing about 300 skilled workmen. Beginning to admit his workmen to participation in the profits of his business in 1842, he continued the system with improvements and modifications until his death in 1872. His financial success was spectacular, and he became one of the noted "captains" of French industry. However, it was not due to his personal rise to wealth which publicized his plan, but rather the fact that his employees shared his good fortune with him, many retiring with substantial fortunes as a result of his distribution of profits. For nearly a century the plan of Maison LeClaire has stood as an example of a practical method of reconciling and uniting the interests of employer and employee.

It is recorded that the success of the "LeClaire" plan was due to the fact that LeClaire knew his craft and the men who practiced it; he knew their temptations and their difficulties; he knew their weaknesses and their impulses and he constructed his plan in such a way as to govern, control, and protect men against themselves.

Charles Babbage, the eminent mathematician, was the first English economist to recommend participation in profits. In his "Economy of Manufactures," one of the ablest works in economic literature (1832), he gave an account of the system of "product sharing" long pursued in the mines of Cornwall and, after detailing the advantages resulting, says:

> These extraordinary cases, are, perhaps, of more advantage to the owner of the mine than even to the men; for whilst the skill and industry of the workmen are greatly stimulated, the owner himself derives greater advantage from the improvement of the vein. This system is introduced by Mr. Taylor into the lead mines of Flintshire, into those at Skipton in Yorkshire, and into some of the copper mines of Cumberland; and it is desirable that it should become general because no other mode of payment affords to the workmen a measure of success so directly proportionate to the industry, the integrity, and the talent which they exert.

John Stuart Mill held up M. LeClaire as an example to employers of labor, and most subsequent writers on political economy, in England and America, have agreed with Mr. Mill. Professor Jevons and Professor Fawcett distinguished themselves by earnest advocacy of industrial partnerships.

Throughout France and England many business institutions copied and installed plans wholly or in part following the pattern of LeClaire. Some failed; others succeeded and have endured through the years. Throughout the balance of Europe the record is similar. Search, trial, and experiment to find the successful and effective formula for the establishment of the partnership relation—the unity of interest and the spirit of cooperation—has been, and is now being, carried on.

In brief, the experiences in Europe have been very similar to those in America—a search through trial and error to find the method of applying profit sharing through which a harmonious relationship of concord and cooperation could be established between employer and employee.

In England the South Metropolitan Gas Co., which had for several years operated a profit-sharing plan for the executives and foremen of the plant, extended the plan to all workers in 1889. The result was a sliding scale of gas rates, wages, and of dividends. The consumer, the worker, and the investor enjoyed the advantages of a flexible program. Employee ownership was encouraged so that eventually the employees were owners of a substantial part of the outstanding stock of the company. The experience of the South Metropolitan Gas Co. was so successful that its policy was extended to a large part of the gas industry in England, excepting the municipally owned gas works.

With the exception of one small plant, none of the gas companies in England which adopted this profit-sharing plan ever abandoned it. It was because of the successful experience of these companies in England that Louis D. Brandeis urged the adoption of profit sharing in 1905 by the gas works of Boston.

Many writers refer to the record of failures of profit-sharing plans abroad, as they also do to the American record of abandonment and discontinued plans. Upon the basis of this record, many base their contention that profit sharing is impractical. Yet in France, England, and America the factor of impracticability is related far more to the form and structure of the plan than to the principle of profit sharing, as is fully discussed in other chapters of this report.

PROFIT SHARING IN AMERICA

Albert Gallatin was the pioneer sponsor of profit sharing in America. Gallatin, for 12 years Secretary of the Treasury under Presidents Jefferson and Madison, introduced the system in the glass works which he established in New Geneva, Pa., in 1794. Gallatin advocated profit sharing on the ground that the "democratic principle upon which this Nation was founded should not be restricted to the political processes but should be applied to the industrial operation."

Horace Greeley devoted many columns in the "New York Tribune" to arguments in favor of the industrial partnership principle and inaugurated the profit-sharing plan in the personnel of that organization.

In his work on "The Wages Question" published in 1876, Prof. Francis A. Walker, president, Massachusetts Institute of Technology, writes:

> that profit sharing, if generally introduced, and carried on in good faith and good feeling, would secure a highly equitable division of the products of industry and would be a cure for most of the labor troubles from which we suffer, seems to me beyond dispute. As to the entire feasibility of this scheme, after fair and full trial, I entertain no doubt; the sole condition being that master and man should really seek to meet each other, and to find the means of working together on the basis of the reasonable authority of the master, as heretofore known and respected.

In 1869 Brewster & Co., New York, carriage builders, started a plan of sharing profits which, however, was abandoned in 1871. Pillsbury Flour Mills, of Minneapolis, Minn., established a plan in 1882. In 1886 the N. O. Nelson Co., of St. Louis, initiated direct profit sharing in the company, which continued without interruption for 49 years until the recent depression caused temporary suspension.

In 1884 the Baltimore & Ohio Railway Co. inaugurated a "pension relief savings" plan which has operated as a model in the railroad field for 54 years. In 1886 the Procter & Gamble Co. of Cincinnati introduced into the industrial field a profit-sharing and general employee-relations program which in its 52 years of operation has probably attracted more attention and study than any other plan in American industry. Col. William Procter was the recipient of wide-spread criticism from his fellow industrialists for proposing and adopting the advanced and progressive philosophy involved in his new employee-relations policy. Colonel Procter again astounded the industrial world when, in August 1923, his company announced the "annual wage" system guaranteeing 48 weeks of work and 48 pay checks annually. These policies have withstood all tests as the company has grown to its present proportions with over 10,000 employees.

Gradually other companies adopted profit sharing, prominent among them being the Simplex Wire & Cable Co., of Cambridge, Mass., in 1901; Hibbard, Spencer, Bartlett & Co., of Chicago, in 1902; the R. J. Reynolds Tobacco Co., Winston-Salem, N. C., with 15,000 employees; and the Eastman Kodak Co., with some 24,000 employees, in 1912; the Edison Electric Illuminating Co. of Boston, in 1913; the California & Hawaiian Sugar Co., of Crockett, Calif., in 1914; the Cleveland Twist Drill Co., of Cleveland, in 1915.

Of the more significant plans inaugurated in later years, we find in 1916 the Sears, Roebuck Co., of Chicago, having a normal employee group of over 30,000, initiated a plan under which the company pays 5 percent of its net profits which has prevailed against war periods and depressions. Even in 1931 this company paid $1,000,000 into its profit-sharing funds.

In 1918, after experimenting with nearly a dozen different forms and types of employee relations over a period of 18 years, M. L. Joslyn the founder of the Joslyn Manufacturing & Supply Co., of Chicago, inaugurated a "profit-sharing-saving-retirement-fund" plan, which, having operated with the highest degree of success for 20 years, has recently attracted national and international attention.

This plan has those essential and admirable features of simplicity, flexibility, and individual challenge * * * the challenge to consciousness of partnership * * * which stimulates personal interest, satisfies personal selfishness, and instills hope, satisfaction, and sustained loyalty.

As a recital of his experience in developing a satisfactory profit-sharing plan from long experimentation, Mr. Joslyn states:

> For 20 years we had always been striving for some practical form to progressively advance the standing of employees in the corporate structure, without at the same time so weakening that structure as to endanger its progress as a whole. We tried all kinds of temporary plans. There was much confusing talk at the time about the partnership between labor and capital, but little real attempt to move in that direction. Any real partnership can only be based on the laborer first becoming a capitalist himself. We believed the common laborer, working year after year for a normal wage, with nothing but Saturday pay day to look forward to, with no consciousness of steadily bettering himself, with no con-

sciousness of his recognized and participating relationship in the company, lost hope and energy and delivered to his employment only part of the value he was capable of delivering under happy conditions.

We reasoned that in order to get a response under our plan, we must have a prospect in old age * * * not of less of the good things of life, but more * * * so that the vision ahead is of something better than ever experienced. We were told this was impractical, an unrealizable dream, but after trying every other plan, we proposed to try this and see whether it would pay. We have tried it for 20 years and it does pay.

One of the most signal successes in profit sharing has been the "Wage-dividend profit-sharing plan" adopted in 1912 by the Eastman Kodak Co., with an employee force of more than 20,000. The success of this plan is indicated by the fact that in its 26 years of operation the company has paid a wage dividend to its employees every year with the exception of the depression year of 1934. The wage dividend to employees is in direct relation to the dividend declared on the common stock of the company. Since 1912, $43,000,000 has been paid out in dividends under this plan. The company testifies to the success of the plan through the years and that the objectives have been realized.

Special reference is appropriate to the profit-sharing plan operated since 1916 by the General Electric Co., of Schenectady, N. Y., which employs more than 55,000 people. This profit-sharing plan, coupled with savings, has a fine record of success and recommends itself highly as an instrumentality for industrial peace and stability. One hundred million dollars has been shared by the General Electric Co. with its employees in 22 years of operation of this plan.

A more recent addition to the family of profit-sharing companies is the Westinghouse Electric & Manufacturing Co., of Pittsburgh, with more than 50,000 employees, which inaugurated in 1936 a most distinctive and comprehensive plan, which is not only a profit-sharing but also a loss-sharing plan. The amount of money paid to employees in 1937 under this plan was $12,100,907. This is a plan which has slowly evolved out of many years experience of the company in its effort to stabilize its industrial relations. The plan is highly endorsed by management, stockholders, and employees.

Other well-known companies in the industrial and manufacturing field which present a record of outstanding success in the operation of profit sharing are S. C. Johnson & Son, Inc., manufacturers of Johnson's wax, Racine, Wis., who initiated a profit-sharing plan in 1917, which has undergone improvement and amendment through the years and has unquestionably been exceptionally successful; the Vanadium-Alloys Steel Co., of Latrobe, Pa., which adopted profit sharing in 1920 and has maintained the plan with success for the ensuing 20 years; the Hoskins Manufacturing Co., of Detroit, manufacturers of electric resistance wire, which inaugurated profit sharing in 1923 and not only testifies to the success which has attended the plan but submits records of its operation which verify the benefits to the company.

The Nunn-Bush Shoe Co., of Milwaukee, started profit sharing in 1917. On July 1, 1935, this company introduced an "annual wage" plan which has attracted wide attention, and which, according to the management, is operating successfully and with satisfaction to both management and employees.

While not within our own borders, but only across the Canadian line, the Dominion Foundries & Steel, Ltd., of Hamilton, Ontario, introduced profit sharing at the beginning of 1937 which received especial commendation and approval of the Provincial government of Ontario and which appears, from the testimony of both management and employees, to have been unusually successful from its inception and to have confirmed its practicability by immediate benefits to company operations.

The Republic of Venezuela appears to be the first Government to initiate profit sharing throughout industry by governmental decree. In January 1939 President Contreras issued a decree which calls for the distribution of varying percentages of profits to employees in industry and business throughout the Republic.

The decree is based on article 32 (8) 3 of the national constitution, which states that "the nation will favor a system of sharing by the employees and workers in the profits of business" and on article 63 of the 1936 labor law, which reads as follows:

> Employees and workmen shall have a share in the net profits of the enterprises or establishments in which they are employed in conformity with the system and in the proportion which shall be fixed by the Federal Executive, after consultation with the commissions designated for the purpose.
>
> The Federal Executive shall fix the maximum limit of the percentage of this share, which in no case may exceed annually a sum in excess of two months' wages or salary for employees or workmen of large enterprises or establishments, or of one month for employees or workmen of small enterprises or establishments.
>
> This participation does not entitle the employees or workmen to share in the management or administration of the enterprises or establishments.

Net profits are defined in the decree as the amount remaining after deduction of general expenses, interest on the capital invested at the current commercial rate, and write-offs not exceeding 10 percent of the capital. Businesses are divided into four classes, according to their size. Workers in the largest establishments are granted a share in the profits equivalent to 12.45 percent of their annual wages, a percentage which is successively diminished to 8.30 percent, 4.15 percent, and 2.05 percent in the cases of the smaller establishments. If the profits of a business do not exceed the amount necessary to make the payment required for its class, then the percentage fixed shall be paid on the actual net profits and not on the annual wages of the workers.

The steady, irresistible increase in the adoption of profit sharing by American companies has undoubtedly been stimulated by several causes.

The disappearance of the personal contact between employer and employee has impressed many with the imperative necessity of establishing some new bond of relationship to reestablish morale, personal interest, allegiance, and loyalty.

Gradually through the years the truth has also been recognized that the workers cannot live financially in the present only. That they, like others, have a future to protect. That they also must face old age. That like all men, they live in their dreams. That unless some hope of realization of those dreams is assured, their morale and relationship is seriously weakened through hopelessness and discontent.

WIDE ADOPTION OF PROFIT SHARING IN THE UNITED STATES AS FOUND FROM THIS SENATORIAL SURVEY

And so, through these long years of study, evolution, and experimentation, we come to the situation in the United States today—a situation most encouraging and pleasing to those who have advocated and pioneered this philosophy—a situation which offers renewed hope to the preservation of democracy and individual enterprise.

An understanding and clear conception of the widespread adoption of this philosophy is made possible by the results of this senatorial survey, the most intensive and comprehensive research and study of this subject ever conducted as a fact-finding effort in behalf of industry and the employers of the Nation.

From a study and examination of policies and plans of every character utilized in thousands of companies throughout the United States, this report presents the record of 728 companies now operating wage-dividend, bonus, stock-purchase-sharing, pension, or percentage-sharing plans. Our special study, for practical purposes, has been limited to plans of these specific types.

But this list, impressive as it is, does not pretend by a wide margin to include every company having such plans. Limitations of time and funds have restricted and curtailed this survey from being all-embracing and thoroughly complete.

Nor does the number of 728 companies tell the entire story as to the number of factories, plants, business establishments, and corporate entities covered by the survey. Many of the companies listed operate from one to many separate plants, mills, factories, and stores in various sections of the country. Others have one or more subsidiaries—one corporation, for example, having 35 subsidiary companies, most of them with different forms of employee policies. These subsidiaries, in turn, in many instances, operate a number of separate plants—all these subsidiaries and all their separate plants—being shown in this report as only one institution, the parent company having filed one schedule covering the entire group.

Included in this impressive list of 728 companies (not including their subsidiaries and branch units) are companies in practically every field of industrial, commercial, and business classification. Likewise the diversification applies geographically, extending from coast to coast and listing practically every State of the Union.

Profit sharing has not been confined to small companies, as many have long contended it could only apply. Reporting companies have been those listing their employees from a small number to those reporting in excess of 75,000. The capital of these reporting companies has ranged from those having only a few thousand dollars to several ranging up to $50,000,000 to $100,000,000.

Six hundred of these companies reported an aggregate normal employment of 2,500,000 people and an annual pay roll aggregating between $3,500,000,000 and $4,000,000,000.

As to profit sharing being "confined to a relatively few companies and applicable only to small companies" the answer would seem to be found in the fact that of 728 companies reporting profit-sharing plans, 588 reported figures on their net worth. These 588 companies showed: (*a*) Total net worth of over $22.000,000,000; (*b*) an average net worth of over $39,000,000 per company; (*c*) they ranged from $10,000 to over $1,000,000,000.

Three hundred and seventy-four of the companies reported profit-sharing disbursements in 1937, for percentage profit sharing, wage dividends, bonuses, stock sharing, pensions, and other forms of payment aggregating more than $136,000,000, an average of over $360,000 per company. If this rate were maintained for all reporting companies, the disbursements of the 728 companies would exceed $240,000,000.

These calculations do not include the railroads, which in 1937 set up pension reserves in excess of $17,000,000. Nor does it include the many companies which,though having profit-sharing plans within the scope of our study, failed, for one reason or another, to file schedules with the committee.

Furthermore, these calculations do not include some 8,600 companies reported as having various types of "welfare and benefit plans" to which it was impossible to apply intensive study and analysis because of the limitation of time and funds referred to, but which are administering and maintaining plans in behalf of employees which some might deny were technically entitled to be credited as "profit sharing" plans, but nevertheless are undeniably plans which "share the profits," because the entire cost of the operation and maintenance of these plans must necessarily be paid out of profits—past, present, or future—and which would soon be discontinued if profits from the company operations disappeared.

Outstanding Example of "Welfare and Benefit" Activities as Practiced by a Prominent American Company at Cost of $9,000,000 Annually

Employees' insurance and retirement program.—The company provides a complete program of insurance protection, including life insurance, disability benefits, and retirement benefits.

Visiting nursing service.—A visiting nursing service is available to those employees who are temporarily disabled.

Sanatorium.—The company maintains a modern and fully equipped sanatorium for the care of employees suffering from serious illness, particularly those afflicted with tuberculosis. It is generally regarded by experts as being one of the finest institutions in the world. The buildings are large, fireproof, and as sanitary as can be made. They include separate wards for men and women, an infirmary for the sick and for the observation of the newly arrived; chapel, refectory, library, administration building, rest house for the treatment of nontuberculous persons, auditorium, occupational therapy building, laboratory, etc. Treatment is given to such employees as the company feels would benefit therefrom, and without charge. Transportation to the sanatorium and return is provided at company's expense for those patients suffering from tuberculosis.

Special welfare allowances.—There are some types of cases for which a special welfare allowance is granted, such as an employee who became physically or otherwise incapacitated before the first contractual retirement plan was adopted. Allowances for such cases are authorized by the welfare committee of the board of directors.

Medical rest rooms.—The company provides fully equipped medical rest rooms which are in charge of a competent staff of doctors and nurses in attendance during all business hours. The service of both oculists and opticians are available to those who are in need of eye examinations and the fitting and adjusting of glasses.

Physical examinations.—A thorough physical examination is made of all company employees at the time of employment, and an annual examination is provided thereafter during their tenure of employment.

Dental examinations.—The company provides a semiannual examination and prophylactic cleansing of teeth.

Luncheons.—A wholesome, well-balanced, and tasty luncheon is served every business day, without charge.

Vacations.—A liberal vacation schedule provides vacations with pay, ranging from 1 week to 4 weeks, according to length of service. Male employees with at least 1 year of service are permitted to attend a citizens' military training camp, with the payment of full salary for the necessary training period.

Classes of instruction.—The company maintains numerous classes affording instruction in such subjects as typing, stenography, business English, life insurance, the actuarial sciences, the operation of special machines, etc. It also cooperates with approved employees by sharing with them tuition fees in connection with courses taken in local schools, colleges, and universities.

Library.—The company maintains an extensive library from which employees may borrow books for study or general recreation. The shelves are well stocked with general literature, as well as with important current publications and magazines.

Monthly magazine.—The company publishes a monthly magazine which is devoted to the social, recreational, and other interests of the organization.

Suggestion awards.—Employees making constructive suggestions, having for their object the reduction of costs, the elimination of waste, and the improvement of service rendered to customers, are eligible to receive suitable cash awards if the suggestions are adopted.

Thrift and savings account.—Arrangements are provided whereby employees may conveniently open savings accounts with a local bank.

Gymnasium.—The company provides a gymnasium, under the supervision of an athletic instructor and assistant, for the free use of employees. Classes in physical culture are held for both men and women employees.

Umbrella service.—An umbrella is provided on rainy days to those who desire the use of one, free of charge.

[NOTE.—The above outline and description of this company's activities is presented as an illustration of an outstanding "welfare and benefit" plan, several thousand of which are operated in lesser degree by American companies. It might be added that in addition to the $9,000,000 annual expenditure by this company for these benefits, it also pays $3,000,000 in social-security taxes.]

CHAPTER IX

OBJECTIONS TO PROFIT SHARING

From some quarters profit sharing has always faced deep, uncompromising opposition. The term seems to presuppose a "taking away" of the profits of the industrial employer. With this as the basic thought, it is only natural that a defensive selfishness should resent the taking away. The very term "profit sharing" appears to create a prejudice. During the course of this survey the suggestion has been made by several executives, who recognized the high motives of this study and who really were sympathetic and desired to extend cooperation, that we make use of some other term besides "profit sharing." This definitely indicates the prejudice against the term.

These sympathetic critics, as well as all others who desire to explore this subject as judiciously and impartially as it is possible to do, should recognize the intimate relationship between the application of "profit sharing" and the "profit system." Primarily, the need is to broaden the membership in the profit system. That is the essence of the thought which motivates this inquiry and study into ways and means of applying and utlizing profit sharing in the operations of our industrial system.

EMPLOYERS' OBJECTIONS TO PROFIT SHARING

"Failures of profit-sharing plans prove its impracticability."

The objection which will probably rank as number one among the objections to profit sharing is the reference to the record of discontinued or abandoned plans. Probably more opponents of profit sharing, or those who contend it will not work, base their objections on the *record of failures.* This record is constantly reiterated and has been brought forth in reports, researches, and books upon the subject of profit sharing more than any other point or contention. This is not a sound basis for opposing the principle of profit sharing. No social, industrial, or economic advance in history was ever made, except through the test of trial and error. Every progressive step toward improvement in science, economics, industrial development, as well as forward social legislation, has passed through the discouragement of set-back after set-back before emerging finally into the sunlight of success.

World statesmen, continental economists, and all European monarchs ridiculed the founders of the American Republic in their "hopeless belief" that a free people under democratic processes could govern themselves.

Because a few States, in the early period of this country, experimented with the problem of insurance of bank deposits and failed, the banking fraternity was almost unanimous in condemnation of the idea of Federal insurance of bank deposits when legislation for that purpose was introduced by Senator Vandenberg in the Senate of the United States in 1933.

How long was the battle for civil-service reform? Through how many years of opposition and reverses did the advocates of the Federal Reserve System struggle to establish coordination and flexibility in our banking structure? Through how many failures did Morse and Bell and Edison and Marconi persevere to give us their tremendous contributions to human progress? Count the years of disappointment and failure through which Goodyear struggled to find the secret of vulcanization. Incidentally, it is "vulcanization" that is being sought in the industrial operation with respect to the relationship between the human elements in industry—ownership, management, and employees. The chemist or the scientist refers to experiments—not to failures. They consider no experiments as being failures. From every experiment something is learned, something is gained. Such has been the process in the long attempt to find a successful formula for the use of profit sharing as a means toward not only industrial peace and cooperation but as a fortification to democracy. And it should be borne in mind that one success more than balances a score of failures.

Furthermore, practically every abandonment or discontinuance of a profit-sharing plan can be definitely traced to a positive fault in the structure of the plan, error in its application, ulterior motive of the employer, or to obvious financial and economic conditions under which it could not possibly operate. For further discussion of "Abandoned Plans" see Chapter XX.

"No Profits to Share."

The objection which will undoubtedly rank as number two because of frequency in its expression is the contention that corporate institutions in business and industry "make no profits, therefore, have no profits to share." This objection has its source in the tendency to look solely at present balance sheets and to consider profits *now* prevailing with no thought of considering profit sharing as capable of *creating* profits which do not now exist. Time and again this contention of "no profits to share" is stated and reiterated. The record of corporations in the United States filing income statements which show no profits is often presented as final and conclusive proof that there is no use considering profit sharing as a principle to be adopted generally by industry. One prominent writer says:

> that fact appears to show that any further prospect to a *drain upon net profits* directly might well make many corporations so unattractive to capital as to result in severe shrinkage in the number of going concerns.

An impartial study of facts cannot be unmindful of the fact that in 1923 only 63.1 percent of active corporations showed any taxable profit in their income-tax returns; that in 1929 the percentage fell to 57.5 percent, and in 1935 to 41.4 percent; and that in 1936 the presumably profitable corporations represented fractionally a little over 49 percent of all active corporations.

Instead of such facts being presented as an argument against the possibility of applying profit sharing, might it not also be fairly considered as indicative of a weakness in our industrial system and as pointing to the need of some principle or method for rescuing or creating profits? Might it not be more than conceivable that a "labor dividend" or a "sharing of profits with labor" might be a stimulating injection—an energizing tonic—to many a laggard enterprise? The record of corporations which have adopted profit sharing presents incontrovertible evidence in support of this. As an example, the executive of one corporation testified that, in 3 years prior to 1924, his corporation had suffered substantial losses amounting to several hundred thousand dollars annually; that in 1924 they inaugurated a profit-sharing plan and that for 14 consecutive years thereafter their annual profit was approximately $1,000,000 annually. Many other corporations can present similar experiences in support of the contention that profit sharing is a "creator" of profits by reason of stimulating the entire personnel of the institution to avoidance of waste, protection of product, greater efficiency, greater sales effort, increased production, and other factors which have a direct bearing upon the making of profits.

However, pertinent to this subject, is the statement of Mr. Alfred P. Sloan, Jr., president of General Motors Corporation, who stated at the public hearings of the committee:

> For instance, if you take the sixteen leading industrial organizations in their respective fields in the United States, each employing a capital of $100,000,000 or more, most of them considerably in excess of that, you will find that their return on capital over the last 15 years has only been eight percent (8%).

Accepting this statement at its face value, what would a 10-percent profit-sharing arrangement mean to these giant companies? It would simply mean that the return to capital would only be reduced to 7.2 percent. And that gives no consideration whatever to the increased returns capital would receive from greater cooperation, stimulated energy, increased production, savings of waste, material, and equipment; all of which results, according to the testimony of experienced profit sharers, from the incentive of profit-reward extended to the employees.

To be very realistic, might we not give thought to an institution which we will say employs 1,000 men, and imagine a situation created by the incentive instilled in each individual to selfishly work for a share of profits for himself personally, whereby, instead of one man, the owner or proprietor, devoting his mind, body, and energies to the making of a profit, that he had the auxiliary support of 1,000 men allied with him in the effort to build profits. Can it be denied that the united effort of 1,000 individuals striving to make a profit will not exceed the power of 1 in that effort?

"Labor does not produce profits, hence should not share profits."

The president of one of the Nation's leading industrial institutions, the employer of 35,000 men, contributes the following opinion on this subject:

> Labor may not have any capital to risk, but it is risking all it has to risk, i. e., its labor, and its ability to get the best results from this labor is bound up to a large extent with the permanency and profitableness of the business. Labor may not risk a proportionately large amount based upon the productiveness of what it lends, but it does risk a very large amount in proportion to what it *has to lend*.
>
> It is, therefore, only a matter of mere justice that, if labor has received a current wage, and capital at the end has received a current rate of interest, any surplus beyond this must necessarily have been created by the combined use of capital and labor and should be divided between the two in some proportion and not go entirely to capital alone. With this incentive, the increase in quantity and efficiency of production will provide means for capital to share a percentage of earnings with labor without net loss to itself.

A writer who has obviously given much thought to the subject of profit sharing, John Watson Wilder, points out "that one of the greatest objections industrialists have to such plans is the use of the word 'share' " and contributes the following philosophy in connection with the oft-repeated statement that inasmuch as labor has nothing to do in the production of profits, therefore labor should not share in profits and that it is capital and management only that produces profits.

Mr. Wilder says:

Nothing to share? But if I buy a share of stock in a corporation it shares its profits with me, even though I never turned a hand to help it produce anything, nor even paid enough attention to its affairs to sign a proxy for a stockholders' meeting.

Labor does not produce profits? But it digs iron ore out of the ground, which goes through various mills and factories and comes out as part of an automobile or locomotive or jackknife or watch spring—all because men worked on it, with their hands or machines in countless operations. The real fact is that all three—capital, management, and labor—are producers. That hunk of dusty iron ore would remain in the ground—just a part of the ground—if there were no labor to dig it out, haul it away, and transform it into something useful.

It would remain in the ground if capital did not build mills and factories and ships and trains to care for it.

It would remain in the ground if there were not men skilled in managing and selling and financing and advertising to keep the other two factors—capital and labor—busily employed. Why isn't it reasonable, since all share in production, for all, in some fair way, to share in profits—when there are any?

The fact that in this country some 2,000 firms have some sort of profit-sharing plan, the great majority of them operating happily and successfully, proves that profit sharing is not the cockeyed idea some claim it is.

Upon this subject, the comment of two employees is of interest:

Although the company may have a high financial investment in its business, the employee also invests his life, labor, skill, and ingenuity to assist the company for which he labors. The profits from a given article can be either large or small depending often on the short cuts to production supplied by employees. The skill and ingenuity that a man may apply to his work is not entirely compensated for in his weekly pay envelope.—J. S. (clerk), Philadelphia, Pa.

I am for profit-sharing because I think that any plan that takes the guesswork out of industry and creates a better employer-employee relation is something we should have. It takes the friction and impatience out of the employee. He does not mind going down with them when they get in trouble if he knows he will come right back with them as soon as they prosper again. I am sure the overwhelming majority of employees in our plant feel the same as I do. Our company has been very frank in advising employees about their annual statement and I believe this to be very important in retaining confidence of employees.—N. J. M. (clerk), Pittsburgh, Pa.

There is another important phase of this subject to be considered. Let us assume a universally prevailing condition whereby labor receives its full payment in wages and capital takes all the excess. The natural consequence would be to divide industry into two classes, one whose interest is entirely in wages and the other entirely in profits. Clear class distinction is created. With such a clean-cut division of interests established, the workers (labor) might reason, or be led to reason, that so long as business is successful enough to obtain the capital necessary to continue its operation, any further profits to capital are detrimental to the interest of labor and that, therefore, the workers should strive to have their wages so high that excess profits would not be possible. The converse reasoning might be advanced by those supplying the capital, that so long as sufficient labor can be obtained to operate the business, wages must be kept as low as possible in order for the profits to be larger.

This conflict of interests prevails too generally in industry today. Instead of having a difference of interests, there should be developed a community of interest.

"Profit sharing won't work because the employee won't share losses."

Testimony by those who have actually practiced profit sharing in their institutions does not bear out this objection. Evidence seems to show conclusively that if employees are brought into a relationship under which they have confidence in the management and are given some reasonable degree of knowledge of the operations of the company, they have invariably shown an appreciation of conditions under which their institution is operating and have shown a willingness to forego profit distribution; in fact, instances are numerous where they have accepted reduction of regular wages in order to aid the company in increasing production, stimulating sales, and returning to a profit basis. Indeed, a number testified that the cessation of profit distribution, due to slack business, had impressed employees with the fact that profit sharing is dependent on profit making and that, upon resumption of profit distribution, they have given evidence of a firmer belief in the plan.

Pertinent to this was the testimony of Mr. J. R. Ramsey, general manager of S. C. Johnson & Son, Inc., Racine, Wis., who testified—

> On that point of continuity of profit-sharing distribution, it might interest you to know that probably one of the best things that ever happened was the 2 years when we failed to make profits and could not disburse the profit shares. Everyone, including myself, had gotten into the habit of counting on it every year, and probably buying a new car or one thing or another, when we shouldn't. Then these 2 years without a profit distribution brought the fact forcibly to our minds that we were operating under a profit-sharing proposition.

Also significant was the statement made by the head of a large industrial concern that although his company had lost money for 9 consecutive years and had, therefore, been unable to make any payments under their profit-sharing plan, his institution had had no labor troubles at all; that the employees, having an understanding of conditions, through a closer relationship, knew and understood why there were no profits to share.

Another executive of a company that has operated a very successful profit-sharing plan for 20 years testified that although profit distribution had been made for a period of 11 years up to the depression period of 1932, that although the company for 4 consecutive years failed to make any distribution, there was not one single complaint from an employee and that three consecutive wage reductions were accepted without protest, this attitude being due, according to the company executive, to the fact that the employees understood as well as did management that the company was losing money and that there were good valid reasons why no profits could be distributed.

Another employer, voicing the opinion that labor is entitled to consideration over and above the wage scale, and that the sacrifices and losses of the worker fluctuate with the prosperity or adversity of the company, makes this comment:

> By working for Company "X" he automatically surrenders the opportunity of working for Company "Y" where he might secure greater profits of employment. In addition, the younger employee coming into the business and working for a long number of years is spending, investing, and using up the only "capital" he

possesses—his ability to work for a pay check. The employee actually gives up the best years of his life, possibly his whole life, for the employer and, while such a sacrifice cannot be measured in terms of dollars, it certainly should be considered by those employers who declare that "capital" assumes all the risks and the employee risks nothing. Employees suffer very definite monetary losses during any period of depression or hard times. The company, as a rule, can feed from resources and reserves for a certain number of years, but the period of time that an employee can feed off himself is usually very limited. It is absurd to make the statement that employees do not share losses in view of the fact that a man who has lost his job has generally lost his entire income, has mortgaged his future by making loans or else becomes dependent upon the public relief rolls for support. Employees can suffer a deficit the same as any business or any corporation.

Closely supplementing this viewpoint is the comment of an employee, who writes:

Even the man who manages to keep his job can very definitely suffer losses in a depression. For instance, in normal times a man may earn $1,800 per year, out of which he spends $1,600 to maintain a decent standard of living for himself and family. When operations of the company are reduced it may be very true that his wage rate is not reduced but there usually occurs a reduction in his income through loss of hours per week and time off. Secondly, if during such a period he only earns $1,000 or $1,200, he has a choice of two things—either reducing his standard of living to a subsistence level or drawing upon his personal capital to maintain a regular standard of living. He might even mortgage his future to the extent of going into debt, which is very often the case. If any employer believes that his employees do not share in the losses, all he has to do is spend a few days down in the shop talking to the boys. He will really find out what they give up.

To this objection "that employees won't share losses," Mr. William Green, president of the American Federation of Labor, answered:

Investors have always claimed that profits belonged exclusively to themselves because they alone bore the risk of industry, but we all know that the risk of business is borne by every person dependent upon it for jobs as well as income. In reality, labor is a partner in production, not from the investment of capital but from the investment of experience and workability. The risk of wage earners is no less frightening and hazardous than that of investors; food, clothing, shelter, and the actual necessities of life are at stake.

An employee asks this very pertinent question:

Is the stockholder's risk of missing a dividend check greater than the employee's risk of getting the "pink slip" and losing his pay check? The one foregoes and postpones a profit, the other faces grief, deprivation, and possible starvation.

A prominent economist, who happens also to be the president of a manufacturing company, also joins in this general objection when he writes:

The only real basis for profit sharing is the disbursement of profits to persons who have a financial stake in an enterprise.

And then he joins the group who insist on putting the cart before the horse by declaring—

Before there can be profit sharing, there must be profits. We could do a great deal more toward improving the situation from a tax standpoint if we were to do things which promised profits rather than spend time on hairsplitting with respect to the sharing of profits.

Then he adds—

The problem is how to stimulate more widespread economic well-being through fundamental readjustment and how to foster a better distribution of profits once they have been made.

A leading industrial manager presents a partial answer to the foregoing criticism when he writes:

The changes that have taken place in modern industry, as contrasted with 20 years ago, give the worker far less chance to become economically independent.

The chances for rising have lessened as specialization has increased. Hence, the man who goes into any industry, which is largely depending on labor, is entitled to a share of the profits of that industry. And where that principle has been intelligently applied it has not been found to fail. And it has never cost anything but, in addition to paying for itself, has produced a dividend for the employer.

The primary objective in the search for sound and practical methods of applying profit sharing in industry is to establish "widespread economic well-being" by bringing to the support of our industrial system, and the economics under which it operates, a great auxiliary army of American employees with the idea that their support will be gained when, through and by their relationship with industry, their welfare and security are made more certain. This is the "fundamental readjustment" necessary to be made in our political democracy. Cooperation, under which will be established a *mutuality of interest*, will insure a profitable operation of industry, which is today made uncertain by the "conflict of interest" dividing the two human elements in industry—workers and management.

"Profit sharing means invasion of management and control."

This idea, while not widely prevalent, is shared by some as an objection to the general adoption of profit sharing. It is entirely advanced by those who have never had experience with a practical application of profit sharing in their establishments. It generally accompanies the impression that profit sharing means "a 50–50 split of profits and interest in the company." Such impressions are founded on prejudice and are not confirmed by any single instance of the actual use and operation of intelligent profit sharing. The results of this survey failed to find a single instance where practical and intelligent profit sharing had been introduced and applied that any invasion of the sphere of management or ownership had been made, or even attempted, by the employee group. Furthermore, in the search of employee sentiment throughout the country, the overwhelming expression of opinion by employees to the question, "What share of profits should workers receive?" was a very conservative attitude as to the amount of profits to be shared, the majority expressing opinions that ranged between 5 and 20 percent, with a very large percentage stating, "this is something for careful consideration in order not to imperil successful operation."

Speaking for the American Federation of Labor, its president, Mr. William F. Green, testified:

Nothing involved in the acceptance of this real partnership [profit sharing] alters the functions of management and workers. Management would still write the work orders and the production staff would execute them.

Mr. Frank Gannett, publisher of the Gannett newspapers, who for many years has practiced various types of employee-welfare work, including a successful profit-sharing plan, testified as follows:

I at one time in my life thought we should give labor representation on the board of directors, and I took it up with several labor leaders. They said, "There is no need of our going on the board of directors. We do not know anything about the finances, the financial reports; it would not mean anything to us at all."

Employee management has been tried—usually without success. Most employees lack qualifications of education, vision, initiative, and experience for managerial work. This fear on the part of some industrialists is the most baseless of any of their objections to profit sharing.

However, there is another side to this question, which is often presented by those who paint the picture of the advantages and opportunities of individualism; who portray the record of American industry always holding open the door of opportunity to the worker to "rise to the top." That is the fact that universally throughout our industrial field the manager of today was the worker of yesterday. Whence came the present heads of industry, in most cases, except from the employee group whom these objectors fear might try to "manage" the business if encouraged to greater effort by profit sharing? Frederick Winslow Taylor, in his book "The Principles of Scientific Management," admits that—

> every intelligent manager knows that the collective knowledge of a group of workers is greater than the knowledge of any manager alone * * *—

though he fails to admit that the employment of a method or principle by which this group knowledge could be stimulated by a group incentive that would exert its best group effort toward everything designed to promote profits for the corporation. Down in the ranks of probably every institution are men of latent executive ability, of high order, who might well be encouraged to rise to the top (and often would be by profit-sharing incentive) to the great advantage of the business.

Judging from the sentiment expressed by employees in profit-sharing institutions, industrialists may rest assured that workers who are thoroughly "sold" on the profit-sharing plan under which they work, and on its administration, will not knowingly endeavor to put into an executive position one of their number who is unqualified for the larger job; they will take no chances of having the prosperity of *their own* company jeopardized by such an invasion.

"Labor wants its profits all at once."

"All payments to labor should be in the pay check." This objection is based upon various ideas such as (1) the worker's additional income under profit sharing cannot be paid to him often enough to meet his requirement; (2) the economic status of the worker will not permit delay in payment of any substantial part of his income, he needs his full income weekly or at least monthly to meet regular running expenses; (3) unlike the executive, the average worker's viewpoint is not geared to long-range considerations; that he is not ready to accept the postponement of income in any practical profit-sharing plan.

Records of profit-sharing operations reveal two schools of thought:

(*a*) Those who believe that profits should be paid to employees at frequent intervals—monthly, quarterly, or semiannually, etc.

(*b*) Those who believe that profits should be impounded or trusteed over a period of years, in a trust fund, in stock of the company, or other investments.

Those who advocate the first idea (*a*) respond to the natural desire of men to "have it now"; to the first instinct of men who echo a quite prevalent demand to "put it in the pay envelope"; to those who "want to see the color of their money," etc. This all reflects the emotions of those who live in the thought of today, and today only, with no thought of their own weaknesses and without due consideration of the future. The faults and imperfections of this plan of payment are discussed at length elsewhere in the report. The experiences of the most experienced and successful operators of profit-sharing prove the ineffectiveness of that system of payment.

Those of the second school of thought (*b*) have, we believe, much the stronger foundations of logic, psychology, and human experiences to support their contentions. Their plan of accumulation prevents the profit sharing being confused with wages, creates security for old age, establishes a lasting partner-relationship, stimulates and sustains an ambition for greater accumulation, which in turn instills a deeper profit-urge, and above all protects the worker against his own inability to save, invest, and protect his extra-compensation funds.

The situation stressed in many employee's letters, complaining of their inability to save, cannot be overlooked. One employee writes, "I have figured up my earnings for 30 years and find I have made $54,000 and saved nothing." Even worse is the testimony of the employee who rose from laborer to executive, yet who confesses, "I have earned $200,000 in 32 years and I am ashamed to state how little I have to show for it."

These and other similar testimonials provide strong evidence of the human weakness that constitutes a national problem. Thriftlessness is a universal human frailty. In all income classes, only a small minority manage to accumulate reserves for home building or permanent security. The percentage is lowest in the small-income classes, which means the laboring class. There is where the national social problem is rooted. There is the situation which brought forth the Federal Social Security Act. There is the situation which foments the urge for "distribution of wealth," for "worker control," for "government operation," for "socialism, collectivism, and communism."

The greatest fear of all men is the fear of tomorrow. This fear creates the great urge to save. People try to save because they are afraid of tomorrow, next year, or 10 and 20 years from now. The working man, generally speaking, cannot save in this extravagant, spend-tempting age, and if he does save he is sorely handicapped in investing safely and profitably. The most vulnerable spot in the capitalistic economy, as it operates today under the American system, is the fact that several million people, at the age of 60 or 65, emerge from a lifetime of work into poverty or dependence upon some form of public relief or charity. This indictment must be answered with a solution. This is the weak spot in the capitalistic program which must be corrected and fortified.

The great majority of people spend and live to the full measure of their earning power. Without someone to save, the race would starve. Civilization is the outgrowth of saving. The more widespread the saving, the more firm is the foundation for social progress, for higher standards of living, and for more rapid progress of civilization.

Several signally successful profit-sharing plans, now operating in well-known institutions, seem to have found the solution to this great problem. Likewise they have answered the objection stated above that "the worker will not permit delay in payment of any substantial part of his income" or that "the average worker's viewpoint is not geared to long-range considerations."

Profit-sharing plans which have been designed for accumulating a steadily growing retirement fund for the purpose of building an estate for the worker's enjoyment "at the end of the road" have undoubtedly provided a much more challenging and inspiring incentive for continuous service, permanent satisfaction, increased efficiency, and for the transformation of the worker into a capitalistic attitude than any other type or form of profit-sharing technique. Such a plan of accumulation creates a psychology of "a rising sun" before the eye of the worker which becomes brighter and larger through the years, and provides the "differential" or adjunct, which, added to his wage rate, causes his self-preservation instinct to look in two directions, instead of one, making his self-interest flexible and cooperative on the whole question of income.

The experience of the Procter & Gamble Co. presents conclusive testimony in support of the contention that in order to do the most good for the worker himself a plan must be constructed in such a way as to protect him from his own weaknesses and faults. Few, if any, will contest the statement that Col. William C. Procter was one of the most farsighted business executives of the last half century, and that he was actuated by honest and sincere motives in his attempt to create a closer working relationship or solidarity between employer and employee.

> He believed that a man who was willing and capable should have the opportunity to work; that a workman should be a good citizen, and that anything that could contribute toward that end would be beneficial to our whole economy.

His aim was to help a man create an estate as a protection against old age. In the early stages of the Procter & Gamble profit-sharing experiment a cash bonus was paid twice a year at which time a "dividend day meeting" was held. The profit-sharing dividend was paid in cash in the simplest way possible. Soon the management found that this extra payment was not accomplishing what Colonel Procter hoped for. The men got their money, but they and their families spent it. Most of the workers found nothing left at the end of the year. In fact, a few of the less responsible ended the year in debt, hoping the company would show enough earnings to pay a bonus and start them off even with their creditors at the beginning of the next year. Instead of it being a thrift plan, the proposed "profit-sharing dividend" turned out to be a spendthrift plan.

It was then that Colonel Procter designed a system by which each man was to become the owner of stock in the company for which he paid under terms that required a 6-year ownership. Actual practice of this revised plan showed that the 6 years of training in thrift almost universally started the worker on the road to comparative wealth and independence. For over 40 years this plan has demonstrated its soundness and effectiveness and today 10,000 employees of that company are demonstrating their approval and satisfaction by a long reign of industrial peace and cooperation.

The Joslyn Manufacturing & Supply Co. of Chicago submits testimony of similar character. For 18 years, Mr. Joslyn experimented with cash bonuses, cash dividends, wage dividends, and practically every form of an employee-relations policy. Finally from the experience of these 18 years, and the experimenting with nearly a dozen plans, he designed and developed a "Savings and retirement fund profit-sharing plan" which because of its signal success has attracted not only Nation-wide but international attention. The heart of the Joslyn Plan, and its most important feature, is the nonpayment of cash and the accumulation of annual dividends in an inviolate, irrevocable trust fund which accumulates through the years under the impetus of compound interest and retires the worker at 60 with a fortune.

The success of a profit-sharing plan, and all its requirements upon the worker, depends upon its form, the sincerity of its application and the integrity of its administration. This system of profit-sharing also answers the commonly expressed objection that "the sharing cannot be differentiated from wages." Those who have operated profit sharing through payment of cash bonuses have good grounds for this latter objection. However, on the other hand, those who have established a sharing on a basis of accumulation, payable at retirement, have successfully differentiated the sharing from the wages and present unquestionable proof that under such plans the employee attaches no relationship whatsoever between wages and share funds.

"All the worker wants is a steady job and good wages."

The unfortunate record of labor unrest, turmoil, and strikes of 1936–37 would appear to be the complete answer to this objection when nearly 2,000,000 employees in more than 5,000 establishments walked away from or "sat down" on "steady jobs at good wages." That record also is strong evidence that reliance upon wage scales is one of, if not the greatest, weaknesses in our industrial system today. Ruskin truly said, "No amount of pay ever made a good soldier, a good teacher, a good artist, or a good workman." Something presenting a greater incentive than wages is needed to create that "mutuality of interest" so necessary to the solution of our national labor problem.

The wage rates have always been the bone of contention in the conflict between capital and labor. So long as wages are the only link connecting the two interests, just so long will conflict continue. Wages will never settle the labor problem, because the saturation point will never be reached. Allowing the relationship to rest upon wages or working-hour rates will always furnish an issue for the perpetuation of conflict, an issue never settled, a succession of concessions, truces, temporary peace pacts, but always unrest and "collective bargaining." How many more 5 and 10, and 15 percent wage increases can industry absorb? One prominent Midwestern manufacturer reported, "Our base wage rate has increased 50 percent in the past 5 years." What is he sharing?—and facing?

"Profit-sharing plans are too paternalistic."

True, in some cases, but entirely unnecessary. Records show conclusively that wage earners do not so consider plans which are properly conceived and wisely administered. The danger of paternalism is lessened when the basic idea is explained fully to the employee as something to which he is entitled as a coproducer; not as a gift but as a right. Another thing which would help would be less of the "we're just one happy family" and more of "you helped make the profits, boys, a part of them belong to you. You're going to receive your part and here's how you're going to get it."

"Profit sharing will necessarily raise wages" or "Profit sharing will reduce wages."

It seems strange that these two objections, opposites of each other, would be heard as often as they are. Generally it is the industrialist who has never tried profit sharing, but who persists in his prejudice

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against it, who insists that profit sharing is simply adding more to the present labor cost and is merely an addition to the wage scale. The second objection, that profit sharing will reduce wages, is usually advanced by leaders of organized labor. The answer to these questions rests entirely on either the form of the plan, or, in the case of the latter objection, to the honesty of purpose of the plan. The overwhelming testimony of those executives who have operated the most successful profit-sharing plans is that the one positive result of profit sharing has been to stabilize wages, except as they may be governed by economic changes, and the evidence further points to the incontrovertible fact that under honestly designed and honestly administered profit-sharing plans the wage scale has been maintained at the highest level of the respective industry, and in many cases above the standard or prevailing wage rate.

"Profit sharing may succeed in a small business, but cannot in a big institution."

This objection is often heard from the executives of large, far-flung, and disintegrated industrial institutions. The best answer to this is that, even if the objections were true, profit sharing can be applied to the great majority of employees in American industry. This for the reason that 70 percent of all employed workers in the United States are employed in establishments having less than 500 employees.

However, the objection is answered by the successful experience of several very large industrial establishments whose employee groups number many thousands and whose operations are widely scattered and who present practically all the problems within their organizations which are to be found in any of the larger employing institutions.

A total of 728 employing institutions having profit-sharing plans have filed reports and schedules in this survey. Five hundred and eighty-eight of these companies have presented figures giving their net worth. These 588 companies show a total net worth of over 22 *billion* dollars. This is an average of more than $39,000,000 per company. These companies range in net worth from $10,000 to over $1,000,000,000.

UNION LABOR OPPOSITION TO PROFIT SHARING

When LeClaire attempted to introduce profit sharing in France 100 years ago, he and his plan were criticized by labor as an attempt to reduce wages. In 1923–25 the British Trade Union Congress rejected copartnership and profit sharing as a device to mislead workers and prevent trade-union solidarity. Union leaders have often expressed opposition to profit sharing because of the fear that harmony of interest between employer and employee would lead to abandonment of unions, to an aversion to strike, to an interference with union representation in collective bargaining and to the general lessening of the importance of union-labor leaders. There are many companies with long experience in profit sharing which present evidence that none of these fears have proven justified. The opposition of union leaders indicates a lack of fundamental understanding. Profit sharing should develop a new high type of labor leader, which our increasingly complex economic life requires and should offer greater opportunities for intelligent workmen to rise in the managerial ranks.

The sum total of union-labor opposition to profit sharing is stated in a letter received during the course of this survey from the general president of a prominent American labor union. He says:

> We are emphatically opposed to any form of so-called profit sharing because they create the mistaken idea in the minds of employees that such plans make them "partners" in industry and divert their attention from unionism. It seems to become a substitute for collective bargaining. These plans are used to keep salaries and wages at status quo and even lower levels. Such minor returns as employees have received have been unimportant in comparison to increase, dignity, and independence gained through organized unionism.

It is true that profit sharing does create the consciousness of partnership between employer and employee. That is the primary purpose of the philosophy of profit sharing. It is contended by advocates of profit sharing and proven by those who have put the principle into practical operation that once the partnership relation is established that a community of interest is developed and from this flows cooperation, increased efficiency, and a united effort for successful operation. The contention that profit sharing will divert employees' attention from unionism or that it becomes a substitute for collective bargaining cannot be wholly substantiated by the experience of those companies which have employed profit-sharing plans. Inquiries to such companies during the course of this survey bring an almost unanimous report that the managements have maintained a strictly neutral attitude regarding union membership, allowing their employees to exercise their own free will as to affiliating with any union they choose. The same attitude is found to be true toward collective bargaining.

"Profit sharing aimed to keep wages down."

As to the claim that profit-sharing plans are used to "keep wages and salaries at status quo and even lower levels" this is unsupported by the evidence collected in the course of this survey. In fact, the reports from several hundred companies employing the principle of profit sharing, as well as the testimony presented at the public hearings of this committee in Washington, by executives of many leading institutions operating profit-sharing plans, bring forth overwhelming evidence to the contrary. Practically every company which is functioning under a profit-sharing system is not only paying the standard scale of wages prevailing throughout the industry but in many cases are paying wages considerably above the standard of prevailing wage scale.

The attitude of union labor leaders toward profit sharing has undergone much modification within the last decade. Formerly, leaders of union-labor organizations were unanimous in their opposition to profit sharing. This attitude is exemplified in the public expressions and writings of such outstanding leaders as Samuel Gompers, John Mitchell, Warren S. Stone, and others of a former day. It is possible that this strong and united opposition of these leaders was caused by the ulterior purposes which motivated many institutions in adopting various improper forms of profit sharing in their day. It cannot be denied that profit sharing has been misused and abused both in design, motive, and administration. Many of the charges made by labor leaders of a previous day were founded upon fact. However, through the trial-and-error test, profit sharing has steadily emerged with the record of many successful experiences in later years, experiences which proved the honesty and sincerity of management, the approval and acceptance of the workers, and the unquestionable benefits to workers in relieving the uncertainties of unemployment and the fears of old-age poverty.

The broader and more statesmanlike attitude of present-day leaders is shown in the testimony offered by Mr. William Green, president of the American Federation of Labor, at the public hearings of this committee in Washington, in November 1938. At that time Mr. Green said:

> Labor is not opposed to principles involved in profit sharing, but it is opposed to the way in which it has been developed and operated—recognition of real partnership and frank acceptance of the privileges and rights derived therefrom would be the greatest incentive to sustain efficiency in work that industry could devise—if the earnings of the industry would justify an equitable distribution of the profits of industry between investors, management, and employees let it be done, with a full understanding and in full cooperation with the representatives of the workers. The one trouble about profit sharing, as practiced by a number of corporations, is that it has created suspicion and distrust, because the workers know nothing about the basis upon which the profits were distributed * * * there is a great need of frankness and open dealing between the management and the workers today. Let the workers know the truth.

Supporting this broad-minded attitude on the part of union labor is the statement filed with this committee by Mr. Matthew J. Burns, president of the International Brotherhood of Paper Makers, of Albany, N. Y., who writes:

> I feel quite certain that the executive officers of the International Brotherhood of Paper Makers and some of the local unions of this organization look with favor upon some sort of profit-sharing plan to supplement the standard uniform wage rates established in the paper industry, which prevail as a wage structure in the paper industry during both good and bad times, with slight variations from time to time.

Speaking in behalf of independent unions, Mr. P. W. Horner, chairman, National Council of Independent Unions, writes the committee as follows:

> The general idea of profit sharing by industry seems to me to be sound in principle. Any device which works to provide a more equitable division of the wealth created by industry; which fosters harmony in industry; which lays emphasis upon those interest which are shared by the owners, the management, and the employees; and which gives the workers an additional stake in the well-being of the business, is good. This is not to say that I endorse all profit-sharing plans, but the basic idea of sharing profits of industry with the workers, entirely apart from their normal wages is good. The National Council of Independent Unions favors those things which improve the real conditions of the workers and which promote harmony, prosperity, and jobs for all those engaged in industry.

CHAPTER X

ESSENTIAL FEATURES OF AN EFFICIENT AND EFFECTIVE PROFIT-SHARING PLAN

In building a structure of a plan or policy, it is important to first establish the objectives sought to be accomplished. The resolution authorizing this survey refers to "extending the direct benefits of the profit system to the largest possible number of citizens" and that "the maintenance of the profit system is essential to the preservation of the competitive capitalistic system." That objective, therefore, must be of first consideration in this recommendation. The next must be the factors necessary to benefit the industrial system by creating closer relationships and cooperation between employer and employee in the industrial operation.

There can be recited a most impressive and challenging record of what the capitalistic system, under our American form of government, has accomplished for America and the American people. Nothing in all world history has equaled the production of wealth, the creation of the standard of living enjoyed by our people, the inventive genius, the material progress and prosperity of America. But there is one great vulnerable spot in our capitalistic economy. That is the fact that annually in America several million people (different estimates vary from 6,000,000 to 10,000,000) finish their lifetime of work in penury and want. The system will be the object of continuous, ever-increasing attack so long as this situation exists. In fact, the system cannot long endure with such a condition being the annual output of its operation.

Therefore, object No. 1 of our recommended plan should be:

I. *Provision for the creation of an estate or retirement fund for the protection of old age.*

Next in order of importance is the consideration of the effect of the flat-wage system under which industry has and is operating and under which there has been created the conflict of interest between labor and capital. Private enterprise is now operating on the basis that each group demands and takes as much as it can from the other group. Antagonism is the basis of such a system. Capital seeks the highest return possible. Labor desires and demands the highest wages possible. Management claims large compensation. Government seeks higher and higher taxes. Against and in the face of all these conflicting interests, the consumer wishes lower prices. Such a situation can only result in perpetual maladjustment. Something that will provide a "mutuality of interest" must be devised. Something which will provide flexibility in production costs is essential. Something which will be a "shock absorber" between all these conflicting interests and demands is imperative. Therefore, the No. 2 objective of our plan should be:

II. *A plan which will remove the rigidity of flat and fixed wage scales, thereby providing flexibility to production costs and inserting a "differential" in the compensation relationship between labor and capital.*

When we consider this as dealing with a social, an industrial, or political problem, it must be dealt with through human beings. Laws seldom solve economic problems. It is easier to change men than to change laws. It is men and the public opinion they reflect that makes laws. If laws are to be changed, it is men and their sentiment which will change them. Therefore, we must proceed to the consideration of—

BASIC PSYCHOLOGICAL FACTORS WHICH CONTROL MEN

In a previous chapter the mass sentiment and social trends of the day have been reviewed and analyzed. No one can view the social and political situation facing America without realizing that at the very base we have a social problem. With no desire to enter into an involved discussion of sociological or psychological subjects, we must nevertheless apply our thought toward solving certain problems which lie at the source of social unrest. To do this it is necessary that we dismiss consideration of the usual industrial factors such as production, sales, earnings, and dividends and do some fundamental thinking about the forces that govern the emotions, passions, and hopes of every human being.

1. *"Men with nothing have little concern, if any, in protecting other men's property."* *Why should they?*

The source of this psychological truth is not known but it cannot be denied. Proof of its truth is furnished in practically every instance of mob violence with its destruction of property. Seldom will you find a man in a mob bent on burning or destroying property, who owns property of his own. Property which he may have secured unto himself through sacrifice and years of hard work represents something too precious to be destroyed. The very thought of his own being destroyed will bring an appreciation of how others will feel if their property is destroyed. He knows the cost of his own property, what it cost him in labor and savings. He cannot help but see the same cost of sacrifice and labor and savings reflected in the other property being destroyed. Therefore, the need of the day is to create respect for all property by making the employee a possessor of property; by creating a stake for him in the social order, and thereby creating the *consciousness* and pride of ownership.

2. *"Men are only deeply interested in that for which they have sacrificed something."*

Consider this from a personal standpoint and no one can deny its fundamental truth. A man may look at other men's homes with considerable indifference, but let him build a home and with that building make a sacrifice which it entails, and from that moment he has a deep interest in a home. The same psychology applies to the raising of a family, to education of children, to the accumulation of an estate, to the writing of a book, the painting of a picture, or the building of a business. Personal sacrifice is the magnet that holds, and continues to hold, sustained interest.

3. *"Men growing steadily well-to-do, building an estate or a strong security for themselves and their families, and doing it from their own efforts, become proud, happy, and jealous of their achievement, and will fight for its protection."*

In this bit of sound philosophy is to be found the seed of ambition, contentment, and responsibility of citizenship. How valuable that spirit of "fighting for something" would be if it existed among the majority of employees in an institution. A review of the labor turmoil of 1937 will bring appreciation of the value of having this spirit possessed by the majority of an employee group. In practically every instance of violence or strike trouble, the leaders of disturbance and of violence constituted a relatively small percentage of the employees, usually a group of the younger members, having no commitments and responsibilities; a group gullible to the promises and claims of false leaders and to whom a strike offered something new in the way of adventure and excitement. This minority, in most cases, comprised only 10 to 20 percent of the entire employee group. What of the other 80 percent? For the most part, they were a satisfied group, many of whom had been through strikes and knew the futility of strikes. They know what loss of wages means to the employee group. The older men often counsel against violence and are generally to be found advising against a strike. But, it may be asked, why does this 80-percent majority stand idly by or retire to the sidelines and permit the small minority to cause a strike with its destruction of property, closing of the plant, and the loss of wages? The answer is: Because they do not have a sufficient stake in the situation to fight for, to warrant the chance of personal injury. If that majority had a sufficient stake in an estate or a strong security being built and accumulated for them and for the security in old age of themselves and their families, and this stake or security was endangered or threatened with cancelation by indulgence in a strike, that majority *would have* sufficient to fight for and would soon assert their control of the situation instead of allowing the small minority to injure or jeopardize their interests.

4. *"If you want them conservative, give them something to conserve."* This is the Palmerston principle and is closely related to the psychology presented under item No. 3. With every worker having something to conserve, the group would be a great economizing force for the conservation of property because of their own interests in that property.

ELIMINATION OF THE WORKER'S TWO GREAT FEARS

1. To construct a plan with provision for insurance and protection against unemployment. This will remove fear No. 1 from the worker's mind—that fear of losing his job. This is an ever-present, morale-destroying fear hanging over every worker, creating doubt, distrust, and anxiety. This anxiety in turn is a source of discontent and dissatisfaction. From these the worker becomes the prey of those who appeal to his emotions and who lead him into errors and action which he otherwise would not make or take.

2. Design the plan in a manner which will accumulate a fund for old-age security. Here is the estate, the strong security, which will steadily grow larger and larger through the years, becoming as it were "the rising sun" to the worker in which his hopes and dreams are bound up and in which he places his confidence in the future and from which he derives the assurance and peace of mind as to his future.

The undeniable fact remains that every last man in America, whether he be the president of the greatest corporation in the land or the humblest worker at the bench, all have the same hope and goal in life—comfort and security at the "end of the road" when old age rings down the curtain and the working days are ended.

A company contemplating profit sharing would do well to install or inaugurate an employee-relations policy simultaneously therewith. This policy should be primarily designed for conducting:

(1) A sustained educational program to—

(*a*) Inform the employees on company affairs, problems, and policies.

(*b*) Develop understanding of elementary economics of general business.

(*c*) Sustain interest in the profit-sharing plan.

(2) Human relationships—

(*a*) For personal contact, conference, and negotiations.

(*b*) To handle individual problems and troubles of employees.

It is firmly believed that had many of the concerns who in the past have experienced difficulties in their profit-sharing operations, accompanied their efforts with a program as above outlined, they would have accomplished successful and effective results.

PRINCIPLES TO GOVERN INCENTIVE PLANS

There are certain principles which should be adhered to in all profit sharing or extra compensation plans in order to make them effective:

1. Such a plan should serve to promote confidence and mutual understanding between employer and employee, and should be inaugurated with the greatest of care in order that this confidence is first established.
2. The fundamental purpose of a plan should be the increasing of the value of the employee's service both to himself and the employer.
3. The benefits to employees should be substantial and always additional to the current rate of wages.
4. Particular attention should be given to prevent the plan representing paternalism or philanthropy on the employer's part.
5. Employees should be thoroughly informed as to the conditions affecting the payment of benefits and the amount of the incentive.
6. It will be extremely beneficial for the permanent acceptance of the plan that the employees be represented in the administration of the program.
7. The effectiveness of the management of the plan will spell success or failure and this management should give particular attention to continued education and human engineering.

Chief Justice John Marshall once said, "Laws were instituted among men because the passions of men will not conform to the rules of equity and justice without restraint." This should be remembered in designing a plan. Coupled with equity and justice, there should be provisions for penalties for violation of purposes and objectives of the compact. Recent experiences of companies who expended millions for welfare work, only to be repaid with ingratitude expressed in terms of strikes and destruction of property, emphasize all too well the declaration of Justice Marshall.

The selection of the plan is of paramount importance. Second only are the motives of those choosing its adoption. Good faith is the essence of any contract. Profit sharing, entered into whole-heartedly by both sides with a sincere determination on the part of both employer and employee to do his share, will produce results, the value of which can be appraised in tangible benefits at the end of every fiscal year.

The consideration of profit sharing need not be restricted to companies already making a profit, as is popularly believed. The experience of various business concerns reveals that profit sharing has been employed to carry companies out of the red and into the black, by securing that measure of enthusiastic cooperation and increased efficiency which is the direct result of a consciousness on the part of the workers that they will not only be treated fairly by their employers, but that they have a material and predetermined interest in the results of the efforts of both workers and management.

Profit-sharing is but one phase, and should not be regarded by anyone as a panacea for all of the ills afflicting industry. It does offer a firm foothold whereby one may build toward a safer and saner future. It should not be taken as something to be set up entirely independent of all other factors, but in complement with the numerous other factors invariably found in any company having a profit-sharing plan, it provides an added and perhaps the dominating incentive or influence for a worker to do and to be his best, and inculcates in management an appreciation of the services rendered, and establishes a habit of thought conducive to reasonable treatment of any and all employee-employer problems. Such a program requires no one to give up more than he will gain. On the contrary, it affords a direct incentive for all members of the team to pull together because of the ultimate and large reward which will be made available for mutual sharing.

CHAPTER XI

HOW PRACTICAL IS THE APPLICABILITY OF PROFIT SHARING TO GENERAL INDUSTRY

A conception which holds almost universal acceptance is that profit sharing is impossible of standardization and that it cannot be uniformly applied to general industry. To the extent that no one plan, complete in all its detailed provisions and regulations, can be applicable to all companies or industries, this is true. However, it has been demonstrated that a general formula, adopted by this survey after study and analysis of all plans considered, and recommended in chapter XV, can be successfully applied far more widely throughout industry than is generally believed.

In substantiation of this contention, the staff of this survey has projected the recommended formula upon the financial structure and operating status of more than 50 of the largest and most prominent industrial corporations in the United States selected from ten or more key industries.

With only slight modification of figures, to avoid direct identification of the companies, the following "case studies" are presented for consideration.

Case study No. 403—an electrical manufacturing company.—Capital over $200,000,000; number of employees over 50,000; present annual expenditures for employee benefits over $10,000,000. If suggested profit-sharing plan were adopted: The required contribution by the company would be $6,000,000—a saving of $4,000,000—and, we believe, a more simplified program of employee relations with more effective results.

Case study No. 269—Farm machinery manufacturer.—Capital over $200,000,000; number of employees over 30,000; present annual expenditures for employee benefits over $9,000,000.

If suggested profit-sharing plan were adopted, the required contribution by the company would be $3,250,000—a saving of $6,000,000—and a thoroughly effective employee relations policy which would reflect its value in harmonious and cooperative attitudes.

Case study No. 62—Retail chain store organization.—Capital over $75,000,000; number of employees over 25,000; present annual expenditures for employee benefits over $2,300,000.

If suggested profit-sharing plan were adopted, the required company contribution would amount to $1,020,000—a saving of over $1,000,000—and, we believe, a greatly improved relationship throughout its entire merchandising and sales organization. On the contribution basis named, this company could maintain a ratio of more than $3 for each $1 contributed by employees, thereby insuring the building of individual estates for retirement of such size to have a lasting challenge and satisfaction.

Case study No. 182—Tobacco manufacturing company.—Capital over \$100,000,000; number of employees over 10,000; present annual expenditures for employee benefits \$1,200,000.

If suggested profit-sharing plan were adopted, the required company contribution would be \$1,500,000 in order to maintain a ratio of \$3.50 to each \$1 of employee contribution which, it is believed, would insure this company a labor-relations policy of greatly increased stability and immensely improved morale with the rewards of cooperation and loyalty.

Case study No. 80—A mining and smelting company.—Capital over \$75,000,000; number of employees over 8,000; present annual expenditures for employee benefits \$1,125,000.

If suggested profit-sharing plan were adopted: The required company contribution would be \$750,000—a saving of over \$375,000—which, it is believed, would give the company very valuable returns in improved employee loyalty, satisfaction, and cooperation.

Case study No. 513—A petroleum products company.—Capital over \$450,000,000; number of employees nearly 20,000; present annual expenditures for employee benefits, \$2,800,000.

If suggested profit-sharing plan were adopted: The company contribution of \$3,750,000 would permit a ratio of \$2.50 to each \$1 of employee contribution. While requiring an increased expenditure, it is believed, this plan would immeasurably improve the relations between management and employees to the extent of more than balancing the increased expenditure.

Case Study No. 377—A chemical products company.—Capital over \$375,000,000; number of employees over 40,000; present annual expenditures for employee benefits over \$14,000,000.

If suggested profit-sharing plan were adopted: The required company contribution would amount to approximately \$9,000,000—which would maintain a ratio of more than \$3 for each \$1 contributed by employees, thereby insuring the building of substantial retirement estates. The plan would also simplify the present employee-relations program by substituting one comprehensive plan for nine existing policies which overlap and require expensive administration.

Case Study No. 187—A public utility company.—Capital over \$150,000,000; number of employees over 4,000; present annual expenditures for employee benefits over \$1,100,000.

If suggested profit-sharing plan were adopted: The required contribution by the company would amount to \$1,210,000 which would permit of company maintaining a high ratio of over \$4 for each \$1 of employee contribution. Such a high ratio is not necessary, but this comparison indicates how attractive the retirement estates could be made which would mean all the more interest and stimulated efficiency on the part of employees.

Case Study No. 490—Chain drug-store company.—Capital over \$20,000,000; number of employees over 10,000; present annual expenditures for employee benefits over \$1,500,000.

If suggested profit-sharing plan were adopted: The required company contribution would amount to \$275,500—a substantial saving—and, in the estimation of analysts, a greatly improved relationship between management and employees.

Case Study No. 5057—Machinery manufacturing company.—Capital over \$50,000,000; number of employees over 10,000; net profit over

$10,000,000; pay roll over $20,000,000; no annual expenditures for employee benefits.

If suggested profit-sharing plan were adopted: This company, which has experienced considerable labor trouble and dissatisfaction, would contribute $1,000,000 against the employee contribution of $500,000, or at a ratio of $2 for each $1 contributed by the employee, thereby establishing a partner-in-interest relationship and insuring the accumulation of substantial and challenging estates, which would unquestionably harmonize the relations of labor and management in a most effective manner.

Case Study No. 476—Car-manufacturing company.—Capital over $50,000,000; number of employees nearly 3,000; annual net profit over $4,000,000; pay roll over $8,000,000; annual expenditures for employee benefits over $400,000.

If suggested profit-sharing plan were adopted: The required company contribution would be $450,000—practically equal to present expenditures—and a partnership relation created which, it is believed by those familiar with their labor situation, would establish much improved conditions in the employee ranks.

Case Study No. 5258—Beverage-manufacturing company.—Capital over $50,000,000; number of employees less than 2,000; net earnings over $20,000,000; pay roll about $3,000,000; no annual expenditures for employee benefits reported.

If suggested profit-sharing plan were adopted: A 1 percent of profit contribution amounting to less than $200,000 would establish a ratio of nearly $3 company contribution to each $1 of employee contribution, thereby insuring the accumulation of retirement estates for each employee which would insure old-age security and create cooperation, personal interest, and loyalty of the highest degree.

Case Study No. 159—Cigarette manufacturer.—Capital over $15,000,000; number of employees about 3,000; net profit over $5,000,000; pay roll about $2,500,000; no annual expenditures for employee benefit reported.

If suggested profit-sharing plan were adopted: This company which paid more than $4 per share on $10 par value stock, would be required to make a contribution of less than 4 percent of its earnings in order to maintain a ratio as high as $4 for each $1 contributed by employees, which would insure employees a retirement estate of large and attractive proportions and in turn create a participating relationship so appealing and satisfying as to insure maximum cooperation and allegiance.

Case Study No. 100—Steel company.—Capital over $125,000,000; number of employees over 15,000; net earnings over $12,000,000; pay roll over $25,000,000; no annual expenditures for employee benefits reported.

If suggested profit-sharing plan were adopted: This company, which has experienced severe labor troubles with heavy losses, would be required to contribute about $1,200,000 against employee contributions of $750,000 in order to maintain a ratio of about $1.75 for each $1 contributed by employees, to insure the development of retirement estates so attractive as to insure stability of employment with a high degree of cooperation and loyalty.

CHAPTER XII

SENTIMENT AND OPINION OF EMPLOYEES OF PROFIT-SHARING COMPANIES

Most labor trouble has, as a basis for grievance, the lack of dollars and cents that a man receives for his efforts. To share profits creates a feeling that the company is doing all possible to pay him what his type of employment is entitled to. For him to become a part of any labor disturbance would be equal to "killing the goose that lays the golden egg." Heretofore, a man thinking of becoming a part of a strike considered the cessation of wages but once he becomes a part of a profit-sharing arrangement, he thinks twice where he only thought once before.—J. E. S. (timekeeper), Philadelphia, Pa.

Profit sharing creates a feeling of partnership, a better spirit of cooperation, and makes one more careful of material and equipment. Most employees try to improve in efficiency and production so as to remain longer with the company and share in the profit sharing. By this the company benefits by not having to worry about hiring new men.—B. A. S. (foreman), Kansas City, Mo.

I am 100 percent for profit sharing. It causes an employee to have a greater interest in the success of his company and will certainly reduce labor trouble.—A. S. M. (assistant production manager), Los Angeles, Calif.

I approve of profit sharing. We have no labor trouble. The employees are saving material and equipment at all times and take their work as their own business. It brings management and the employee closer together which help both company and employee. Profit sharing does not hold down the pay of employees in our company as it is never figured as wages.—W. G. C. (electrician), New York.

Profit sharing should exist in every company. It definitely produces better cooperation. It certainly helps to make their future old age more secure. If an employee feels he is a part of a company, he certainly won't try to destroy the source of it. The company I work for has been sharing profits since 1907. I believe our system of profit sharing has saved the company from strikes and dissatisfaction among employees. The only improvement I would suggest is more business.—R. F. K. (electrician), Chicago, Ill.

Profit sharing is the best investment that the employer can make. It removes worries of the employee and gives him a greater personal interest in the company. There will be no labor trouble in a company like ours.—P. E. W. (photo finisher), Rochester, N. Y.

I personally approve of profit sharing. Personally I feel that I am a partner and any way that I can increase the company's profit I will get my share. We have not experienced any labor trouble in our company.—M. H. S. (purchasing agent), Los Angeles, Calif.

I have been with my company 23 years and I hope to remain as long as I live. We have never had one bit of labor trouble. I bought my home out of my bonus money, and also my automobile. In the last 10 years we have lost five men—four retired and one died. We have the greatest company in the United States.—M. A. L. (hammerman), Pennsylvania.

I approve of and appreciate profit sharing very much. Employees are more careful of material and equipment because they have the feeling that they are working for their own benefit. I have worked for this company 10 years and I enjoy privileges and consideration I never received from any other company. Our profit-sharing plan certainly creates a better feeling among employees.—J. C. C. (furnace operator), Detroit, Mich.

Under profit sharing any intelligent employee would certainly feel a greater responsibility. It gives a feeling of security. I have worked for this company 20 years and hope to do so forever.—W. H. S. (pattern maker), Philadelphia, Pa.

I am for profit sharing. It makes us feel as one of our firm and unquestionably creates personal interest, causing employees to be careful of material and more earnest in their work.—K. O. M. (clerk), Altoona, Pa.

We have in our company a large number of employees who have been here from 20 to 40 years and who are of the highest type of loyal efficient workmen. Our company's profit-sharing plan and other beneficial policies is entirely responsible for having such a satisfactory personnel. Our feeling of safety and security leaves our minds free to concentrate on the earnest performance of our work.—W. W. Z. (supervisor), Rochester, N. Y.

Profit sharing has created a feeling of being treated fairly and being important enough to warrant consideration. There is a feeling of partnership if the employee is kept posted on the status of the company, the trends of business, and estimates of the future. Our system reduces labor turn-over.—R. N. F. (supervisor), Philadelphia, Pa.

There has never been any labor trouble or unrest in our company in my 26 years with it. By having a percentage of your salary taken you do not miss it and you are quite proud to receive a profit-sharing certificate that has brought an interest rate as high as 15 percent. In 1937 the interest was 9.25 percent and in 1938, 10.25 percent.—N. M. G. (filing clerk), New York City.

Profit sharing makes one feel like management itself. Without it a job is only a job. I have yet to see any person working in profit-sharing industry that is not careful of material and equipment because this keeps up profits and dividends.—J. A. (clerk), Rochester, N. Y.

The company for which I work has been exceedingly fair both in wage remuneration, profit sharing, protective insurance, and personal consideration, all of which removes fear from employees and produces a better cooperation and personal interest by the employee.—S. A. B. (store manager), Washington, D. C.

Profit sharing is the best step in labor harmony yet taken. The more you do for the company the more profit you have to share. I think all profits shared should be placed in a fund for use of employees during slack periods.—J. W. (machinist), Philadelphia, Pa.

Looking forward to receive something more than just wages makes one feel he should do his best always. If my workmanship is good on our product then the customer will buy it, if not both of us lose. The employee understands that material and equipment cost money and by keeping the cost down, profits go up. Employees cannot expect to get something for nothing, but if they give their best they are sure to be rewarded.—N. G. U. (machinist), Detroit, Mich.

Profit sharing has created a better spirit between employees and management in our company. Under our system we are investors in the company. Naturally we turn out better work if we know at the end of the year some of the profits belong to us. A firm having a profit-sharing system should not be taxed by the Federal Government on the same basis as a firm not having a profit-sharing system.—E. W. (electrician), Chicago, Ill.

In 20 years of factory work it is my feeling that profit sharing is a big factor in job satisfaction. Our plan contributes much to future happiness and planning of our families. It increases a sense of responsibility on the part of the employee. Employees generally feel age of 65 for retirement should be lowered.—F. A. L. (truck driver), New York.

I certainly believe in profit sharing and in the better spirit it creates. I have worked in four companies, three of them nonprofit sharing, and I have never been so satisfied as I am now. I think profit sharing is one of the greatest advancements for labor there is. It tends to create a fine sense of loyalty, it helps the employee to save money.—H. M. M. (buffer), New York.

For the employee profit sharing gives prompt evidence of the earnings of the company. As a result he is a more alert and better informed worker as well as a more intelligent voter in elections affecting his own and the earning power of his company. For the employer profit sharing puts everyone on their toes. The morale of the organization is improved and benefits to the stockholders as well as to the employees is the result.—S. B. H. (engineer), Michigan.

In my opinion, anything that benefits the workman will produce a better spirit of cooperation, create a greater personal interest, and make the employee more careful in handling the material and goods of the company. I have worked in profit-sharing systems where executives raised their salaries and that of the office force when there was plenty of work and times were good, and the men that produced the goods got a very small share. Such a profit-sharing plan will do no good. If profit sharing is on the square it will work for the benefit of everybody.—L. B. L. (woodworker), Kansas City, Mo.

Profit sharing will cause employees and management to work in harmony and create the partnership interest. There is no question of it reducing labor trouble and making workers more sincere in the performance of their work. Give us back the 45-hour week which we formerly had. We don't want less hours, we want more work and more money.—J. S. (laborer), Cheltenham, Pa.

I certainly do believe in profit sharing. There would be no troubles between management and employees if every company had a profit-sharing plan like our company. Under profit sharing the employee knows he is receiving all the company can afford.—A. M. (machinist), Chicago, Ill.

I believe profit sharing creates a better feeling and makes one more interested in his work. I know it makes them more careful of material and equipment.—W. M. (laborer), Philadelphia, Pa.

Profit sharing does produce a better spirit of cooperation and makes one feel like a partner, causing employees to have a greater interest in the company and their work. There has never been unrest, dissatisfaction, or labor troubles in our company. I have never seen any deliberate carelessness with material and equipment, but on the contrary, I noticed many little economies practiced by employees.—A. S. (office worker), Chicago, Ill.

If there is a real true spirit put into effect with profit sharing by the employer it is a very beneficial thing for both parties and will eliminate a lot of friction between company and worker which is something greatly needed today as never before. There are many employers who have forgotten what or who is behind the gates of their factory. We have a bonus system in which some participate and some do not. In my opinion it is unjust.—B. C. B. (electrical engineer), Michigan.

I have been employed with my present employer for 20 years and the management of the company really cooperate with the employees. We have never had one bit of labor trouble. The employees feel they really have more than a job. Our profit-sharing plan has enabled myself as well as many others employed with the company to become home owners.—W. J. K. (heater), Pennsylvania.

A profit-sharing plan gives the employee a lump sum of money at a certain given time in each year which can be used to greater advantage than the same sum spread over 52 weeks. It also makes a better spirit between company and employees and unquestionably stops labor trouble. The only improvement in our plan I could suggest is that of giving the employee information as to how the amount of money or percentage is determined.—J. P. K. (foreman), Massachusetts.

I believe in profit sharing as long as it applies to all employees in the company. In our company the higher-paid employees are satisfied, but the lower-paid employees do not think well of the bonus fund based on a sliding scale.—R. C. M. (junior executive), Pennsylvania.

Profit sharing is the thing. It means working all year at a small hourly wage, but, on the other hand, the average worker doesn't save much out of his pay regardless of what he earns. This profit-sharing plan provides a lump sum which proves to be of much greater benefit and would otherwise never have been saved.—O. A. H. (machinist), Detroit, Mich.

I believe in profit sharing when employers are fair about it. It has done well in our company, but I do not think high-salaried officials should share profits in the same basis of percentage as the lower-paid employees, as that takes the bulk of profits from employees, and they are actually the ones who produce the goods. I believe in fair play to both parties, and when that is done you will have no labor trouble.—A. J. S. (foreman), Kansas City, Mo.

Although the company may have a high financial investment in its business, the employee also invests his life, labor, skill, and ingenuity to assist the company for which he labors. The profit from a given article can be either large or small depending often on the short cuts to production supplied by employees. The skill and ingenuity that a man may apply to his work is not entirely compensated for in his weekly pay envelope.—J. S. (clerk), Philadelphia, Pa.

I am emphatically for profit sharing providing the plan is as well worked out as in our company because each employee is informed fully on the method employed in arriving at a share allotted. After 20 years' continuous service I firmly believe that profit sharing is the best investment a company can make. Our wage-dividend plan seems so much a part of the general policy of the company to do all that is possible to make the employees feel they are a vital part of the organization, that it is only natural to look on material and equipment as belonging to us—our company.—J. F. M. (apprentice supervisor), New York.

I believe thoroughly in profit sharing as practiced by our company because it is fair and the sharing is divided proportionately among the employees. We have a splendid spirit of cooperation. In my own case I have even caught myself turning off electric lights where not needed in the interest of economy for the company. Our plan has helped me become a stockholder. I would never have saved the money which I have, had it not been for our plan. Too often extra compensation is not spent for old-age security.—L. M. H. (clerk), Detroit, Mich.

Profit sharing not only produces a better spirit of cooperation and a greater personal interest in the success of the company but it also makes the employee more interested in the welfare of the company.—H. B. (instrument maker), Pennsylvania.

Profit sharing unites employees and management in a feeling of partnership and reduces unrest and dissatisfaction. I am satisfied in every way with the profit-sharing plan in our company. All companies should have one. If all the companies had profit-sharing plans we would never have heard of C. I. O. or N. R. A., or W. P. A.—C. W. H. (boiler fireman), Pennsylvania.

I surely endorse profit sharing. In my judgment it makes a better spirit on both sides. It makes the employee do his best knowing he has a partnership interest. As a whole we have had no labor unrest, but there are always a few kickers who are hard to please.—A. N. (woodworker), Philadelphia, Pa.

I am heartily in favor of profit sharing. It is a great help in reducing labor trouble. I think my employer is one of the fairest men I have ever worked for. However, a man in the office most of the time is not in a position to see things as they really are in any shop or factory. The trouble with our plan is that all employees are not benefited. Tools are broken, materials wasted that I think would not be if each employee worked under the profit-sharing plan, for if it were properly explained to him he would realize that he and the employer were both losing from his carelessness.—C. A. W. (rolling-mill hand), Philadelphia, Pa.

Profit sharing builds good will and helps to keep expenses down because every employee takes a greater personal interest. Agitators have no place in a profit-sharing company. In our company every employee watches every possible leak of profit. There can be no slip-ups in the arrangement for handling the money involved and the part contributed by the employee is invested in Government securities.—A. F. S. (accountant), Los Angeles, Calif.

Profit sharing helped me to have a home of my own and better living conditions than I could ever have had otherwise. There is no question of it stopping labor trouble and making employees more earnest and sincere in their work.—E. A. S. (hammerman helper), Pennsylvania.

I believe profit sharing creates greater respect by employee for his employer because he becomes a partner. Our company never had a strike or the least bit of labor trouble.—R. D. (laborer), Pennsylvania.

Profit sharing makes harmony, stops dissatisfaction, and makes workers more careful of material. It also tends to reduce labor turn-over which in turn saves on costs. The only improvement I would suggest in our plan is that the company give a financial statement showing how the profit sharing is derived instead of just a blind gift of so much percentage.—L. E. A. (electrical engineer), Massachusetts.

Twenty years' observation of the profit-sharing plan operating in our company causes me to approve profit sharing. Inasmuch as we have always enjoyed a sharing of profits, the taking of losses might be "a horse of a different color." There must be the assurance that the funds invested by the worker are absolutely safe.—G. M. (secretary), New York.

I believe our plan of profit sharing weeds out the undesirables. An employee must work for 3 years before becoming a member of our plan so the floaters cannot benefit. Ours is an honest plan for honest men. No question of it producing better spirit of cooperation. It tends to eliminate waste and labor troubles. Of course, there are some that are always dissatisfied and will kick about anything, but the majority control.—L. C. G. (iron worker), Los Angeles, Calif.

Profit sharing makes men feel that the better they do their job the more they will make. I think this plan is beneficial to both the company and the employee but I don't think it would be any benefit to either if it was compulsory for the company to pay profit sharing. It must be voluntary and mutually agreeable.—J. A. P. (store manager), Washington, D. C.

Profit sharing definitely establishes partnership relations causing greater personal interest in the success of the company. I believe it to be the connecting link between employee and employer, thereby creating cooperation, sincerity of purpose, friendliness, economy of operation, all qualities which go to make up a successful organization.—D. I. R. (secretary), Beverly Hills, Calif.

The plan used by our company is a combination investment and profit-sharing plan, guaranteeing a 5-percent return regardless of whether the company makes a profit or not, while the share of course is larger according to the profit made. For most of us it is one steady source of outside income aside from straight wages or salary and during the depression it was certainly the one safe investment most of us had. Our plan was so carefully worked out when inaugurated that it has withstood all tests for many years. It has reduced labor trouble and I am sure it makes all employees more careful of material and equipment and more sincere and earnest in the performance of their work.—A. M. C. (secretary), New York City.

Under our profit-sharing plan we have a better spirit of cooperation and an employee has a personal pride in his company. Employees take an active interest in the affairs of the company. There is no labor trouble or unrest. Management drew up the plan and it is my opinion it is the best for the company and the employees. That has always been the company policy in dealing with its employees.—R. E. L. (clerk), Philadelphia, Pa.

I believe in profit sharing if it is not made a substitute for regular wage increases. It creates an interest in the final outcome of the job, because you will participate in any profit therefrom. If the sharing is sufficient to accumulate funds to take care of one's old age, it will remove all fear of the future from employees. Employees are careful with material because they know that waste eats into profit. I feel that profit sharing must be honestly applied so that the employee does not feel that the management is reluctantly sharing only that which it can not absorb by bookkeeping, high salaries, bonuses, and other methods all too frequently employed in the past. I have thought that perhaps there should be some relationship between dividends and salaries to executives and profit sharing.—M. S. W. (draftsman), Pasadena, Calif.

The value of profit sharing increases directly as the percentage which it is of the income of the employee increases. An increase in wage rates and taxes cuts profits and thereby prevents the plan from operating at times when it might be of greatest value. Among the values of profit sharing is the spirit of cooperation which it creates and the greater personal interest developed in the employee for the success of the company.—P. M. H. (superintendent), Detroit, Mich.

Provided a suitable wage is paid in connection with profit sharing, I am sure there will be no unrest or labor troubles in the plant. I believe that the sum of money paid in a lump sum gives an employee a chance to purchase some luxury that he would not be able to purchase otherwise. In our plan we have a sick insurance, and the premium is deducted from our profit sharing. This has proved very beneficial in times of sickness.—A. C. D. (foreman), Massachusetts.

I certainly believe in profit sharing for its value in improving cooperation and better performance of work on the part of the employee. In my case it creates a feeling of permanence and appreciation of my efforts. The fact that my employers

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are desirous of keeping their employees at least to the age of 60, which is the retirement age in our company, is in itself a great relief in this age and time of uncertainty.—R. C. L. (detailer), Los Angeles, Calif.

I heartily approve of profit sharing because of the different feeling it puts in the heart of the employee making a greater personal interest in the success of the company. I consider it a great privilege to be a participant in a profit-sharing plan such as is operated by our company. The investment plan guarantees an income that does much to remove all worries.—E. F. B. (file clerk), New York.

I believe in profit sharing. It improves the cooperative spirit and the feeling of partnership, thereby eliminating labor troubles, removing fears of the future, and causing employees to be more careful of material and equipment. All possible expansion should come from new capital invested, not from the profits. Then there would be more to share with the workers, and in turn that would increase sales. I believe this is the cause of our economic failure today. Thirty years ago a businessman made a good living at about $5,000 during his life. However, today they must make millions. No leader of any industry is worth $100,000 per year. They get that by taking it away from the workers. Do not spend the profits in lean years on unnecessary equipment.—R. B. (inspector), Philadelphia, Pa.

If all companies operated on the same profit-sharing plan as our company does, I feel sure the labor problem would be solved. It has done wonders in our plant to create a better spirit of cooperation and feeling of partnership. Of course, this has eliminated all labor trouble. When other plants in our community had strikes, we were working in perfect harmony.—G. C. B. (foreman), Steel Co., Pennsylvania.

In my estimation, profit sharing develops a personal interest on the part of the employee in the success of the company because he has the feeling of partnership. There is no question of greater care of material and equipment and a greater desire to perform the work better because they are vitally interested.—M. E. I. (draftsman), California.

I believe in profit sharing. For me I have a feeling of being a partner. We have no labor troubles in our company.—J. A. Z. (tool maker), Poughkeepsie, N. Y.

Yes; I do approve of profit sharing because it gives me a better spirit to work and so much more care in company matters. It makes employees more careful with materials, tools, and products because men know that losses will reduce their profits.—E. C. (laborer), Philadelphia, Pa.

Profit sharing is the thing because the employee knows that it benefits him and when he realizes this he is under entirely different relationship with the company and attitude toward his work and to the care of material and supplies.—E. A. N. (chauffeur), Philadelphia, Pa.

I believe in profit sharing because it stops labor trouble. If the plan would only include some form of old-age security, then there would be no worry on the employee.—F. A. E. (salesman), Kansas City, Kans.

I believe in profit sharing, but I believe that all employees should be paid the same percentage of the profits. In our company there are three classes, namely, A, B, and C. A class includes office executives, B class includes shop foremen, and C class includes shop employees. When the profits are shared the A class receives 75 percent of their salary, the B class receives 50 percent and the C class receives 25 percent. In my opinion all classes should receive the same percentage.—O. H. (mechanic), Detroit, Mich.

I approve of profit sharing because it does produce a better spirit between employees and management, makes an employee feel like a partner, causes an employee to become more interested in his work for the success of his company. It does much to remove the fear that often worries employees into doing things they would not otherwise do. I am sure it causes all conscientious employees to be more careful and earnest in the performance of their duty.—W. J. P. (pressman), New York.

The bonus or profit-sharing system was put into effect in our company in 1921. The smallest-paid employee participates in the plan. To me and all the rest of us we have observed that profit sharing puts a position of trust on us; in other words, we are looking out for the company's interest and we try to do our best work.—H. R. H. (roll turner), Pennsylvania.

Profit sharing produces a better spirit of cooperation where a fair weekly wage is paid, but it will not do so when wages are kept under par. Where an employer endeavors to satisfy his employees, they are bound to have greater personal interest in his success and the success of the company. An employee will naturally be more careful with materials and supplies because the more these cost the company, the less profit to be shared. Of course, every idea has two sides, and personally speaking, if an employee does not receive weekly wages so that he can keep his necessary expenses up to par, then profit sharing is useless. The amount he might be eligible to receive will only help him catch up on expenses he could not pay while working on a low rate of pay.—E. P. W. (laborer), Philadelphia, Pa.

I believe in profit sharing because the employees do more to make profit than the stockholders, and, therefore, it seems only fair that they should be rewarded for their work outside of their monthly or weekly wages. Profit sharing makes for a more congenial relationship and gives the employee more incentive to do his best at all times. Our plan could be improved if some sort of saving fund be established out of profit. If this savings could be built up it would do more than anything else to relieve employees of worry.—E. B. (bookkeeper), Michigan.

I favor profit sharing because it is one way of saving even a small part of one's earnings which we would not otherwise save. It is surprising how much can be saved in this way. In addition to this, it makes the employee feel like being a partner and once he is a partner he is not going to cause labor troubles which injure his own company.—J. B. (machinist), Chicago, Ill.

I believe our plan is the best plan in actual use today, as we have worked out all details to the utmost advantage of all workers. The only drawback is that such small interest can be obtained in any good investment of our services. Otherwise, profit sharing does so many things to unite employees and employers for the common good of the company.—K. D. K. (sales engineer), Chicago, Ill.

Our profit-sharing plan has only been in operation 1 year, but from present indications there is already a better spirit of cooperation between employees and management. We are all grateful to the company for establishing the plan. It seems to be sincere and there is no present indication of it being used to enforce unfair practices. Such a plan as this may remove the uncertainty regarding social security. Who knows how long the Social Security Act may last? A different administration in Washington may change it. Adverse taxation may change it.—H. L. (clerk), Chicago, Ill.

I am a whole-hearted believer in profit sharing. It creates a more cooperative feeling between employer and employee, as the worker feels he is just like a stockholder in the company. He realizes that the more he does his work earnestly and efficiently, the more he tries to eliminate waste, etc., the company will make more profit which in turn will give him more in the way of profit-sharing bonuses. To me our plan is about perfect.—F. P. L. (accountant), Los Angeles, Calif.

Profit sharing not only reduces labor troubles but also labor turn-over because it gives a man a desire to stick. He has the feeling that he will have something for his old-age retirement. Of course, there are always a few that don't care, but the majority become more earnest and sincere in their work under profit sharing.—M. P. (tinsmith), Chicago, Ill.

We have never had labor troubles in our plant, and I am sure that profit sharing will reduce labor troubles everywhere. The plan in our company removes the fears that worry employees about the future and old age. Profit sharing makes one feel a relation of partnership and unquestionably develops a greater personal interest and a more earnest attitude in the performance of his work.—L. M. (chemical worker), Chicago, Ill.

I certainly approve of profit sharing, and I hope more companies will do this. My experience and observation is that it very definitely develops a better spirit of cooperation between all interests in a company. I know it has at our company. We have never had any labor trouble. It also is certainly a fine thing to know that upon retirement or lay-off there is some money coming to you. I think our company records will show that the employees are more careful with material and supplies. If only more employers would realize that every employee, with few exceptions, is interested in helping the employer make more money, for we know that if he can operate profitably we will have job security, and living wages so that employees can supply the ordinary needs of their families and church membership which are so necessary. Profit sharing should be shared equally between stockholders, management, and employees. All three are vitally interested and should share equal responsibility. The only improvement I can think of in our plan is that employees should know more about what the profits are and what percentage we are getting--N. T. (clerk), Chicago, Ill.

I approve of profit sharing by a company because a better feeling seems to exist already in our company although our plan has only been operating a short time. It gives you the feeling of being in partnership with your employer. Labor unrest seems to be reduced to a minimum. The fear of old-age security is definitely removed with profit sharing for the employees. I would say that after our first year of profit sharing there is a marked improvement in the work produced. Material that has been drawn for jobs since our profit sharing has shown less waste and less calls for lost parts. I believe that if all employers have profit-sharing plans, it would be possible to do away with Social Security—C. G. S. (stock room manager), Chicago, Ill.

A profit sharing of surplus profits is more desirable than any other incentive form of payment. It shows that the management in its drive for success is not unmindful of the wage earners part in that success. Then the wage earner feels his part in making success possible and is more concerned for waste energy and waste material. An intelligent profit-sharing plan can be one of the greatest agents of good will. It will stabilize the wage earners' faith in the future. Some workmen are sincere in their work regardless of any plan, but others would exercise greater care and effort under profit sharing. Others dominated by some undesirable influence would seem to be more careless by comparison. We have one bad feature in our company and that is that the present bonus payments on production vary greatly in the many divisions within our company. We make nearly 300 products. These bonus payments vary by reason of gas, heat, and other causes but cause a great deal of contention because they are not uniform. I favor profit sharing of net profits after deduction of all costs and reserves, based on a person's wage or earning power.—C. F. A. (carpenter), Michigan.

There are very few intelligent men who at one time or another have not entertained the thought of "going into business." To work for a company as well established as ours, under a profit-sharing plan, satisfies that desire. Then you have the feeling that as they advance financially, so do I. Therefore, in every way possible one tries to assist in the further success of that company. It seems to me that here is the key to success of industry.—J. E. (accountant), Philadelphia, Pa.

Our profit-sharing plan has reduced unrest and dissatisfaction. Every conscientious worth-while employee realizes that it is to his advantage to avoid waste in both materials and time. Particularly now, with contributions to social security and unemployment, profit sharing is of benefit as it offsets these payments. As in most cases the employer's tax is passed on to the consumer and probably the employee also. It would be just as well for the employer to pay both in the first place, for the worker as a consumer pays for it finally, so why compel him to pay twice.—C. I. P. (shipping clerk), Massachusetts.

I favor profit sharing very much. It provides a means of saving which employees probably wouldn't do otherwise. It creates an increased interest which an employee might not otherwise have because when sharing profits, an employee is interested in the amount of business created. It definitely tends to lessen waste of materials.—J. I. (stenographer), New York City.

I went to work for my company in 1907. When they began to tell me about the profit-sharing plan I could not quite believe it. But that profit-sharing plan, together with the honest manner in which it has been administered by our company, put me on my feet. We have a wonderful company and all the employees feel as I do. There is a universal feeling of loyalty and satisfaction. Probably 95 percent of the employees are stock owners in the company. Through this profit-sharing plan about three-fifths of our employees own their own homes or are buying their own homes. All this has come by saving money through the profit-sharing plan.—J. H. M. (rigger), New York City.

I am for profit sharing because I think that any plan that takes the guesswork out of industry and creates a better employer-employee relation is something we should have. It takes the friction and impatience out of the employee. He does not mind going down with them when they get in trouble if he knows he will come right back with them as soon as they prosper again. I am sure the overwhelming majority of employees in our plant feel the same as I do. Our company has been very frank in advising employees about their annual statement and I believe this to be very important in retaining confidence of employees.—N. J. M. (clerk), Pittsburgh, Pa.

If profit sharing does not affect the hourly rate and is paid as an extra incentive, I believe it will create cooperation, a feeling of partnership, and, if properly handled, would eliminate strikes and labor trouble. Most of the better class of employees think we should share in the profits the same as the stockholders. The stockholders only have their money invested, while we have our lives invested. The plan now operating in our company is that after the stockholders get 6 percent the next 12 percent is divided among the employees. I would have it this way—if the employee earned $1,800 and the stock earned 6 percent, the employee's profit share for the year would be $108, or equal to what the stock earned. I think this would be fair and would please everybody—D. W. (tool maker), Erie, Pa.

My opinion is that the worker should share in profits just as much as the shareholder; where the one invests his money, the other invests his skill—both being equally necessary. Profit sharing is honest only when the employer pays the best wages first. I find that the workers are 99⁹⁄₁₀ percent honest and want to work with the company. Profit sharing will cement this cooperation. The one improvement I would suggest in our company would be to eliminate the officials in the higher salaried brackets from participation in the profit-sharing plan, or establish a basis of uniformity so there could be no charge of partiality or of one group having an unfair advantage.—J. L. (machinist), Schenectady, N. Y.

CHAPTER XIII

EXPRESSIONS OF OPINION OF EMPLOYERS OPERATING PROFIT-SHARING PLANS

$100,000,000 SHARED IN 22 YEARS

In the 22 years since this has been established almost $100,000,000 of profit sharing has been distributed. That is profit sharing, that is not pensions, that is not for anything else. I mean, that is dependent upon the profits of the company and that has gone to thousands of people, 50,000 or 60,000 people on the whole, over that period.

First, profit sharing is not in lieu of fair wages and salaries. That is one of the great mistakes that sometimes has been made. It is not in lieu of it, it must be in addition to it.

Second—and we have run into this difficulty—if your profit sharing amounts to a large amount and the man does not save it, you have really done more harm than good. You have got to associate it, it seems to me, with an educational program that it must not be regarded as a part of their annual income; it is something extra and should be put aside for the rainy days that do come.

Personally, I believe that workmen want to bear their share of the cost for their own security; and, secondly, I believe particularly in a country like ours that it is the right thing that they should bear a part of their responsibilities. So we made it contributory.—Gerard Swope, president, General Electric Co., New York.

20 YEARS' SATISFACTION WITH PROFIT SHARING

Our experience with profit-sharing plan as declared in 1919 has been so satisfactory as to justify our continuance of the program. It is my opinion that unless some plan is worked out, our entire industrial system is likely to fall. We are confident that an equitable and uniform profit-sharing plan, recognizing the mutual interest of labor and capital, is the only method by which the absurd and constant conflict between labor and capital can be permanently reconciled.—Frank J. Moss, president, American Sash & Door Co., Kansas City, Mo.

MANY ADVANTAGES PLUS EXTRA PROFITS

There are many advantages to such a definite plan; one important result is the interest, efficiency, and loyalty of our employees. The effects are amazing even to one who has observed the operation of the plan for 15 years. There have been no labor troubles and the turn-over is extremely low. There is a different spirit than you will find in the average factory. All this results in extra profits. All employees are made to feel that they have earned the extra pay and, of course, they actually have. There is no paternalism in this.—A. L. Marsh, president, Hoskins Manufacturing Co., Detroit, Mich.

MINIMUM TURN-OVER, NO LABOR TROUBLE

We have found that such a profit-sharing plan as we have makes for a better spirit, better work, and a better feeling among the employees. Our turn-over of labor is at a minimum and we have never had labor troubles of any kind.—Andersen Corporation, Bayport, Minn.

CLOSER RELATIONSHIP

Our plan has proved to be very satisfactory; it has woven a closer relationship between employer and employee.—George D. Barnard Stationery Co., St. Louis, Mo.

EFFICIENCY, LOW TURN-OVER, NO LABOR TROUBLE

We believe our employees appreciate the benefits of our system. Our labor turn-over is unbelievably low. Our system, undoubtedly, has tended to promote efficiency. There has been no industrial unrest.—The Beacon Milling Co., Inc., Cayuga, N. Y.

MY RABBIT'S FOOT WAS PROFIT SHARING

I believed that no business deal was of permanent value unless it involved a profit, not only to me and to my interests but to all parties concerned and a profit equitably shared. I found this prospect of sharing brought out unknown values in my associates and proved a powerful incentive to their utmost development. People told me that I was uncommonly lucky, that I had a rabbit's foot. I did! My rabbit's foot was profit sharing.

A corporation has three distinct interests—ownership, management, and labor—and each of those interests is essentially selfish. There is just one way to weld them together in a common cause, by devising a plan which secures better results to all those interests at the same time and making that plan so simple that it will work in spite of prejudices and faults common to most men. Taking away from one interest and giving to another is never going to bring that about. We think our plan recognizes all those truths and many similar ones. That is why it works and pays.—M. L. Joslyn, president, Joslyn Manufacturing & Supply Co., Chicago, Ill.

PARTNERS RATHER THAN EMPLOYEES

There are many advantages to a system of profit sharing, and I have been interested in this, due to the fact that we have a system here which has worked quite satisfactorily up until now, when, of course, there isn't any profit to share, due to business conditions. The trouble we have seen here, due to the Wagner Act coming into force, has been that the workingman and the manufacturer have become widely separated and both suffered from the consequences. Unless the Wagner Act is amended in some fair manner, I do not expect industry to improve.

We have found from our experience that both the stockholders and our employees secure larger returns by a profit-sharing plan than they would otherwise. The interest of the employees is sharpened, they produce more and better work, and they feel that they have some interest in the concern as partners rather than as employees. This results in less dissatisfaction and the eternal fighting back and forth which is common in most plants today.—Bower Roller Bearing Co., Detroit, Mich.

A MORE FLEXIBLE WAGE SCALE

We believe that a successful profit-sharing plan does increase the employees' responsibility, it helps to avoid labor unrest and strikes, and gives the employee a feeling of greater security and unity of interest with the employer.

We believe, if adopted generally, that profit sharing would lead to a more flexible wage scale. We believe firmly in the joint contribution of employees and employer. It creates a feeling of mutual responsibility and trust.—Gen. R. E. Wood, president, Sears, Roebuck & Co., Chicago, Ill.

PROFIT SHARING AN AID TO BETTER INDUSTRIAL RELATIONS

We feel that profit sharing is an aid to satisfactory industrial relations, and we feel that wonderful progress has been made in this country, in the last generation, toward better industrial relations of all kinds, and we believe, if left alone, that business is going to do all it can for its organization.—Beck & Gregg Hardware Co., Atlanta, Ga.

PROFIT SHARING SUCCESSFUL FOR 20 YEARS

We adopted in 1912 a profit-sharing plan, and have paid a wage dividend to our employees every year since that time with the exception of the depression year, 1934. This plan has changed very little in principle since it was devised, and we consider it a very important part of our industrial relations program. The employees understand that their share of the profits is dependent upon the company operations. We feel that this plan has been successful throughout the years and the objectives of the plan have been realized. We have actually paid out in dividends under this plan, including the payment we are making in March 1939, \$43,000,000.—M. B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.

GENERAL ADOPTION WOULD SOLVE DIFFICULTIES

Virtually every employee is a stockholder and naturally looks after things in which he has a financial interest. We sincerely believe the adoption of some of the fundamental ideas behind the program we are using by others in industry would go a long way toward solving many of the difficulties now existing between employers and employees.—Bowes "Seal-Fast" Corporation, Indianapolis, Ind.

APPRECIATION, LOYALTY, AND LONG SERVICE

Employees have shown appreciation through their apparent loyalty, their desire to perform their given tasks to the best of their ability, and their long years of employment with the company. Many have been in the service of this company for 20 years, some 30 and 40.—The Chattanooga Medicine Co., Chattanooga, Tenn.

PROFIT SHARING ECONOMICALLY SOUND

To me the profit-sharing plan is economically sound. Let us take a hypothetical case: John Smith receives a pay of $5X per year. The company has had a good year, and Smith asks for an increase to $7X. He is entitled to it, but the $7X may result in increasing the fixed overhead of the company to a point where it would be burdensome during subsequent and less prosperous years. When those poor years come, no executive likes to reduce salaries and wages, and usually defers doing so until it becomes necessary to take drastic action. Rather do I prefer to see John Smith continue to receive an annual stipend of $5X with a profit-sharing plan whereby at the end of a good year he will not only receive the additional $2X which he desires, but perhaps $5X. I think the possible distribution should be generous. Smith has contributed to making it possible; therefore, it is equitable that he should participate. The company can well afford under those conditions to give it to him. Then, if off years ensue, the fixed overhead of the company has been maintained at a point where it is bearable under adverse conditions. I think this sums up my ideas, and I am glad to have the opportunity to pass them along to you for I believe in profit sharing sincerely and with conviction.—H. S. Murray, president, Kalak Water Co. of New York, Inc., New York, N. Y.

INCREASED EFFICIENCY OF PLANT OPERATION

I have no doubt that our profit-sharing plan has increased the efficiency of operations of our plant sufficiently to justify it to our stockholders. Our stockholders, directors, and management are all of that opinion. Plans identical, or not identical, but modeled after this plan have been adopted in two other industries in our town and they work successfully and they have been adopted by a plant in Pittsburgh, a larger plant, and have worked successfully.—Roy McKenna, president, Vanadium-Alloy Steel Co., Latrobe, Pa.

CHANGED MILLION LOSS TO MILLION PROFIT

In 1919 our company lost $1,847,000 on sales of 16½ millions. The following year it lost $2,180,000 on sales of 17½ millions. That was in 1920. In 1924 our directors adopted a profit-sharing plan, which is still in effect, and the second year after that adoption the company earned a profit of $1,250,000 on sales of only 14½ millions. In other words, it converted a loss of $2,180,000 on sales of 17½ millions to a profit of a million and a quarter on sales of 14½ millions.

The company has continued on that road and has earned a profit every year since without exception and the profit since 1926 has exceeded a million dollars in every year but one, which was 1933 and which was just under a million, $900,000

All of the investments we have made in employee benefits and in employee partnerships have paid their own way and have been a good investment.—Joseph M. Friedlander, treasurer, Jewel Tea Co., Barrington, Ill.

KEEPS PEN COMPANY IN BLACK INK

We couldn't manufacture today at a profit if we didn't have the wholehearted cooperation of our employees. Without our profit-sharing plan our profit would turn into an actual loss.

Profit sharing is probably the greatest subject that has come before any hearing in the last few years. It is the most far-reaching in a democracy of any one thing, I believe. It could contribute more to increasing wages, expanding employment, making a better democracy than any one thing.—Wm. A. Sheaffer, president, Sheaffer Pen Co., Fort Madison, Iowa.

IN SPITE OF NO PROFITS TO SHARE, EMPLOYEES FAVORABLE

The attitude to our employees' savings and profit-sharing fund is very favorable. Even in those years when the bank, because of lack of income, did not contribute to the fund, our employees expressed the desire to have the fund continue in operation, many stating that it is the only way in which they would regularly save money.—A national bank in Illinois.

LOW TURN-OVER—NO STRIKE IN 50 YEARS

Mr. Procter had a view back in 1886 that a man should have an opportunity to work; that a workman should be a good citizen; and that anything that could contribute toward that would be a helpful thing in our whole economy. He set about trying to find a way to help a man build an estate, a protection against old age.

We have not had a strike in 50 years. I think profit sharing, plus the steady job, is fundamental to a proper relationship with our people. Our turn-over of labor is almost nothing, probably one-half of 1 percent a month to 1 percent.

I would say that we have had the happy satisfaction of a better social relationship with our employees and we believe it is profitable for an employer to be socially minded.—Mr. Richard R. Deupree, president, Procter & Gamble Co., Cincinnati, Ohio.

CREATED SELF-IMPOSED SUPERVISION

It apparently has created a self-imposed supervision that has been very beneficial to company operations.—The Cleveland Twist Drill Co., Cleveland, Ohio.

INCENTIVE TO BETTER AND MORE EFFICIENT WORK

In our estimation, based upon approximately 30 years' experience, a profit-sharing plan or bonus system, whereby the employee can increase his compensation under favorable conditions, is not only a benefit to the employer but very much to the benefit of the employee and has the effect of avoiding or minimizing the labor troubles and misunderstandings. It is an incentive to better and more efficient work. Our profit-sharing bonus has proved successful with us over many years' trial. It has helped to key up the organization, has provided an incentive for extra effort, and has been a means of stimulating and maintaining high standards of quality, and the elimination of undue waste.—Hammermill Paper Co., Erie, Pa.

GIVES RECOGNITION AND INCENTIVE

We regard the principle of profit sharing and bonuses as means of giving recognition for services rendered in the attainment of business results and as encouragement to employees. We also regard this as advantageous to the company and its stockholders by reason of the fact that the rewards distributed accord recognition for services rendered and afford an incentive to continued effort and particularly in assuring permanence in service.—An investment banking corporation, New York City.

DON'T KNOW WHAT LABOR TROUBLE IS

We do not know what labor trouble is. We have a closed shop, completely unionized. The boys organized it themselves; they operate it themselves. We believe they are as aggressive and as active as any outside union could possibly be, but they do have the company's slant that the first essential is to keep the company in operation, and that if there is no profit they are not going to get a decent wage, but whenever there is a profit they are entitled to their share of it. In other words, they are partners in the business and they look at it that way. In our case, the men have access to the books and if there is anything they don't understand about it after looking at the records, we give them a full explanation. We really work out all our wage problems with our employees.—Cushman Motor Works, Lincoln, Nebr.

REDUCED TURN-OVER, INCREASED EFFICIENCY

Extension of profit sharing is a most worthy endeavor and, of course, has our commendation. Has reduced turn-over, increased loyalty and efficiency of the employees. It saves waste because they are very particular, they know very well if they throw anything away they are going to lose one-third of that. It is good business.—Gristede Bros., Inc. (retail stores), New York, N. Y.

VERY VITAL AND IMPORTANT FACTOR

We feel very keenly on that subject. We think that a bonus system is a very vital and important factor in our organization. I do not mean to imply that it necessarily is a foregone conclusion that it applies to every industry, but we feel it does in our industry. We have had very satisfactory employee relationships. It has improved employee morale and loyalty.—Willard H. Dow, president, Dow Chemical Co., Midland, Mich.

ANSWER TO OUR INDUSTRIAL TROUBLES

Profit sharing is the answer to our industrial economic troubles. It increases efficiency and production and pays for that increase in distribution of the results of that efficiency, so it relieves instead of accentuating the problem. It is necessary that it be so administered as to induce higher efficiency, otherwise it is a drain on industry, like taxes.—The Esterline Angus Co., Indianapolis, Ind.

BANK PIONEERED PROFIT SHARING IN 1916

We believe that we were among the pioneers in the profit-sharing movement, particularly as it applies to banks. We are heartily in favor of the profit-sharing system in business.

Our fund has been very popular with our employees and has promoted efficiency through elimination of worries concerning their future. We have never had any labor trouble. We believe it has had a favorable effect on reducing turn-over, but number of employees has increased so greatly since plan was inaugurated in 1916 that it is impossible to give accurate figures.

It would be desirable if some plan could be worked out whereby recognition is given to adequate private plans.—Harris Trust & Savings Bank, Chicago, Ill.

TWENTY YEARS HARMONY WITHOUT FRICTION

Labor is entitled to a share in any unusual prosperity over and above the ordinary wage. Our labor policy has been in existence 20 years and as a well-rounded program has been successful. Men and management work together in harmony without friction.—Kansas City Public Service Co., Kansas City, Mo.

HAS REDUCED INDUSTRIAL UNREST

We feel that our profit-sharing plan together with our vacation plan and group insurance have reduced industrial unrest. However, high wages must be given most credit. The plan has not been in effect long enough to measure its full benefits. However, we can say at this time that we feel it is a good thing to have. We have not had any strike or labor troubles since the profit-sharing plan was introduced. Our employees seem to like the idea.—Keystone Steel & Wire Co., Peoria, Ill.

BETTER WORK AND GREATER LOYALTY

We feel that the bonus plan has brought about a greater degree of mutual understanding and respect in our organization and that its appeal to the sense of justice and fair play has definitely stimulated the recipients, both as individuals and as a group, to do better work and to greater loyalty.—Leeds & Northrup Co., Philadelphia, Pa.

REDUCED ERRORS AND WASTE

Profit sharing has reduced errors and waste about 65 percent. We use nothing but actual cash as settlement when computed bi-annually, and we believe it the best means of profit participation.—Overmyer Mould Co., Winchester, Ind.

PROMPT REDUCTION OF WASTE AND BETTER CARE OF MACHINES

During the short time our plan has been in effect we have noticed a reduction in waste; men are very much interested in keeping costs down, hence are more careful when using machines; greatly improved conditions; profit sharers work for best interest of the company.

Our profit-sharing plan is fashioned after the Joslyn Co. Our experience clearly indicates that the adoption of profit-sharing plans by industry offers the best permanent solution for labor problems. Almost all employees will respond fully to the incentive offered by profit sharing and, as a result, both the employees and the company will work to better advantage. Our Government should encourage the adoption of profit-sharing plans.—Pacific Iron & Steel Co., Los Angeles, Calif.

HIGH LEVEL OF EMPLOYEE SATISFACTION AND LOYALTY

The present system of employee relations has been in effect many years and has contributed to a high level of employee satisfaction and loyalty in the company's organization.—Philadelphia Electric Co., Philadelphia, Pa.

PROVEN BENEFIT TO BOTH EMPLOYERS AND EMPLOYEES

Our profit-sharing or bonus plan is in effect for the purpose of rewarding employees for faithful performance of their work and has proven to be a benefit both to the employers and the employees.—Pittsburgh Mercantile Co., Pittsburgh, Pa.

BETTER CARE OF MACHINERY AND PRODUCTS

Our plan induces the employees to have a greater interest in their work, and the company's welfare upon the part of the employees, which reduces waste. Since our plan has been adopted the employees take better care of the machinery by proper oiling and closer attention toward operation. The plan has increased the efficiency of handling our products.—The Drackett Co., Cincinnati, Ohio.

EMPLOYEES KEENLY AWARE OF BENEFITS

It is our opinion that our employees are keenly aware of the benefits which will come to them through the establishment of our pension-annuity plan, because voluntary expressions of gratitude have come to us. Furthermore, the stock-ownership plan has indicated that employees are deeply interested in placing funds with a concern which permits some distribution of profit to the employees.—Fairchild Sons, Inc., Brooklyn, N. Y.

ALL EMPLOYEES ARE PROFIT CONSCIOUS

Profit sharing has made all of our employees profit conscious, and resulted in elimination of waste to a large degree. It is our opinion, based on 31 years of experience, that a yearly profit-sharing plan, if properly worked out, serves as a definite incentive. A profit-sharing system to be successful must obviously be completely sincere. We are enthusiastic believers of a profit-sharing system and lay some claim to be pioneers inasmuch as our system has been in continuous operation since 1907.—Ilg Electric Ventilating Co., Chicago, Ill.

WOULD GIVE FLEXIBILITY TO WAGE PROBLEM

As indicated, the International Harvester Co. believes that it is desirable to create in the employees an interest in the business through extra compensation or profit-sharing distributions in good years, and through special inducements or credits to assist in purchase of stock and to encourage savings.

As a theoretical matter it may be argued with some force that a general adoption would tend to bring about improvements in our economic system. One of the greatest problems today is the instability of employment because of economic cycles. A system of reasonable wage rates plus profit-sharing would seem to be more profitable than a straight wage system, and if this flexibility could be used to soften the economic cycles, it would be attacking the trouble at its source.

Under a profit-sharing system giving to labor a fair share of the profits of the good years, without establishing inflexible wage rates on so high a basis, periods of recession might be met and arrested without suffering the severe effects of an increasing downward spiral. If any beneficial effects in softening the economic cycles could be expected from a flexible system of compensation, involving a sharing of profits in addition to reasonable wage payments, it is obvious that such effect could not be expected unless the adoption of profit-sharing plans was widespread and general.—International Harvester Co., Chicago, Ill.

UNANIMOUS APPROVAL OF PROFIT SHARING

The members of the board of directors and of the various shop committees are unanimous in believing in a profit-sharing plan.—Food Machinery Corporation, San Jose, Calif.

LESS WASTE AND BREAKAGE

Since beginning our employees' profit-sharing plan, it is believed that we have less waste and breakage and that more care and general attention is given work, but no definite figures are available. We believe employee profit-sharing plans, medical, savings and loan, and other similar plans are sound, and we intend to extend the plans as quickly as sound business judgment will permit.—The Gates Rubber Co., Denver, Colo.

IMPROVED GOOD WILL

Has noticeably improved the good will between company and employees.—General Aniline Works, Inc., New York, N. Y.

REDUCES WASTE

We are convinced that our plan does reduce waste, as all employees benefit by sharing in additional profits caused by elimination of waste.—W. N. Matthews Corporation, St. Louis, Mo.

THE HOPE FOR DEFEATING COMMUNISM

It seems to me that substantial and universal profit sharing offers some hope (and perhaps the only hope) of avoiding eventually either communism or facism in this country for it will increase the buying power of the mass of the people which, in turn, will increase employment and decrease dissatisfaction with the present inadequate economy.—A. R. Meeker & Co., Newark, N. J.

RECENT LEGISLATION HAS INTERFERED WITH RESULTS

Some employees have shown appreciation of the benefits, others have not, but up to the present time we have not noticed that they have materially promoted efficiency through elimination of worries concerning their future, nor have they decreased industrial unrest, or had any actual effect in prevention of strikes at our plant.

This result, however, is probably due not to the failure of the benefits mentioned, but rather on account of the fact that in the past few years there has been general unrest among employees on account of the National Recovery Administration, The Wagner Act, and other legislation, and certainly we do not feel that we should abandon any of the above plans because of this condition, but propose to continue them, feeling that eventually when the relations between capital and labor are on a more satisfactory basis, they will prove to be a great benefit to our employees and the management of our business as well.—Meat-packing company in Iowa.

BENEFICIAL EFFECT ON WASTE AND MACHINERY

We believe that maintenance of our plans has had a beneficial effect upon reduction of waste, repair of machinery, and other interests of the company, although we may have been unable to evaluate this in dollars and cents.—Pullman-Standard Car Manufacturing Co., Chicago, Ill.

SOUND—SHOULD BE COMPULSORY

We believe that the principle of profit sharing is sound and that it should be compulsory by the Federal Government. Profits should be divided economically and wisely between dividends, labor including management, and surplus for expansion and upkeep. Wealth must be produced by labor; restriction to raise prices will not make wealth. If wheat is not produced, the price of the available supply will go up and we shall eventually starve. Wheat is wealth—not dollars.

A profit-sharing plan for labor, based on nominal wages plus a bonus depending on profit, is practical and fair. It will encourage capital to invest because the cost of trying new business and new ideas will be less. If a profit results, both labor and capital will benefit.—Reimers Electric Appliance Co., West New York, N. J.

INTEND TO EXPAND PLAN

We firmly believe in the merits of profit sharing between employer and employee. We already have a profit-sharing plan which we intend to expand gradually.—Remington Rand, Inc., Buffalo, N. Y.

LESS WASTE, LESS SUPERVISION, AND PRODUCT HANDLED BETTER

Our waste is less than it was. Our product is handled better, and less supervision is required than formerly. Our employees have repeatedly expressed verbally their appreciation of our plan. We are inclined to believe that as the reserve in any individual employee's account increases he looks more and more to it as a fund which will help him in his old age. We have never had any labor difficulties in the history of our organization. Nevertheless, we believe that during the past few years of increased disturbance our wage-dividend plan had at least a share in preventing our employees from feeling that dissatisfaction that was general.—The Visking Corporation, Chicago, Ill.

BETTER WORK RESULTS

We are pleased to state that insofar as our plan is concerned at the present time the majority of our employees are very well satisfied and we are quite sure that better work results thereby.—Specialty Insulation Manufacturing Co., Hoosick Falls, N. Y.

HAS ADDED TO PROFITS, SPIRIT, AND PROGRESSIVENESS

Again congratulations to those who introduced this to Congress—more power to you. Our company which is one of the largest in the State feels its profit sharing during last 2 years has added much to its profits—its company spirit, its progressiveness.—Southland Ice Co., Dallas, Tex.

COOPERATION AND BETTER CARE OF PRODUCT

Interest in and care of product has been greatly stimulated. Relationship with employees is good and cooperation above average.—General Candy Corporation, Chicago, Ill.

REAL SPIRIT OF APPRECIATION

Through oral expressions by employees, and from our estimate of staff attitude, we are certain that a spirit of real appreciation exists.—National Bank of Detroit, Detroit, Mich.

PROFIT SHARING HEARTILY APPROVED

The principle of profit sharing is heartily approved by practically everyone who has had opportunity or occasion to witness its operation. Many ways in which profit sharing may be practiced.—National Guardian Life Insurance Co., Madison, Wis.

EMPLOYEES MUST HAVE STATUS OF PARTNERS

We have thorough belief in the idea that employees must be put in the status of partners and as much in business for themselves as is possible for them to do so.—H. L. Nunn, president, Nunn-Bush Shoe Co., Milwaukee, Wis.

CEMENTS FRIENDSHIP AND CONFIDENCE

In effect, our plan cements the friendship not only between the employee and the company but between the employee's whole family and the company, all of them look forword to the dividend that they will receive at the end of each 90-day period. Each employee is just as much a stockholder in the company as is any regular stockholder. The success of the company depends largely on our employee-stockholders.

I put this plan into effect January 1, 1937. The first 6 months that this plan was in operation I wasn't sure that it would be a success. But as time went on and our employees realized that we were trying to work with them, and for them, we gradually won their confidence and it would take something very unusual at this time to disrupt this confidence.—Geo. M. Rich, president, Rich Manufacturing Corporation, Battle Creek, Mich.

PROFIT SHARING THROUGH HIGH WAGES

We started out by announcing what we called a profit-sharing plan in January 1914 when a $5 a day minimum wage was introduced. This was an 80 percent increase in average wage compensation. This profit-sharing plan continued in force until 1920 when a $6 a day wage was established. During the period of the profit-sharing plan we paid out $77,565,000. Later we put into effect the so-called cash bonus plan, under which we paid $6,750,000 a year for 2 years, this plan being discontinued on January 1, 1921.

Anything paid above the prevailing rate in an industry may be called profit sharing. We have followed the policy of direct payment by the highest wages possible.

Later we installed a so-called employee's investment plan through which the employee received a guaranteed rate of interest, plus a special return paid semi-annually as determined by the board of directors. The special return has amounted to as much as 10 percent per annum, plus the 6 percent. The employee is allowed to invest as high as 25 percent of his wages. Up to and including June 30, 1938, the total of interest and special return paid employees amounts to $27,813,000.

We have never had any actual labor trouble. We believe this due to the fact that we have tried to be more than fair. We believe our employees have appreciated this fact.—Edsel Ford, Ford Motors Co., Dearborn, Mich.

LOW TURN-OVER, APPRECIATION, EFFICIENCY

Our general relations with employees have been most amicable during the 40 years I have been connected with the company and which time we operated profit sharing under a wage-dividend plan more specifically known as our "service-warrant plan." There has been the finest kind of appreciation; our plan has promoted efficiency; and we have had no strikes or labor trouble of any sort in the history of the company. We feel it would be a decidedly good step for Congress to grant some compensation taxation exemption to employers who voluntarily introduced profit-sharing plans.

I am sure there are thousands of employers, particularly the smaller concerns, whose interests in benefits for employees would be greatly stimulated by some exemption from Federal taxation.—R. C. Lanphier, president, Sangamo Electric Co., Springfield, Ill.

REDUCED TURN-OVER, CREATED HARMONY

The profit-sharing plan has been advantageous to the company; it has reduced turn-over and created a very harmonious labor-relations situation. We have had no labor trouble.—Beechnut Packing Co., Canajoharie, N. Y.

EMPLOYEES APPRECIATE SHARING SAME AS CAPITAL

I have, for many years, had a deep interest in profit sharing. Management unfortunately, in my opinion, too frequently has taken the wrong attitude toward labor. We must have, first of all, a real partnership between capital and labor. It is absurd to think that either one can do without the other. The trouble arises when capital asks and gets a larger return than labor thinks is fair. Many of our labor troubles are due to the feeling on the part of the workers that capital is receiving more than a fair return. We have adopted profit sharing under a wage-dividend plan—not a bonus, a gift, or a Christmas present, but being the worker's share in the profits of the company as we have been able to compute them.

The reaction of the employees to this arrangement has been marked. They see that under this plan they are actually sharing in the earnings, the same as does capital.

My idea of profit sharing would apply, of course, only to profits made after fair wages have been paid, and I cannot conceive how sharing in profits would affect in any way the current wage scales.

If most of our corporations would work out such a policy, we would have few strikes, for the worker would understand that to tie up the production of a factory would be to lessen his own reward.—Frank Gannett, publisher, Gannett Newspapers, Rochester, N. Y.

PROFIT-SHARING AND LOSS-SHARING PLAN

We have a profit-sharing and loss-sharing plan. We are satisfied that the employees have full confidence in the company, that they know what the conditions are, and that they are being fairly treated. We are satisfied that our plan works satisfactorily even when we have no profits to share. We are certain it increases efficiency and eliminates waste in addition to maintaining pacific relations.

Our stockholders, management, and employees all believe this to be a profitable operation.

We further believe that if a sound method of compensatory tax exemptions were worked out as an encouragement for plans of this nature, it would contribute greatly to our general public welfare.—W. G. Marshall, vice president, Westinghouse Electric & Manufacturing Co., Pittsburgh, Pa.

LABOR PEACE PLUS PROFITS SINCE 1917

Our policies have been adopted as a sort of human growth. First, we have always believed it fundamental to pay good wages. We started the profit-sharing bonus in 1917. Payments have been continuous except in the two unfortunate years of 1931–1932. In addition, we have a mutual benefit association, a formal pension plan, and a broad general-welfare program.

Our employees are satisfied, they appreciate all our policies, they know we are treating them fairly, and we have never had any labor trouble whatsoever. Above all this our company has prospered which I think is the answer to whether profit sharing has been a good investment.—J. R. Ramsey, general manager, S. C. Johnson & Son, Inc., Racine, Wis.

AN ENTHUSIASTIC REPORT FROM CANADA

With the inception of our "profit-sharing fund," a new spirit entered Dominion Foundries & Steel, Ltd. The hundreds of members grasped the significant fact that each and every one of them were partners in the company. The quality of our product has been "stepped-up" to a new high, which in itself has had a great bearing on sales. Wastage has been cut down appreciably, a most vital factor to earnings, as is also a lowering of maintenance costs. A better accident-prevention record has been made and, with other factors that have made production more profitable, we have had, considered from an earning standpoint, a better year. We have a loyalty spirit which we can well afford to boast about. The "fund's" first year record is an enviable one and is now an established success.—Dominion Foundries & Steel, Ltd., Hamilton, Ontario.

CHAPTER XIV

NATIONAL POLL OF EMPLOYEE SENTIMENT WITH REFERENCE TO PROFIT SHARING

BEING THE RESULT OF A SAMPLING OF SENTIMENT OF 90,000 EMPLOYEES IN 104 NON-PROFIT-SHARING ESTABLISHMENTS THROUGHOUT THE UNITED STATES

In order to test the sentiment of labor with reference to profit sharing, questionnaires were mailed to a large and representative number of employees of each of 104 industrial establishments throughout the United States employing in all approximately 90,000, none of the establishments having a profit-sharing plan in operation. The answers controvert the assertions sometimes made—

(*a*) That labor is opposed to profit sharing per se.

(*b*) That it is not interested in any "speculative" compensation, but only in "getting it in the pay envelope."

(*c*) That labor is unreasonable and that, if profits were to be shared, labor would demand an unjust portion—maybe one-half.

(*d*) That where profits are shared, labor is not interested in saving for the future but wants its portion now.

Question No. 1: "Are you in favor of profit sharing?"—Eighty-seven percent of those replying answered "yes"; 13 percent answered "no."

Question No. 2: "What division of the profits do you think would be fair?"—23 percent hesitated to express a definite opinion without having the opportunity of giving the subject more careful study; 19 percent felt that the distribution should be a reasonable amount after a fair return on capital; 17 percent suggested 10 percent or less; 13 percent suggested amounts of more than 10 percent but less than 40; 12 percent thought that from 40 to 50 percent should be divided; 10 percent suggested amounts in excess of 50 percent; 6 percent thought the amount should be arrived at through joint discussion.

Question No. 3: "If you shared in the profits, would you prefer payment in regular pay check, or built in a fund for your future security?"—50 percent stated that they would rather it were placed in a retirement fund "for the end of the road"; 35 percent were in favor of having it given them with their regular pay; 9 percent preferred it annually; 6 percent preferred it monthly, quarterly, or semi-annually.

Question No. 4: "Do you think profit sharing results in increased profits to the company?"—91 percent answered "yes"; 9 percent answered "no."

Question No. 5: "Do you think profit sharing would cause employees to exercise more care in the handling of work and equipment?"—95 percent answered "yes"; 5 percent answered "no."

Question No. 6: "If employees shared in the profits of a company would there be fewer strikes and less dissatisfaction?"—94 percent answered "yes"; 6 percent answered "no."

Thus 87 percent of the replies were shown as favorable to profit sharing and only 37 percent of these indicated a belief that more than 10 percent of the profits should be divided. On the other hand, 19 percent gave definite expression to the thought that profits should be shared only after a fair return on capital. Only 35 percent were in favor of having their share given them with their pay envelope. The other 65 percent were in favor of saving it for at least a little while—50 percent preferring that it be put away for a retirement fund.

Not only do the replies indicate conclusively that the workers, far from being opposed to profit sharing, are strongly in favor of it, but that a majority have some appreciation of the problems of capital and desire to be fair and reasonable. They also indicate that a large portion of labor is more interested in providing for the end of the road than in having the funds available for immediate disbursement.

EXPRESSIONS OF EMPLOYEE SENTIMENT

Questions and answers of a poll of opinion from employees of more than 104 non-profit-sharing companies in 26 States

QUESTION: 1 "WHO IS MOSTLY TO BLAME FOR THE INDUSTRIAL PROBLEMS OF TODAY—GOVERNMENT, EMPLOYERS, OR EMPLOYEES?"

The high prices of today are chiefly responsible.—Sawmill operator, Portland Oreg.

Reluctance of employers to recognize their employees and the ultimate consumer as being one and the same—also as their best market.—Machinist, foundry, Hammond, Ind.

Government and a small minority of selfish, short-sighted employers and employees.—Retired mechanic, Massachusetts.

Both employer and employee and Government attempting to control economic laws by legislation.—Engineer, food products, New York City.

Each deserves an equal share of the blame. No cooperation. Each is dependent upon the other, but they won't realize it.—News reporter, Floral Park, N. Y.

Some employers by not paying a living wage, and some employees by not giving an honest day's work.—Pressman, manufacturing company, Dallas, Tex.

Government is to blame on account of too low tariffs and naturally employers must try to compete which then causes low wages for working people thus causing dissatisfaction.—Mechanic, garage company, Fort Bragg, Calif.

Employees. They have brought the most serious of the existing problems upon themselves by allowing themselves to be led by a few individuals who consider it their job to create unrest among the workers.—Draftsman, public-service company, New Jersey.

Technology is to blame.—Watchman, timber company, Everett, Wash.

The Government—the administration cannot regulate the natural law of supply and demand. It should render assistance to industry—not opposition.—Salesman, Ridgewood, N. J.

Capitalists for holding back money.—Laborer, manufacturing company, Hamden, Conn.

The main fault lies with those many employers who have failed to make necessary surveys and adjustments. Government interference in the profit of employers is also to blame for creating lack of confidence on the part of capital.—Clerk, Schenectady. New York.

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Employers—desire to make larger profits. Employees—radicals and agitators in their ranks.—Electrician, manufacturing company, Fort Collins, Colo.

The Government—they should put a tax on all labor-saving machinery.—Iron worker, manufacturing company, Baltimore, Md.

I would say all three are to blame: First, the Government for allowing the inflow of foreigners into America to take Americans' work and to spread un-American activities; second, the employers for employing foreign labor while we have millions of Americans idle for want of work, and third, the American employees who are influenced by propaganda.—Machinist, manufacturing company, Norwood, Ohio.

First, labor groups for demanding wages that won't harmonize with other labor in the same locality; second, employers for excess profits and dividing them annually instead of using them to maintain a more steady income for employees.—Moulder, foundry, Benton Harbor, Mich.

Exorbitant governmental taxes certainly don't help.—Mill hand, New Bedford, Mass.

Government—private organizations should not be handicapped. Taxation is preventing business from expanding.—Welder, manufacturing company, New Jersey.

Government and employees who together have combined to stifle their bread and butter—the employers.—Worker, match factory, Springfield, Mass.

It seems that the employees are more to blame because of their inability to think a thing through. The utter lack of understanding profit and loss.—Clerk, cigar manufacturing company, Philadelphia, Pa.

Mostly Government by harassing industry with New Deal legislation and excessive regulation which is very expensive to both government and industry. Business hesitates to expand in the fear of further restriction which would result in financial loss or ruin.—Textile worker, manufacturing company, Philadelphia, Pa.

All equally. Government through constant meddling and direct competition with private enterprise and an unbalanced Budget; employers through too top-heavy corporate set-ups and political selfishness and employees through their ignorance of problems of employers.—Salesman, Los Angeles, Calif.

The Government has spoiled a larger percentage of labor by an excess of paternalism.—Worker, food processor, Riverside, Ill.

All three in different degrees: Government by catering to vote swinging organized minorities, employers by their being so inarticulate and in a few cases by being callous, and employees through their often unwarranted suspicion of employer's motives.—Supervisor, automobile parts company, Detroit, Mich.

Labor leaders and the attitude of the Government and provisions of the Wagner Act which is a one-sided law.—Accountant, Hartford, Conn.

In most cases I believe that the average employee does not want to be interested in any problem that does not bring any immediate advantage. He will not think for himself.—Rayon finisher, Phillipsdale, R. I.

Every man and woman and corporation is seeking a dollar value for 30 cents.—Millwork estimator, Elmhurst, N. Y.

Employer because of the attitude that the employee is a commodity and that money is real wealth.—Bookkeeper, New Haven, Conn.

It is difficult to single out any one group as they are all offenders on different occasions.—Department store employee, Pittsburgh, Pa.

All three—Government through taxing the same product several times instead of once. Employers for overproduction caused by modern speed machinery, and then laying off help thus causing under consumption. Employees for sit-down strikes and asking for too much without understanding all the facts.—Machine operator, manufacturing company, New Bedford, Mass.

QUESTION 2: "WHAT DO YOU THINK WOULD IMPROVE CONDITIONS?"

Cut relief to a figure below the wages of private industry.—Machine knitter, textile mill, Hickory, N. C.

Give business a long breathing spell from reform, too many laws, and Government extravagance.—Retired worker, Fitchburg, Mass.

If the married women were barred from working it would give some men work.—Crane operator, mill, Peoria, Ill.

Arbitration.—Rayon worker, Belpre, Ohio.

Extended educational endeavors of Government bodies to overcome misunderstanding.—Clerk, food-processing company, La Grange, Ill.

Common sense and labor in a position where they can be held responsible.—Engineer, food company, New York City.

Stop borrowing fountain-pen money.—Automobile mechanic, College Point, N. Y.

By putting the Golden Rule in practice.—Pressman, Dallas, Tex.

Extend production over the 52 weeks; 40-hour weeks. Stop overtime and consume more floor space, allow employers to invest fairly and give the one who is producing a living wage. Also prohibit piece work.—Cloth folder, Fall River, Mass.

More stable and continuous employment.—Woodworker, Cranston, R. I.

Extensive accurate study of needs and a balanced production schedule.—Welder, Schenectady, N. Y.

An understanding that employers install machines for making products better and not for decreasing employees.—Electrician, manufacturing company, Alexandria, Ind.

A flexible wage scale. More consideration shown by all sides.—Laborer, box company, Chicago, Ill.

Stabilizing employment.—Mechanical engineer, Collingswood, N. J.

Fix taxation for periods of time so capital would know in advance how to figure overhead, profit, and market.—Foreman, Lima, Ohio.

Honest wholehearted cooperation between all concerned.—Accountant, cement company, Denver, Colo.

Take the harness off the employer.—Worker, match company, Springfield, Mass.

Ease the burdens of companies that provide work in hard times.—Chemist's assistant, Fitchburg, Mass.

Write off sufficient investment to permit profitable production based on the demand for the products of industry. Settle the labor question through intelligent fair conferences between management and labor based on patriotic and humanitarian motives rather than on cutthroat competition.—Requested anonymity.

Allowing industry to accumulate reasonable surplus and make labor realize their responsibility in the economic scheme.—Paper-mill employee, Wausau, Wis.

Taxes for legitimate revenue only. Amend Wagner Act. Put unfair employers out of business.—Logger, lumber company, Tennant, Calif.

A balanced Budget, repeal of the individual surplus tax, more restricted tariffs, stabilization of employment on an annual basis, and severe curtailment of the unions' dominance of both labor and capital.—Salesman, Los Angeles, Calif.

A "Cal Coolidge" attitude of our President toward government and business.—Laundry worker, Westfield, N. J.

Quit encouraging strikes, quit meddling, and tell businessmen to go ahead and make money.—Street railway employee, Council Bluffs, Iowa.

More businesslike management in government.—Service and production engineer, Riverside, Ill.

Deport every alien of questionable character. In order to fight a disease you must locate the germ. The above cuss is the germ.—Machinist, manufacturing company, Three Forks, Mont.

The Government should let business run itself so that capital can invest in business without fear of great losses.—Demonstrator, Milwaukee, Wis.

More freedom of business. Easing the tax load.—Clerk, manufacturing company, Chicago, Ill.

Consult and heed business leaders.—Floor manager, department store, Pittsburgh, Pa.

Real wealth (not money, the medium of exchange) must be produced to a greater extent, and distributed fairly.—Bookkeeper, New Haven, Conn.

Less nepotism. The merit system 100 percent, and profit sharing.—Butcher, New York, N. Y.

Control of new high-speed production machinery that is displacing manpower.—Machine operator, New Bedford, Mass.

QUESTION 3. "DO YOU THINK THE EMPLOYER SHOULD SHARE PROFITS WITH THE EMPLOYEE, AND, IF SO, WHAT DIVISION OF PROFIT DO YOU THINK WOULD BE FAIR?"

Excess profits above a certain point should be distributed among stockholders and employees.—Machinist, foundry, Hammond, Ind.

A division whereby the employer would receive a fair profit, and capital and employees would receive a fair wage.—Hosiery topper, Greensboro, N. C.

Twenty-five percent to employees after all charges had been deducted including provision for expansion.—Engineer, food company, New York, N. Y.

Anything over the first 10 percent, let the employer take 50 percent and split the remaining 50 percent with the faithful employees.—Automobile mechanic, College Point, N. C.

This would require a great deal of study.—Relief nurse, Rochester, Minn.

About 10 percent of net profits should be shared.—Electrical tester, Newark, N. J.

Depends on various conditions.—Laborer, public utility company, Lockland, Ohio.

The employers and employees should come to an agreement as to that.—Hosiery mill worker, Hickory, N. C.

As much as the employee has put into the business through cooperation and interest.—Teacher, Crossett, Ark.

Whatever they could pay.—Janitor, Rome, Ga.

It depends on how much the profit is and how long the off-season is.—Moulder, Benton Harbor, Mich.

Whatever division company deems fair after deducting operating expenses from profits for the coming year.—Welder, Trenton, N. J.

Possibly 75 percent to employer, 25 percent to employee.—Engineer, Collingswood, N. J.

After employer has taken a fair return he should split equally with employees.—Salesman, rubber company, Long Island, N. Y.

Ten to twenty-five percent of the net profit after all sinking funds and other similar payments.—Chemist assistant, Fitchburg, Mass.

Ten percent in good years, 5 percent in fair years, and no share in poor years.—Worker, food-processing company, Riverside, Ill.

After return to actual capital fair enough to account for risks taken and for building of reserves for progress in research and technique, would favor 30 percent.—Supervisor, automobile parts company, Detroit, Mich.

A fair percentage of the earnings.—Machinist, Posen, Ill.

That would depend on individual's pay and benefits received from company.—Paper maker, Woronoco, Mass.

A small percentage of actual profits.—Automobile-company representative, Jersey City, N. J.

A system of "sliding scale profits" should be employed. Employees receiving a percentage of profits over a 20-percent return on employer's investment.—Factory worker, radio manufacturer, Berlin, N. J.

That would depend entirely upon the percentage of profits accruing. The employer should always retain a reserve for slackening business as profit sharing only works one way.—Storekeeper, cement company, Ada, Okla.

A small percentage which would act as an inducement to make employees strive harder for the success of their employers.—Laundry route salesman, West Palisades, N. J.

QUESTION 4: "WHAT OTHER BENEFITS WOULD RESULT FROM PROFIT SHARING?"

The big thing would be that fewer people would be public charges in their old age. Also recreate better feeling.—Delivery clerk, department store, Minneapolis, Minn.

Men would do their jobs as if it were their own and not as a laborer.—Ground man, public utility company, Pittsburgh, Pa.

Reduction in crime and overindulgence. Increase in all the finer things.—Salesman, Oak Park, Ill.

Prejudices would be wiped out, communistic propaganda would fall on deaf ears, and a true prosperity would emerge.—Clerk, food-processing company, La Grange, Ill.

Less friction, less illegal actions, and less legal actions.—Orderly, hospital, Rochester, Minn.

Severity of business cycle would be lessened. Government relief agencies would be less burdened. General confidence would be strengthened. It would do away with Government pensions and "old folks' homes," and help lighten the load of helping other people who cannot help themselves.—Loan-service representative, Waukegan, Ill.

A greater feeling of security, hence, greater purchasing power.—Pressman, Dallas, Tex.

Greater appreciation of each other's problems and viewpoints.—Student, Woodbury, N. J.

It would bring about better home facilities and education of children.—Teacher, Crossett, Ark.

It would stop people moving around from one job to another and make for a steadier and more competent help.—Loom fixer, Brockton, Mass.

It would stop favoritism to certain employees, which causes more trouble than necessary.—Inspector and folder, manufacturing company, Fall River, Mass.

Greater respect for industrial management.—Woodworker, Cranston, R. I.

The Nation would be pulled out of the depression and everyone would be happy and have a brighter future.—Machinist, automobile manufacturer, Detroit, Mich.

A more perfect harmony could be enjoyed by all.—Bench moulder, Harvey, Ill.

A more contented people which would build a strong bulwark against communism.—Pensioner, Whiting, Ind.

Universal loyalty of employees.—Electrician, manufacturing company, Fort Collins, Colo.

People would not need to fear helplessness in old age. People could be more useful to one another and to their country and be more progressive.—Fur storage clerk, Jersey City, N. J.

The feeling of uncertainty removed would bring about better health. Worry kills.—Home service adviser, public utility company, Omaha, Nebr.

Tend to bring out suggestions from employees to improve products and increase production.—Salesman, department store, Pittsburgh, Pa.

Help the people out of the depression by bringing more money into circulation.—Janitor, manufacturing company, Beloit, Wis.

Longer length of service, thereby less labor turn-over, making for higher efficiency.—Salesman, Los Angeles, Calif.

Employees would stick to their jobs and be more willing to help out in an emergency and not try to do just so much for a day's work.—Warper, textile mill, Philadelphia.

The employee would probably be more civic-minded and more of an asset to the community in which he lived.—Chemist, cement company, Montana.

Fewer "isms."—Salesman, publishing company, Oakland, Calif.

The more the fellow at the bottom can get to spend, the more at the top will be made by the other fellow.—Millworker, Elmhurst, N. Y.

Older employees could retire and be independent, and younger persons could be employed.—Machine tender, paper mill, Massachusetts.

Greater dividends to employer and employee alike.—Assistant purchasing agent, manufacturing company, Oklahoma.

CHAPTER XV

RECOMMENDED PROFIT-SHARING PLAN PRESENTED BY THIS SURVEY

A PROFIT-SHARING-SAVINGS-RETIREMENT FUND

PROVISIONS

1. *Joint contributory.*—Contributions by employees in an amount ranging from a minimum to a maximum percentage of their wages or salary, supplemented by a predetermined share of net earnings to be contributed by the company.

2. *Membership and participation.*—A preliminary apprentice service of 2 or 3 years, to be required for membership and participation. It is advisable that membership be compulsory after such period of apprentice service.

3. *Apprenticeship bonus.*—It is suggested that a bonus, preferably to be payable in preferred stock of the company, should be distributed to workers during the apprentice period on the basis of a dividend on their annual wage. It is advisable that this stock be nonnegotiable until the end of the third year, at which time the worker makes his decision to become a member of the profit-sharing plan. If he becomes a member, his 3-year stock bonus to be credited to his profit-sharing account. If he decides not to become a member, the stock may be sold for his account if desired.

4. *Administration of fund.*—By an advisory board consisting of five or more members. If five members, two to be elected by the employees and two selected by the corporation, the fifth to be the executive officer of the corporation who shall act as trustee.

5. *Fund investment.*—That portion of fund contributed by employees must be invested subject to the regulations of the State law regulating the investment of trust funds. That portion contributed by the corporation may be invested at the discretion of the trustee and advisory board subject to a regulation requiring investment in sound security such as bonds, preferred stock, mortgages, etc., but in no case to be invested in common stock.

[NOTE.—The investment problem will be simplified and completely solved should the legislative recommendation presented by the survey be adopted by Congress.[1]]

6. *Retirement age.*—The age of retirement shall be optional at 60 or 65 years, and total disability shall be construed as retirement.

7. *Dismissal or voluntary withdrawal credit.*—If an employee voluntarily withdraws or is discharged from service, he should be paid every dollar he has contributed, plus accumulated interest of record, together with 40, 50, or 60 percent (optional) of the corporation contribution credited to his account, plus accumulated interest of record. The

[1] See Legislative Recommendations, ch. XVI, p. 142.

remainder of the corporation credit should be a forfeit representing the penalty for withdrawal or dismissal, and revert to the fund for credit to the remaining members.

8. *Dismissal of employees.*—Protective features should be adopted to prevent easy or arbitrary dismissal of employees. The employee should have the right of appeal to the advisory board against dismissal.

9. *Integrity of fund.*—Provision should be made to maintain the fund independent of the solvency or permanence of the corporation and unassailable from attack by creditors of either the corporation or the employee. Assignment of interest should be made impossible.

ADDITIONAL BENEFITS

10. *Life insurance* covering first 6 or 7 years of membership in the profit-sharing fund, the death payment decreasing each year in inverse ratio to the increased credits in the fund. This to insure reasonable security and protection to the worker during the early period of his accumulations. The premium for this insurance may be deducted from the corporation contribution or be an additional contribution by the corporation.

11. *Health and accident insurance* to provide protection against sickness, hospital expense, and medical care. This fills the one gap of fear and insecurity of the employee in event of incapacity to work. If nothing prevents the employee from working, the profit-sharing fund removes all other fears and worries. This is an item of moderate cost to the corporation.

12. *Administration and human relations program.*—The success of any financial or employee-relations program is dependent upon the personal element in its administration. No matter how sound and beneficial a plan may be in its mechanical structure, its engineering must be in the care of those who are (1) humanly sympathetic to its objectives, (2) conscientious to its responsibilities, and (3) empowered with responsibility and equipped with ability for the investment and protection of funds, consultation with employees, and a friendly advisory service to their problems. It is better that no plan or program be installed, if the "human engineering" care or administration is omitted or not given first consideration.

FUNDS AVAILABLE FOR TWO PURPOSES

(1) Employment Insurance. (2) Old Age Security

(a) The trustee and advisory broad should be authorized to disburse a certain percentage of the fund, in case of unemployment emergencies to the extent of insuring the member-employee a livable wage during periods of partial or complete lay-off. This percentage to be governed by the individual conditions applying to the company, its record of unemployment, its seasonal fluctuations, and its past record of stability.

(b) The total accumulated credit to the account of the worker shall become payable upon retirement or total disability. Provision should be made for the advisory board and trustee to have discretionary power of judgment as to whether the employee is competent to protect and conserve the estate which is due and payable at that time and to have the right of distributing the payment of the estate over a period of years in the event of adjudged incompetency.

ADVANTAGES TO THE EMPLOYEE

1. A plan simple enough for the worker to thoroughly understand and which enables him to calculate with reasonable accuracy its steady development in his behalf.

2. Young unattached men and women, with a long future ahead, with minor responsibilities and commitments, require extraordinarily positive stimuli; that is, the challenge of a big reward at the end of the working age—an appeal to the imagination. Under this plan the older employee becomes the tutor of the young concerning the importance of the future which depends upon fidelity to present duties.

3. A "fortune at 60" is the key idea in the mind of the employee. What a difference in the psychological aspect—the bright, colorful glamour of a fortune as compared to a somewhat drab and pale pension amounting to but one-third, or one-half, or at best, two-thirds of his working wage. To an employee under this plan "Life begins at 60."

4. The employee-member must have no fear of unjust discharge. Should he be discharged, he has the right of appeal to the advisory committee, and if the discharge is not sustained, the member must be reinstated, and it must be remembered that two of the five are fellow workers.

5. The employee is saved from his own weaknesses, of dissipating his savings, which accumulate with increasing volume under the stimulus of compound interest plus credits resulting from discharged or withdrawing members.

6. Although the purpose is to keep the fund inviolate and intact, the advisory committee has discretionary power, with the consent of the trustee, to make loans to employees under extenuating circumstances and emergencies. Herein lies the opportunities for efficient human engineering.

ADVANTAGES TO THE EMPLOYER

1. Will promote individual employee energy and efficiency by stimulating hope and ambition.
2. Will develop general efficiency of all employees by sustaining group interest and responsibility for profits.
3. Will eliminate labor unrest and conflict.
4. Should reduce labor turn-over, by providing attractive reward for continued, faithful service and penalizing withdrawal.
5. Should prevent waste and losses usually due to carelessness and discontent.
6. Should promote efficiency in management and self-imposed supervision in the employee group by the reward of an attractive estate or fortune—providing the company operation is profitable.
7. Creates and builds a market for company securities.
8. Provides humanitarian benefits and old-age security.

GENERAL ADVANTAGES TO INDUSTRY

1. *The inclusiveness of this plan.*—Its coverage of practically all of the advantages sought in the vast array of prevailing plans and employee policies—its simplicity in serving the main purpose—should make the plan appeal to all employers of labor.

In effect, this plan encompasses—

(1) A pension system; (2) a savings plan; (3) a retirement fund; (4) incentive wage plan; (5) a bonus system; (6) an annuity plan; and, indirectly, (7) a merit system.

2. It makes capitalists of the workers, completely changing their thinking and attitude toward the industrial system—an imperative national need.

3. It makes workers a part of the profit system and by their participation transforms their sentiment from one of antagonism to that of acceptance and defense—the most powerful educational advance that could be devised.

4. It constitutes a genuine recognition of labor as a partner in the industrial partnership which has been expounded from time immemorial but never actually established—the most effective act possible in winning the allegiance of the employee away from the external influences and to his employing institution.

5. It supplies that factor missing in practically all other plans—that cohesive element that impels the employee to stick—a cementing of loyalty (possibly selfish, but actual nevertheless) to his institution—a determination to get the "reward at the end of the race" and that determination is matched with an antagonism against any person or organization that attempts to disturb the serenity of the future prospect.

6. *Eliminates constant bargaining and demands for wage increases.*—Companies paying the "going" or prevailing wage scales of their industry or their community will experience no bickering or bargaining for increased wages, for the reason that the employee is fully aware that his wages are at par with standard rates, besides being deeply conscious of enjoying a participation in profits far outweighing and subordinating the customary issue of wage increases. He considers such questions from an entirely different psychological viewpoint—that of a partner—a partner with responsibilities carrying compensating rewards.

So long as his wages are fair and equitable—on a par with prevailing standards—he is above and immune from the usual petty bickerings of labor strife, because he has the peace of mind and satisfaction of knowing that yonder—where the sign-post reads "60"—his reward awaits him—the great fear is removed.

CHAPTER XVI

RECOMMENDATIONS FOR LEGISLATION FOR ENCOURAGEMENT OF PROFIT SHARING

I. *Exemption from all income taxes of payments to employees from accumulated profit-sharing retirement funds.*—(*a*) The Federal Government today recognizes the public benefits of life insurance by granting special tax exemption. In addition to the Federal Government, practically all of the States allow the insurance payment to be exempt from tax whether the proceeds are paid direct or in trust.

(*b*) In essence and logic, a corporation which creates and develops a profit-sharing fund in the form of an irrevocable trust is, for all practical purposes, building endowment or life insurance for the benefit of the worker or his beneficiaries in the event of his death. The same attitude should be assumed by the Government to such a profit-sharing retirement fund as it now maintains toward life insurance.

(*c*) Such reward and encouragement as would be extended by such an exemption can be well founded upon the basis of the benefit to the common welfare. Such a retirement fund is insuring the independence, comfort, and security of the worker in his or her old age. It is removing that worker from the shoulders of the Government in old age. An inviolate and irrevocable retirement trust fund is in reality a life-insurance contract. If insurance benefits are exempt, then payments to the beneficiaries (the workers) of such a fund should also be exempt. The savings of the worker contributed to the profit-sharing fund are identical to the annual premium paid on a life-insurance contract. The only difference, possible of contention, is that the corporation is contributing a portion of the fund which builds the retirement fund. Accepting this as a difference, Government should recognize that the corporation is contributing to the general welfare by such contributions.

II. *Issuance and sale of "United States Government profit-sharing fund bonds," available only for profit-sharing funds, and used for the protection of profit-sharing fund investments.*—(*a*) One of the greatest fears which cause hesitation in the creation of profit-sharing plans and development of permanent profit-sharing funds, is the fear of management executives to be responsible for the permanent investment and protection of accumulated funds of employees. The experience of recent years in connection with the stability of security values plus the abnormally low interest rates prevailing more lately, provides sufficient evidence of the difficulty of both safe and profitable investment of funds entrusted for future security.

(*b*) Probably no factor associated with profit sharing would do more to discredit the theory and undermine the principle, than for the fund, accumulated through the years and in which the employee has built his hopes and dreams, to be dissipated or destroyed by reason of its investment in unstable securities which are subject to the violent fluctuations of which recent years bear mute evidence.

(c) The Government security above-recommended should be a bond of 30 or 40 years maturity, non-negotiable, and transferable only between the profit-sharing corporation and the Federal Government. It should be issued in registered form only, in denominations of $1,000 or multiples thereof, and redeemable by the registered holder (the corporate profit-sharing fund) on 30 days' notice. These bonds should be issued bearing interest at a slightly higher rate than that prevailing during any given period. In other words, having in mind the existing situation of today, a profit-sharing retirement fund should have greater acceleration of accumulation than is possible under a 2-percent interest rate. Therefore, the minimum interest rate of such bonds should be at least 4½ percent, and during periods of high interest rates, these special bonds should always maintain a slightly increased premium rate.

(*d*) For the purpose of reducing administration and bookkeeping in connection with such bonds, both for the corporation and the Government, these bonds should be issuable on December 31 of the year issued and should draw interest only from that date, thereby allowing a profit-sharing fund to invest its accumulations of the year on that date.

(*e*) Such bonds should only be available and issued to profit-sharing funds of companies having an approved profit-sharing plan conforming to certain well-defined principles of sound and legitimate profit sharing.

SECTION 2

STATISTICAL ANALYSIS OF PROFIT SHARING IN THE UNITED STATES—ITS EXTENT, EFFECTIVENESS AND RECORD OF EXPERIENCES IN PRACTICAL OPERATION

DIGEST AND SUMMARY OF PROFIT-SHARING PLANS BY TYPES OF PLAN AND COMPANIES USING DIVERSIFIED FORMS

APPENDIX

CHAPTER XVII

THE EXTENT OF PROFIT SHARING IN THE UNITED STATES TODAY

Of the number of companies filing "Schedules of Information" with the committee, 728 reported having one or more plans falling within the scope of the survey. Included among these are companies in all sections of the country and in practically every line of business and channel of trade—some with a few employees and some with many thousands; some with a few thousands of dollars of capital and some with many millions.

TABLE 4.—*728 companies having profit-sharing plans grouped by industry and showing number of plans of each type*

Type of business	Number of companies	Pension plans B	Profit percentage plans C	Wage-dividend plans D	Bonus plans E	Stock-ownership plans F	Special plans G
Mining and extractive industries	9	7	1	1	4	1	1
Manufacturing industries:							
Food and kindred products	42	29	8		18	2	
Tobacco	4	2	2		2		
Textile-mill products	17	5	5	1	9		1
Apparel and finished products	4	2	1		2		
Lumber and timber basic products	5		2		3		
Furniture and finished products	10	2	4		4		
Paper and allied products	18	7	9		5	1	1
Printing, publishing, and allied trades	30	11	16	1	7	1	2
Chemical and allied products	40	25	12	2	23		1
Petroleum, coal, and natural gas	27	21	2		7	4	2
Rubber products	6	4	5		1		
Leather and leather products	13	5	3	1	5	1	1
Stone, clay, and glass products	21	14	7	1	8	1	
Iron and steel products	70	23	23	1	34	1	3
Nonferrous metal products	12	10			5		1
Electric machinery	22	9	9		10	1	1
Other machinery	57	19	21	5	30	2	1
Autos and auto equipment	10	1	3		7		1
Other transportation equipment	10	8	2		3		
Other manufacturing	11	4	1		13		
Wholesale and retail trade:							
Wholesale	16	10	4		12	1	1
Jobbers and supplies	4	1		1	2		
Mail order	3		2		2		
Chain stores	16	4	8		12		
Other retail	29	11	11	2	15		
Public utilities	45	45	1		4		
Communication	3	3					
Transportation (other than railroad)	8	8			1		
Insurance	55	44	1		12	1	4
Financial	83	68	9	1	24	1	2
Service	28	13	6	1	11		1
Total	728	415	178	18	295	18	24

Table 4 indicates the distribution of the various types of plans according to the type of business showing a total of 948 different plans being operated by the 728 companies with practically every industry reporting a wide variety of plans. Bonus plans are found in every group but one. Pension plans in all but two, and profit-percentage plans in all but four.

TABLE 5.—*728 companies having profit-sharing plans grouped by geographic location of principal operations*

Type of business	Number of companies	Principal operations											
		Coast to coast	East of Mississippi River	West of Mississippi River	New England	Middle Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
Manufacturing	429	73	10	1	52	111	17	128	21	16	12	4	17
Mining	9	1	------	1	------	1	------	2	------	------	2	1	1
Trade	68	17	2	------	7	15	4	7	5	1	4	1	8
Service	28	6	2	------	2	7	2	6	1	------	------	------	2
Public utilities	45	------	------	1	7	10	5	11	4	------	1	------	6
Transportation	8	3	1	------	------	2	------	------	------	------	1	------	1
Communication	3	2	------	------	------	1	------	------	------	------	------	------	------
Insurance	55	3	1	------	6	7	6	14	9	1	7	1	------
Financial	83	1	1	------	1	13	6	7	32	1	3	10	9
Total	728	106	17	3	75	167	40	175	72	19	30	17	44

Table 5 shows the 728 companies grouped by industry and tabulated according to the geographic location of their principal activities, some companies appearing in more than one column. In addition to the 106 companies appearing in the first column, whose activities spread into all parts of the country; and the 20 companies in the next two columns, where activities are confined principally to the territories either east or west of the Mississippi River, there are profit-sharing plans in every geographical division with manufacturing, trade, and financial companies appearing in each of the columns and insurance companies in all but one.

TABLE 6.—*728 companies having profit-sharing plans—Grouping 683 by industry and showing normal number of employees*

Type of business	Number of companies reporting	Normal number of employees
Mining and extractive industries	9	28,761
Manufacturing industries:		
Food and kindred products	36	161,214
Tobacco	4	20,425
Textile mill products	17	15,703
Apparel and finished products	4	7,078
Lumber and timber basic products	5	3,347
Furniture and finished products	10	18,382
Paper and allied products	18	28,082
Printing, publishing and allied	27	17,632
Chemical and allied products	40	105,164
Petroleum, coal, and natural gas	27	228,982
Rubber products	5	43,542
Leather and leather products	10	34,172
Stone, clay, and glass products	20	74,744
Iron and steel products	66	271,781
Nonferrous metal products	12	28,930
Electric machinery	19	182,358
Other machinery	53	129,398
Auto and auto equipment	10	222,021
Other transportation equipment	10	54,138
Other manufacturing	9	12,680

TABLE 6.—*728 companies having profit-sharing plans—Grouping 683 by industry and showing normal number of employees*—Continued

Type of business	Number of companies reporting	Normal number of employees
Wholesale and retail trade:		
Wholesale	16	10,904
Jobbers and supplies	4	1,203
Mail order	3	59,973
Chain stores	14	139,447
Other retail	27	59,603
Public utilities	40	122,614
Communication	2	301,416
Transportation (other than railroads)	8	51,087
Insurance	52	85,790
Financial	78	32,245
Service	27	11,091
Companies reporting normal number of employees	682	2,563,787
Companies not so reporting	46	
Total companies	728	

That profit sharing is not confined to small companies, as many people presume, is clearly indicated by tables 6 and 7.

Table 6 shows by industry the aggregate number of employees as reported by 682 of the 728 companies. Included in the list are companies with small groups of employees, others employing in excess of 75,000. Ten companies in the automotive industry average over 22,000 each; 3 in the mail-order business, nearly 20,000 each; 19 manufacturers of electrical equipment, over 9,500 each, and the entire group of 682 companies employing normally 2,563,787, averaging in excess of 3,700 employees per company.

TABLE 7.—*728 companies having profit-sharing plans—Grouping 588 by industry and showing net worth*

Industry	Number of companies	Net worth [1]
Mining	8	$376,656,000
Manufacturing	364	16,241,696,000
Trade	52	1,029,564,000
Transportation	5	292,840,000
Communication	3	834,297,000
Utilities	42	2,896,981,000
Financial	64	1,081,769,000
Insurance	30	80,284,000
Service	20	126,766,000
Companies reporting net worth	588	22,960,853,000
Companies not so reporting	140	
Total companies	728	

[1] Book value capital stocks and surplus.

Table 7 shows under broad groupings the net worth of 588 of the 728 companies as aggregating nearly $23,000,000,000, or an average in excess of 39 millions.

Collectively and individually, these tables evidence the wide scope of profit sharing in the United States today—the extent to which it has become nationally installed and adopted.

An interesting sidelight revealed by the schedules of information is the age distribution of employees as indicated in table 8.

This age distribution is compared with the total United States population in the various age groups on the basis that, other factors being equal, the number of workers employed should be distributed the same as the population. This, of course, is not an accurate measure. A better figure would be the age distribution of employables, less the farm population.

Even so, it appears that the worker 40 to 50 years old is not being discriminated against. Over 50 years there seems to be some discrimination in favor of the younger employee, but over 50, health and accidents probably take the greatest toll. It should also be remembered that most of these 594 companies have pension plans starting at age 60 or 65 so that a smaller proportion of this class would be expected.

It is noticeable that certain types of business have a preponderance of young employees. Usually, these are the businesses that can employ many young girls who eventually leave to get married.

TABLE 8.—*Number of employees in various age groups, by type of business*

Type of business	Number of companies	20 to 30 years	30 to 40 years	40 to 50 years	50 to 60 years	Over 60 years	Total employees
Mining	9	6,082	7,981	5,574	3,066	946	23,649
Manufacturing	347	594,220	546,266	409,190	196,890	67,566	1,814,132
Trade	54	136,121	59,933	26,378	11,109	2,684	236,225
Transportation	5	5,187	12,974	11,298	6,164	2,247	37,870
Communication	2	22,292	44,098	23,875	13,550	2,119	105,934
Utilities	43	36,149	51,786	34,107	17,691	5,729	145,462
Finance	65	12,084	8,935	4,529	2,048	749	28,345
Insurance	47	20,339	11,714	5,064	2,322	937	40,376
Service	20	2,208	1,958	1,134	443	116	5,859
Professional	1	11	10	3	0	1	25
Unclassified	1	11	17	5	0	0	33
Total	594	834,704	745,672	521,157	253,283	83,094	2,437,910
Percent		34.24	30.58	21.38	10.39	3.41	100.0
Age distribution of total United States population in groups[1]		20,703,986	18,329,066	15,032,474	10,621,481	[2]3,751,221	68,438,228
Percent		30.25	26.78	21.97	15.52	5.48	100.0

[1] 1930: United States Statistical Abstract.
[2] 60 to 65 only.

CHAPTER XVIII

ANALYSIS OF THE EFFECT OF PROFIT-SHARING PLANS UPON INDUSTRIAL RELATIONS

I. STATEMENT OF THE PROBLEM

While believing that an analysis of profit-sharing plans must be qualitative with reliance principally upon logic, history, and experience, it seems appropriate to make a statistical study in order to determine whether or not the previous conclusions can be substantiated. The problem of this analysis is:

1. Do profit-sharing plans improve employer-employee relations?
2. If there is any indication that profit-sharing plans can improve employer-employee relations, are particular types of profit-sharing plans more effective than others? In other words, are bonus plans more or less effective than other types of plans; are pension plans more or less effective than other types of plans; are profit-percentage plans more or less effective than other types of profit-sharing plans?

Inasmuch as this study on the whole has been directed at the effects of profit sharing upon labor and the problem of improving employer-employee relations, it is felt that the answers to the above questions may be measured from specific answers given in the "Employer's Schedule of Information" in regard to strikes and as to whether or not the various plans have reduced labor turn-over, increased efficiency, and increased loyalty and appreciation. It is felt that such an approach might shed some light upon the intangible features of profit sharing which may well be worth the costs to the company maintaining the plans.

II. CONCLUSIONS REACHED

From the data which was available for analysis, the following conclusions have been drawn:

1. Where a company has in force a pension, bonus, wage-dividend, stock ownership or profit-percentage plan, there is a distinct decrease in the probability of that company having labor troubles and strikes as compared to those companies which do not have such plans for labor. However, this is not true for those companies which (1) have some plan for labor, and in addition a profit-percentage plan or bonus plan for executives or keymen (i. e., executive or management plans), or (2) which have profit-percentage plans or bonus plans for executives and no plan in which labor shares.
2. Of the various types of profit-sharing plans, pension plans are the least effective in reducing the probability of a strike occurring, in decreasing turn-over, in increasing efficiency, and in increasing loyalty and appreciation.
3. Profit-percentage plans are the most effective in decreasing the probability of labor controversy and strikes and in decreasing turn-over, increasing efficiency, and increasing loyalty and appreciation.

4. As to profit-percentage plans, there is reason to believe that the type of plan wherein the workers' share is saved for the future is more effective than the type of profit-percentage plan wherein cash is distributed at stated intervals.

5. Bonus plans come in the middle ground between pension plans and profit-percentage plans in their effectiveness toward improving employer-employee relations.

III. DEFINITIONS

Broadly speaking, profit sharing has been the name applied to all those types of plans which in effect grant monetary rewards to the worker over and above the wage scale. Because of the limitation of time and funds, the study of various types of welfare plans such as medical care, housing, group and disability insurance, etc., has been eliminated from this investigation even though it may well be admitted that these plans occupy an important place in an industrial-relations program. Rather, the study has been primarily confined to those plans which offer additional monetary rewards currently or at some future time. As was indicated in the "Schedule of Information" sent out to business and industrial establishments, these plans include pensions, annuities, bonuses, wage-dividend, stock-purchase, and profit-percentage plans.

Pension and annuity plans include those schemes which have for their purpose the paying of some monthly or annual amount to an employee after he has reached the age or the condition of health which does not permit him to perform his tasks. The term "pension" is commonly understood by most everyone and there should be no confusion on this point. An annuity is usually a pension or pension plan wherein the payments after retirement are made by an insurance company rather than by an employer. Thus, the cost to the company is based upon the future benefits desired for the employees.

Bonus plans include that group of payments to employees wherein the cost to the company or the amounts distributed to employees may be based more or less upon the option of the management as to the amount, or is based upon some such figure as length of service or annual earnings, or both, of the employee involved. While it is true such payments are usually made only when profits have been earned, there are some plans where bonuses are paid—based on length of service—even though the company may have incurred a loss during the year. Then, too, profits may have been earned and still no bonus would be paid unless the management so decided.

This particular study included as bonus plans only those bonus systems that have been in effect for some period of time, and seem to represent a consistent policy on the part of the management.

Wage dividend describes that group of profit-sharing plans wherein the amount to be distributed to the employee is directly related to the amount of dividends paid or declared on some class of stock, usually common. Here we find that although a company may have profits at the end of the year there would be no distribution to the employee if the company decided not to pay any dividends. Then, too, the company might pay a dividend even though they had operated at a loss, in which case the employees might also receive a cash distribution.

Stock ownership refers to that type of plan wherein employees are given the opportunity to purchase stock in the company. For purposes of the study, only those plans which offered stock below current market prices or paid employee subscribers a bonus were included as "profit sharing." This eliminated that group of companies which performs only a service such as permitting the employee to buy stock at the market and then paying for it in installments. To fall in this class, a plan had to definitely give the employee-subscriber some advantage, either in price or in extra earnings on his investment.

Under profit-percentage plans was included those plans—and only those plans—where the amount to be distributed or held for the benefit of the employee was definitely related to the profits of the company. This relationship is a stated percentage of net profits. Sometimes this percentage refers to total net profits available for dividends and sometimes to net profits after some allowance has been made for a return on capital.

The term "strikes" includes all those situations wherein there was an actual stoppage of work because of some differences or controversy between management and employees. Thus, negotiations for purposes of collective bargaining, elections for the determination of the collective bargaining agent, and even cases brought before the National Labor Relations Board were not considered unless they were accompanied by an actual stoppage of work.

In the matter of strikes, it seemed only fair to distinguish between "major" and "minor" strikes. Certainly some distinction seemed necessary between the company with 10,000 employees where 9,000 went out on strike and the firm with 10,000 employees where 20 employees in some department of a small branch went out on strike. It is admitted that the distinction has been determined by the staff, as the employers were not asked to qualify their original statements. Consequently, each case was judged on its merits, due consideration being given for the total number of employees, the number out on strike, the duration of the strike, whether or not it occurred at the main plant or at some branch, and so forth.

IV. LIMITATIONS OF THE STUDY

The nature of the data studied was of such a type as to make it difficult to come to any definite statistical conclusions except that certain trends and aspects were noted which assumed some significance when logic and experience were also brought into play on the subject. It was found that answers to such questions as "turn-over," "efficiency," and "loyalty" depended on the point of view of the executive answering the schedule. In very few instances were executives able to back up their opinions with quantitative data. In addition, there were various shades of opinion which it was not possible to differentiate. For instance, one official might answer, "I believe the plan has reduced turn-over but I can't say how much." Another might answer "The plan has very definitely reduced turn-over." And between the two extremes were other shades of emphasis. Consequently, the investigation was undertaken with full realization of its limitations and yet it seemed appropriate to determine if possible whether or not previously expressed opinions could be substantiated in numerical form.

The analysis of specific types of plans was confined to those companies which employ "labor" in the common sense of the term. Thus, insurance companies, financial institutions, etc., were eliminated as they employ mostly "white collar" workers, and it is readily appreciated that the problem of these companies is quite different than that of the companies employing "blue shirt" labor.

CHARLES A. WILCOX,
Statistician.

STRIKE RECORD OF COMMERCIAL COMPANIES EMPLOYING LABOR

The first question with which the study is concerned is whether or not there is any better employer-employee relations between those companies having some type of profit-sharing plan for labor and those companies that have no profit-sharing plans for anyone.

In order to answer such a question it is necessary to find some common denominator between the two classes. Upon inspection of the Schedules of Information filed with the staff it was found that the record of strikes was a common factor. The problem then arose as to whether or not the strike record would give any indication as to the effects of profit-sharing plans upon the employer-employee relations and if it could be used as a measure between the two groups.

Generally speaking, strikes may be used to measure this employee-employer relationship. To be sure, most strikes have their basis in some dispute over wages or hours or in the question of rights of organization which may be considered a prelude to demands for wage-and-hour adjustments. Of course, there are many other bases for strikes such as resentment against a particular foreman or executive or some fancied grievance which may be disguised by a demand for wage-and-hour adjustments. One of the aims of the survey was to discover, if possible, whether or not a profit-sharing plan might not be used as an added medium for the distribution of profits which might lessen or eliminate the constant bickering between employers and employees over the wage scale to the detriment of both.

Because strikes primarily represent disputes over wages, they also reflect employer-employee relations and because a profit-sharing plan is considered a medium for avoiding these disputes, it seems reasonable to use the strike record for comparative purposes for determining whether or not those companies having such plans are in a better position as regards harmonious industrial relations than those companies without plans.

One further point needs to be added. This study is directed at attempting some solution of the "labor" problem—particularly as regards industrial disputes. Consequently, it seems appropriate to eliminate from the computations those companies which do not employ labor of the "blue shirt" variety. This group would include financial institutions, insurance companies, service and professional groups, etc., where the preponderance of employees are "white collared" and primarily salaried. Thus the group subjected to study would include only "commercial" companies where the employees were primarily wage earners. It is easily recognized that it is among the second group that the greater majority of labor disputes occur.

Thus, 774 commercial companies filed Schedules of Information indicating whether or not they had a profit-sharing plan in effect and also whether or not they had a strike or strikes in recent years. Of the companies that had some plan in operation it was thought advisable to further break this group down in view of several considerations that come up.

As this study is directed at the effects of profit-sharing plans upon labor, it seemed necessary to segregate 88 companies who had some plan in which labor did not share. It would be expected that this group would show up differently than the group wherein labor did share in a plan. Likewise, it was deemed best to extract 62 companies that had some plan in which labor shared, but also had some plan in which labor did not share, as the "executive" plans might have some influence on industrial relations. Three hundred and four of the companies had profit-sharing plans in all of which labor shared, and no other plans in which labor did not share. This left 320 companies having no plan for anyone. The strike record of these 5 groups is plotted in chart 8. The lower part of the bars represent "major" strikes and the upper part of the bar "minor" strikes.

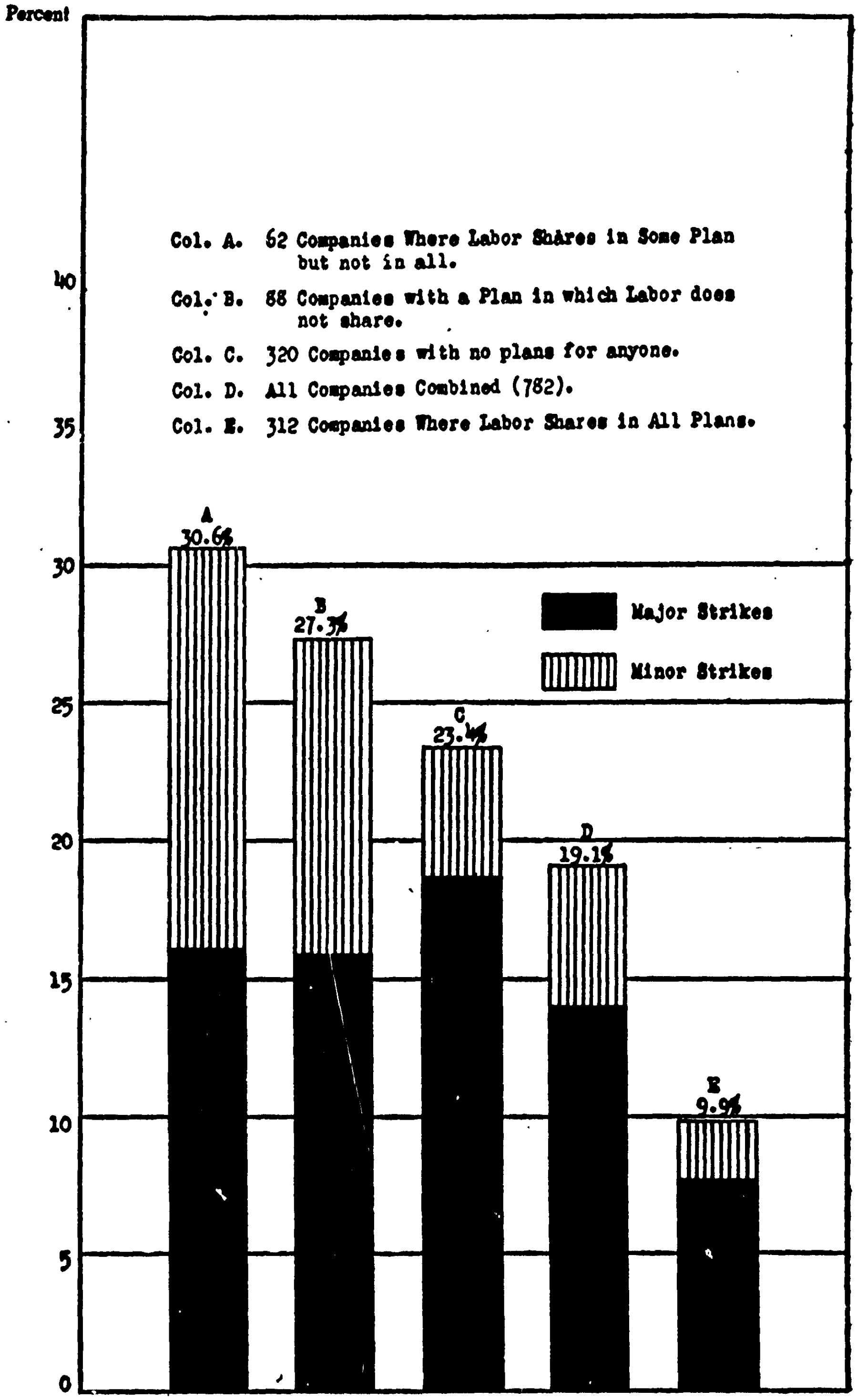
From column D of this chart is seen that 19.1 percent of the 774 companies had one or more strikes in recent years of which 14.0 percent were major. Three of the groups had a worse experience and one group had a better experience. Of the three groups with a worse experience, it is seen that of the 320 companies in column C without a plan for anyone, 23.4 percent had strikes of which 18.7 percent were major. In column A, 30.6 percent of the group with a plan for labor, but also some plan in which labor did not share, reported strikes, of which 15.9 percent were major. Of the group with only "executive" plans, 23.7 percent reported strikes, of which 16.1 percent were major.

Thus the latter two groups had the worst strike record, as might be expected. In recent years considerable publicity has been given to executive salaries and executive bonuses and even though these bonuses—either profit-percentage or regular bonus—may be justified from the standpoint of management, evidence is available that they cause considerable resentment among the employees down in the shop who see only a gross figure paid and have no understanding as to why such a payment was made. In fact, no attempt may ever have been made to explain these bonuses to the workmen. All the worker in the shop knows, is that he gets his $30 a week and somebody in the office gets a salary of $50,000 and maybe a bonus of another $50,000. Whether he is justified or not justified, it might be that the worker looks at that $100,000 as against his own $1,560 and decides that he must be getting "gypped." If he reaches such a decision, he is easily led into a labor outbreak with his fellow workers.

It is to be noted that of the 304 companies where labor shares in all plans only 9.9 percent reported strikes, of which 7.7 percent were major—a distinctly better showing than the 774 companies combined. In the "E" group, there might be cases where executives would draw large bonuses but, as the workers shared in the plans, they apparently felt that management was trying to play fair with them and they consequently resented less any differences in each individual's share.

Column A shows a smaller proportion of major strikes than does column B or column C, and this is what might be expected, although the individual variations are too small to be highly significant. Column A, of course, represents companies where labor shares in some plan and in columns B and C there is no plan for labor.

CHART 8.—Percentage of companies reporting strikes—by various groups



The question naturally arises as to whether the wide difference in the experience of these 304 companies with plans in which labor shared, column E, when compared to the experiences of the other 470 companies, might not be due to errors in sampling or simply to chance. The differences in total strikes was checked mathematically and was found to be significant in that the difference was too large to be due either to chance or to the errors of sampling.[1]

Because of this mathematical confirmation of opinions and philosophies that have previously been expressed, it seems reasonable to conclude that profit-sharing plans where labor shares, do improve employer-employee relations, providing there is not also some other profit-percentage or bonus plan in which labor does not share.

LABOR RELATIONS UNDER THE VARIOUS TYPES OF PLANS

Under chart 8 it was demonstrated that companies with active profit-sharing plans in which labor shares in all plans have a superior record as regards strikes. In that particular tabulation there were companies which did not have plans, and therefore could not answer any questions as to the effect of the plans on turn-over, efficiency, and loyalty, so that the comparison was necessarily confined to the strike record alone.

In coming to the second problem of the study—that is, the differences between various types of profit-sharing plans—it is found that there is not only a strike record but in addition there are available answers to the questions as to whether or not such plans decreased turn-over, increased efficiency, and increased loyalty and appreciation, which might or might not confirm the results indicated by the strike record alone.

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[1] The formula used to check the differences in percentages was

$$\sigma_{D_p}^2 = p_0 q_0 \left(\frac{1}{N_1} + \frac{1}{N_2}\right)$$

where D_p is the difference between two percentages, p_0 is the weighted mean proportion, q_0 is $1-p_0$, and N_1 and N_2 are the total number of cases, is the two samples to which the proprtions relate. In chart 1, of 312 companies where labor shares in all plans, 31, or 9.9 percent, reported strikes. Of 470 other companies, 118, or 25.1 percent, reported strikes.

The two proportions, p_1 and p_2, with which we work are 0.009 and 0.251. The difference D_p between the two proportions is 0.152. For the weighted mean proportion we have

$$p_0 = \frac{N_1 p_1 + N_2 p_2}{N_1 + N_2}$$

$$= \frac{(312 \times .099) + (470 \times .251)}{312 + 470} = .1905$$

$$q_0 = 1 - p_0 \times .8095$$

We compute the standard error of D_p from the relationship shown above.

$$\sigma_{D_p}^2 = .1905 \times .8095 \left(\frac{1}{312} + \frac{1}{470}\right)$$

$$= .0008211$$

$$\sigma_{D_p} = .028655$$

Between the given value of D_p and the hypothetical value of zero we have the discrepancy (expressed as a normal deviation)

$$T = \frac{.152 - 0}{.028655}$$

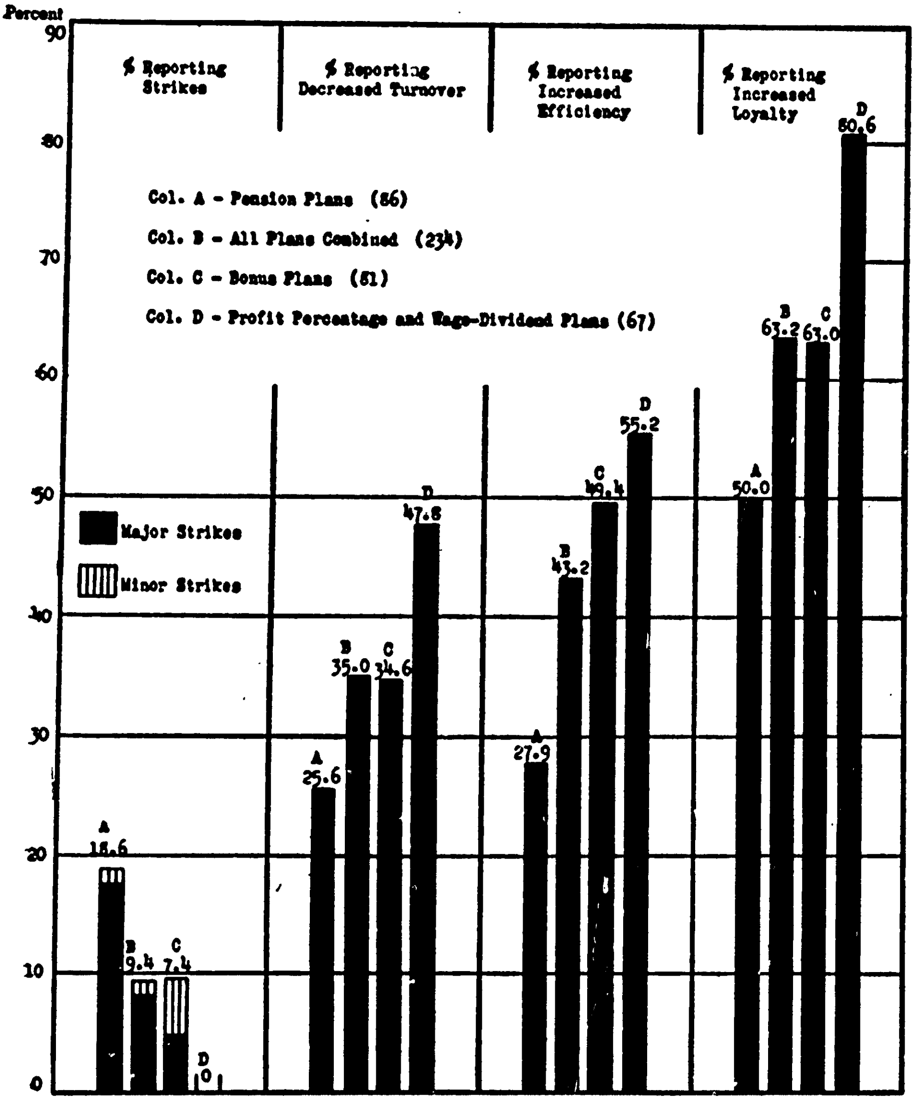
$$= 5.30$$

A discrepancy as great as this or greater might occur, as a result of chance, fewer than 4 times out of 10,000. The value of T is equivalent to the value of $\frac{X}{\sigma}$ in the Table of the Normal Curve of Error in Terms of Abscissa.

The above procedure was used throughout to check differences in percentages. No difference was considered significant unless the discrepancy was large enough to occur as a result of chance less than 1 out of 100 times. See Frederick C. Mills' Statistical Method, pages 483–485, revised edition (1938), for a further discussion of this formula.

In order to isolate the numerous types of plans as completely as possible, 234 companies were selected which have only one type of plan such as pension, bonus, percentage-sharing, wage dividend, or stock ownership in operation, and labor shared in that plan. Thus there was eliminated any influence of plans in which labor does not share. It also eliminated the influence of some other plans as in those companies having more than one plan for labor. These 234 companies are, of course, selected from the group of commercial companies employing labor that are being investigated. The plans have been divided into pension plans (or annuity plans), bonus plans, and profit-percentage plans. This latter classification also includes eight wage-dividend plans which are "partnership" plans and tend to make the employee definitely interested in the fluctuation of the profits of the company. The experiences of these companies have been plotted in chart 9, wherein column A represents pension plans, column B all plans combined, column C bonus plans, and column E profit-percentage plans.

CHART 9.—234 commercial companies with only one plan and labor shares in that plan



Under the heading of "Strikes," it is seen that 18.6 percent of those with pensions had strikes, of which 17.4 percent were major, which is the highest figure. Profit-percentage plans showed no strikes at all. The group as a whole showed a percentage of 9.4 percent, of which 8.1 percent were major. Bonus plans tended to coincide with the group as a whole and this coincidence is maintained throughout the four break-downs. A further perusal of the chart indicates that pension plans, consistently, were the least effective, not only as to strikes but also as to turn-over, efficiency, and loyalty. Likewise, both profit-sharing plans and bonus plans maintain a superiority over the group as a whole.

Here we find that all major strikes are in those companies having pension or bonus plans while the companies with profit-percentage plans had no strikes at all. Also the proportion of major strikes is greater under pension plans than the proportion of major strikes under bonus plans.

The question again arises as to whether or not these differences in percentage are significant or might not be differences simply due to chance distribution. The percentage differences were checked mathematically and as to total strikes it was found that the percentages of both profit-percentage plans and pension plans were significant in that they were too large to be due primarily to chance. This experience is what might be expected due to the fact that profit-percentage plans tend to establish a partnership relation between employees and the company, and employees under profit-percentage plans are apparently interested in the general welfare of the company and are satisfied that management is attempting to be fair with them as regards the distribution of the company's earnings. On the other hand, the existence of a pension plan is apparently no deterrent to the employees' desires for wage adjustments, better working conditions, or the right to organize. This is not unusual as it is perhaps difficult for the workingman to look a long way into the future to such time as he will be a beneficiary under this type of program. The receipt of this pension ordinarily has little relationship to the fluctuations of the profits of the company, especially if the pension plan has been funded or insured. Under insured plans, several executives have admitted that their employees are inclined to look to the insurance company for their pension and, therefore, lack the loyalty and cooperation which might be expected if the employee realized that he relied totally upon the company for his retirement protection.

Bonus plans seem to strike an "average" between these two types of plans. This is not unusual, inasmuch as a bonus at the end of the year might feasibly give the worker as much cash as would a profit-percentage plan with the exception, however, that the employee's interest is not so definitely tied in with the fluctuations in profits. There might be profits and no bonus. Consequently, the employee might find it difficult to anticipate any benefits from his own personal efficiency or loyalty, as does the worker under a profit-percentage plan. In this particular case, it is true that those working under bonus plans cannot look forward to a pension, but this is more apt to be the concern of the older employee and not that of the younger employee, but still he might have a little more interest in the business as far as getting something out of it over his wages, as what benefits he gets under a bonus-plan arrangement come directly from the company and not from some outside institution.

In answer to the question as to whether or not these plans have decreased turn-over, we find that the various plans maintain the same order of magnitude (in reverse, of course, as here a high percentage is favorable) and again the widest divergence in the average of the group occurs between pension plans, which apparently are least effective and profit-percentage plans, which are apparently the most effective. In this distribution, the variation in percentage of column D is apparently of some significance, as a mathematical check of the percentages indicated that the variation is great enough to be outside the realm of chance. The dispersion is not outside of what might be expected in that one of the workingman's first interests is to get the best job at the best pay he can, and he is not likely to let a pension or a bonus plan stop him from making a change if he can see a better job elsewhere. However, profit-percentage plans do show a decided tendency to hold the employee to better advantage because under this scheme of things he knows definitely where he stands and he also has some assurance that when, as, and if the company makes profits or has a good year he will receive additional compensation accordingly. He would probably take into consideration the financial history of the company and, if he had reasonable assurance that profits would be made or increased, and thus increase his own compensation, it is fair to assume he would hesitate before leaving his job for the sake of some small immediate or temporary benefit.

In the study of "increased efficiency," we find again that pensions are apparently the least effective and this is borne out by a mathematical check which indicates that the variation of pensions from the group as a whole is larger than might be expected purely from chance. This again is what might be anticipated. Pension plans offer benefits to employees but these benefits as a rule do not accrue until some future date and in the case of many employees it is a remote future date and the anticipation of its benefits, which lack glamor and challenge in financial volume, create no particular spur to the employee to do a better job than he otherwise would do. This might be modified somewhat in the case of the older employee who can see a pension coming to him a few years ahead and possibly be stimulated to wind up his career with the best efforts he could put forth.

While both bonus plans and profit-percentage plans still maintain their superiority over the average, the differences seemingly might be due to chance distribution rather than due to any fundamental differences, although the decision as to profit-percentage plans is borderline.

In the matter of "increased loyalty," we again find the common sequence of magnitude with pensions at the lower end and profit-percentage plans showing the highest percentages of favorable replies. This distribution is not particularly unusual inasmuch as, under pension plans, as has been said before, the benefits normally are very far in the future and it is apparently difficult for the average employee to become enthusiastic about something he cannot see and which will not be in his hand for a long time to come and, even when it does come, it may only be a mere subsistence payment. If he dies before retirement age, he gets nothing except possibly a return of his own contributions. On the other hand, profit-percentage plans do promote a partnership feeling with its profit urge, and one would naturally expect that the employees under such a stimulating plan would have a more cooperative attitude toward their employers. Mathematically, however, the variation of profit-percentage plans was not large enough to be considered significant.

One other noticeable trend in this chart is the increasing number of favorable responses as we move through turn-over, efficiency, and loyalty. This seems to be a general characteristic. In part, this might be explained by the inability of employers to definitely say whether or not these plans have decreased turn-over or increased efficiency. Frequently there are other factors which may influence these two items so, consequently, many of the answers came under the "no known effect" category. But when it comes to the matter of loyalty, where it was a question of the employer using his opinion, the favorable responses as a rule jumped appreciably as he did not have to resort to records to formulate an opinion. Likewise many employers responded that employees had demonstrated by action and word of mouth that the various plans under which they worked were appreciated.

DIFFERENCE BETWEEN "NONPARTNERSHIP" AND "PARTNERSHIP" PLANS

Previous mention was made of "partnership" plans. By this term is meant those plans such as profit percentage, wage dividend, and stock ownership, wherein the employee has a definite interest in the fluctuations of the profits of the company and he works under the knowledge that, as his own efficiency and the efficiency of his company workers is increased, the profits of the company will be increased and the larger will be his share. He becomes conscious of his importance in the operations of the business and it is natural that he would be much more desirous to cooperate with management at every opportunity. This "partnership" relation is something for which every employer aspires. It is the most valuable status that can be established, for it assures peace, harmony, and increased efficiency.

Under "nonpartnership" plans are included pensions (or annuities) and bonus plans, wherein the amount to be distributed to the employee does not have a direct relation to profits, so that increased effort on the part of the employee might not result in any increased benefit to himself. He is not conscious of being a "partner" in the business and consequently, he may make no particular effort to increase profits, especially if he thinks that the increase might be only for the benefit of stockholders and management, and not to himself.

In chart 9 it was indicated that profit-percentage plans (or partnership plans) show a definite superiority in achieving certain results over the nonpartnership type of plan. As that group of profit-sharing plans was rather small and represented single plans that the companies had in operation—it is thought advisable to examine the broader group of partnership and nonpartnership plans, including the companies which have more than one plan for labor. It is felt that by the use of this broader sample the effects of these plans may be better illustrated.

Consequently, on chart 10 are plotted the experiences of 102 companies with at least a "partnership" plan and 210 companies with one or more "nonpartnership" plans, in all of which labor shares.

Under the section covering strikes, it is seen that of the 210 companies with "nonpartnership" plans (represented by column A) 13.3 percent report strikes, while 10.5 percent report major strikes. Of the 102 companies with "partnership" plans (represented by column B) only 2.9 percent report strikes and 2.0 percent report major strikes. The differences in percentage between columns A and B were checked mathematically and the variation here is large enough to be significant for inferring that the difference was fundamental and not due to chance. In the light of the previous discussion it is not difficult to understand why this should be.

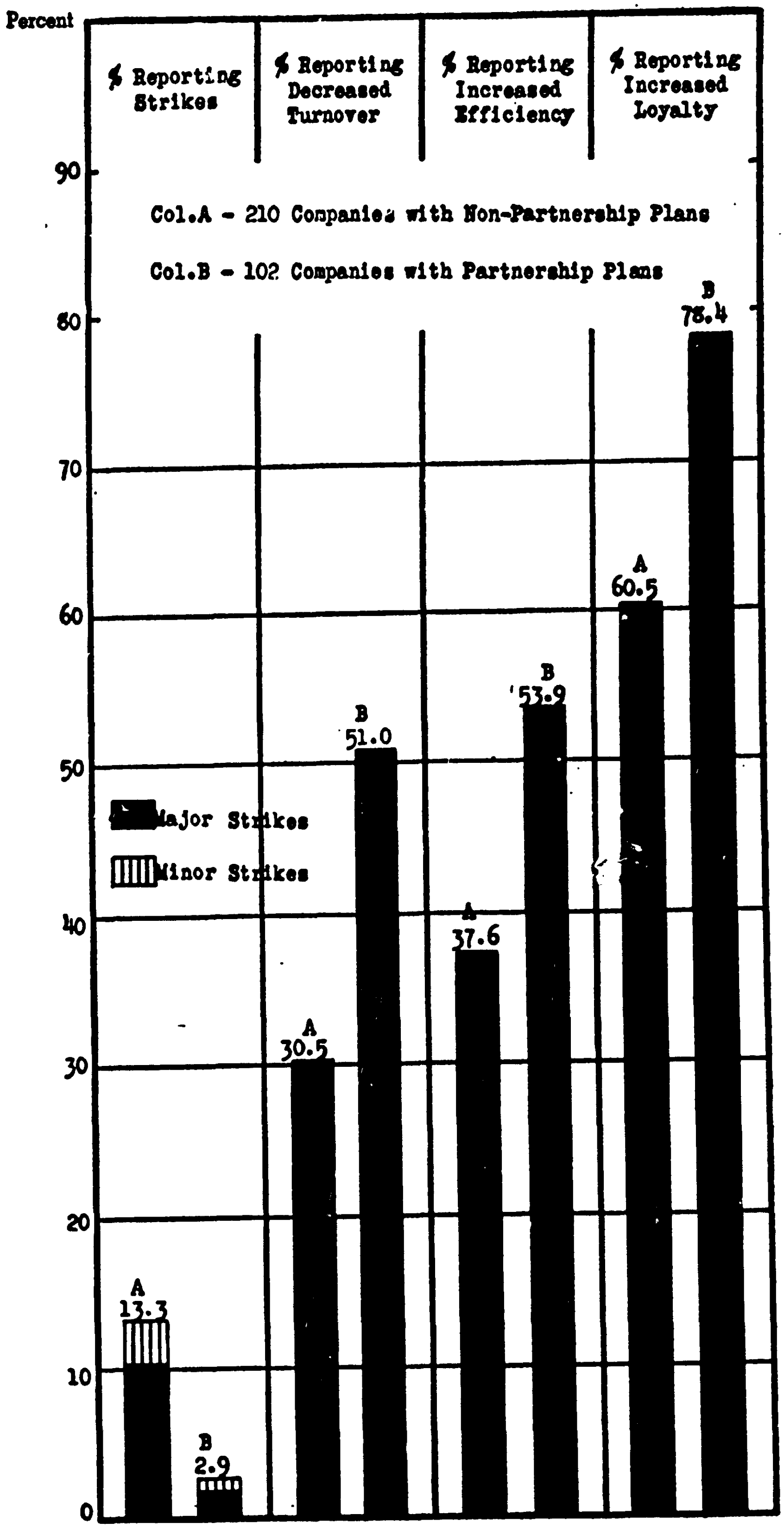
As to "turn-over," it is found that 51.0 percent of the companies with "partnership" plans reported a decrease, and only 30.5 percent of the companies with "nonpartnership" plans reported a decrease. Again this difference is large enough to be beyond the realm of chance and consequently the variation may be considered significant. It is not difficult to understand why an employee working under a "partnership" plan, wherein he feels that he is a definite entity in the business, would be reluctant to leave his job, especially to take employment where such a plan was not in existence.

As to "efficiency," it is seen that 53.9 percent of the companies with "partnership" plans reported increased efficiency, while only 37.6 percent of the companies with "nonpartnership" plans reported increased efficiency. This difference, again, is too large to be due to a chance distribution and thus it is considered significant.

In the matter of "increased loyalty," it is again seen that the "partnership" plans show a definite superiority over "nonpartnership" plans. Such results are in line with what might be expected from the two groups.

In view of this evidence, it is inferred that "partnership" plans are superior to "nonpartnership" plans in improving employer-employee relations.

CHART 10.—Industrial relations record of 312 companies separated as to "partnership" and "nonpartnership" plans



DIFFERENCES IN PENSION PLANS

From chart 9 it was found that pension plans were the least effective in achieving the results that are being measured. That group in chart 9 included those companies that had only a pension plan for labor. However, it was found that a number of companies not only had a pension plan for labor but they also had some other plan in which labor shared. This other plan might be a bonus, wage-dividend, stock-ownership, or profit-percentage plan. It was thought desirable to examine this entire group in order to find out if there were any combination of other plans with pension plans that might achieve better—or worse—results than were obtained with pension plans alone.

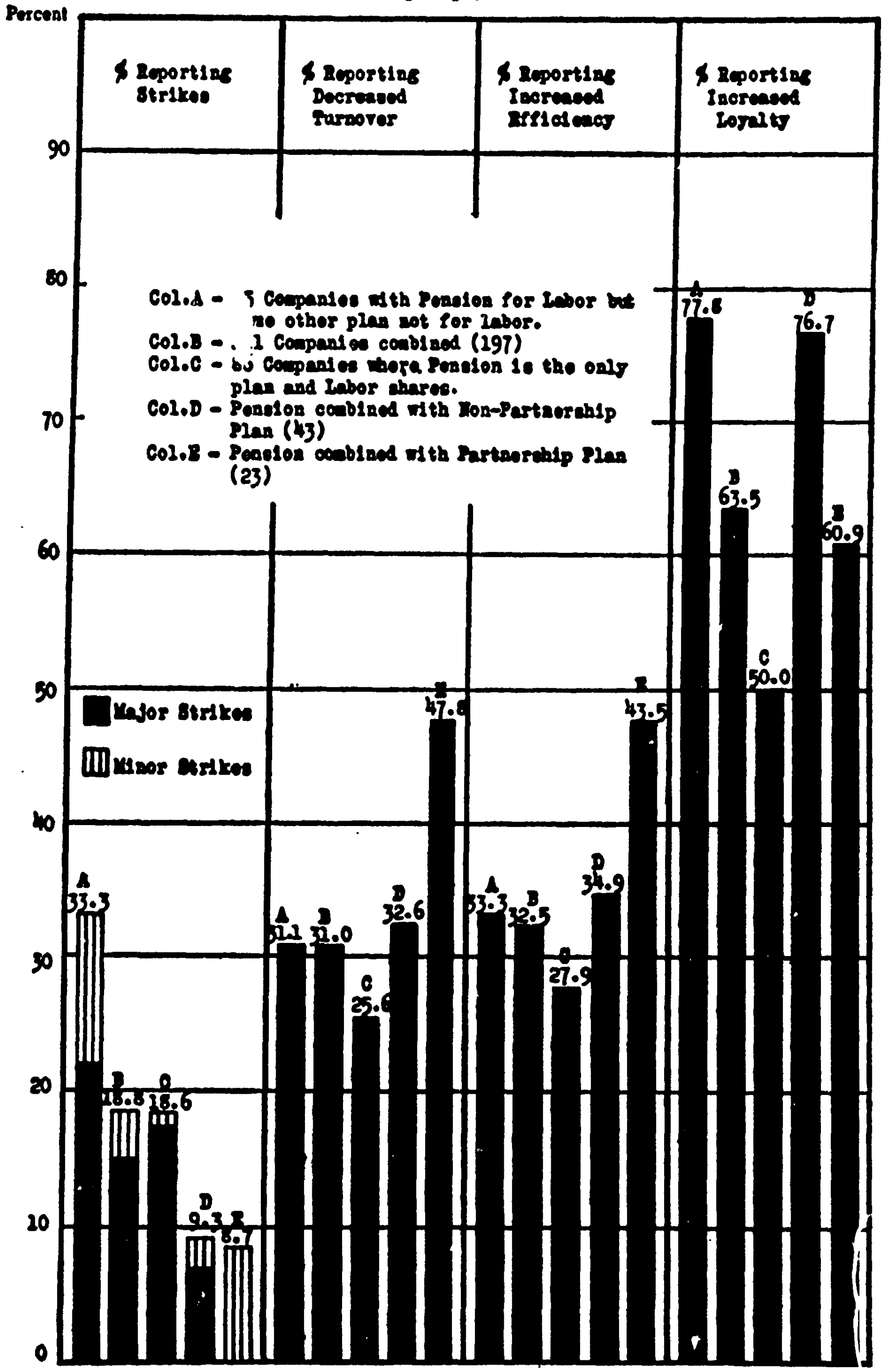
On chart 11 is plotted the experiences of 197 companies that have pension plans for labor—either alone or in combination with some other plan—in which labor might or might not share.

In each series of bars column A represents 45 companies that have a pension plan for labor but also some other plan in which labor does not share. Column B represents the 197 companies combined. Column C represents 86 companies where a pension plan is the only plan and labor shares in that plan. Column D represents 43 companies with a pension plan for labor, but also some other nonpartnership plan in which labor shares. Column E represents 23 companies with pension plans for labor, but also some partnership plan in which labor shares.

In the matter of strikes, there is found a wide variation of results ranging from 33.3 percent in column A to 8.7 percent in column E. One noticeable point is that in column E there are no major strikes. This group represents the combination of pension plans with "partnership" plans. It is also noted that column D makes a favorable showing which seems to indicate that either a partnership or nonpartnership plan in combination with a pension plan is better than a pension plan alone, and better than a pension plan in combination with some plan in which labor does not share. These results are what might be expected in view of previous discussions where it was indicated that partnership plans make the best showing as regards strikes and any combination where there is a bonus plan, or profit-percentage plan in which labor does not share, has an adverse effect on the strike record. It is not difficult to understand that even though partnership plans are more effective than nonpartnership plans the addition of a nonpartnership plan to a pension plan would show better results than would a pension plan alone.

Likewise, in regard to decreased turn-over, increased efficiency, and increased loyalty, columns D and E continue to make the best showing. However, under increased loyalty column A takes a jump which is unexpected. In view of previous results, it is felt that this superior showing is probably due to the fact that employers were thinking of the executives who shared in their plans and not of labor when this question was answered. If column A is eliminated the record of columns D and E seems to confirm their superiority in the matter of preventing strikes.

CHART 11.—Industrial relations record of 197 companies with pension plans (by groups)

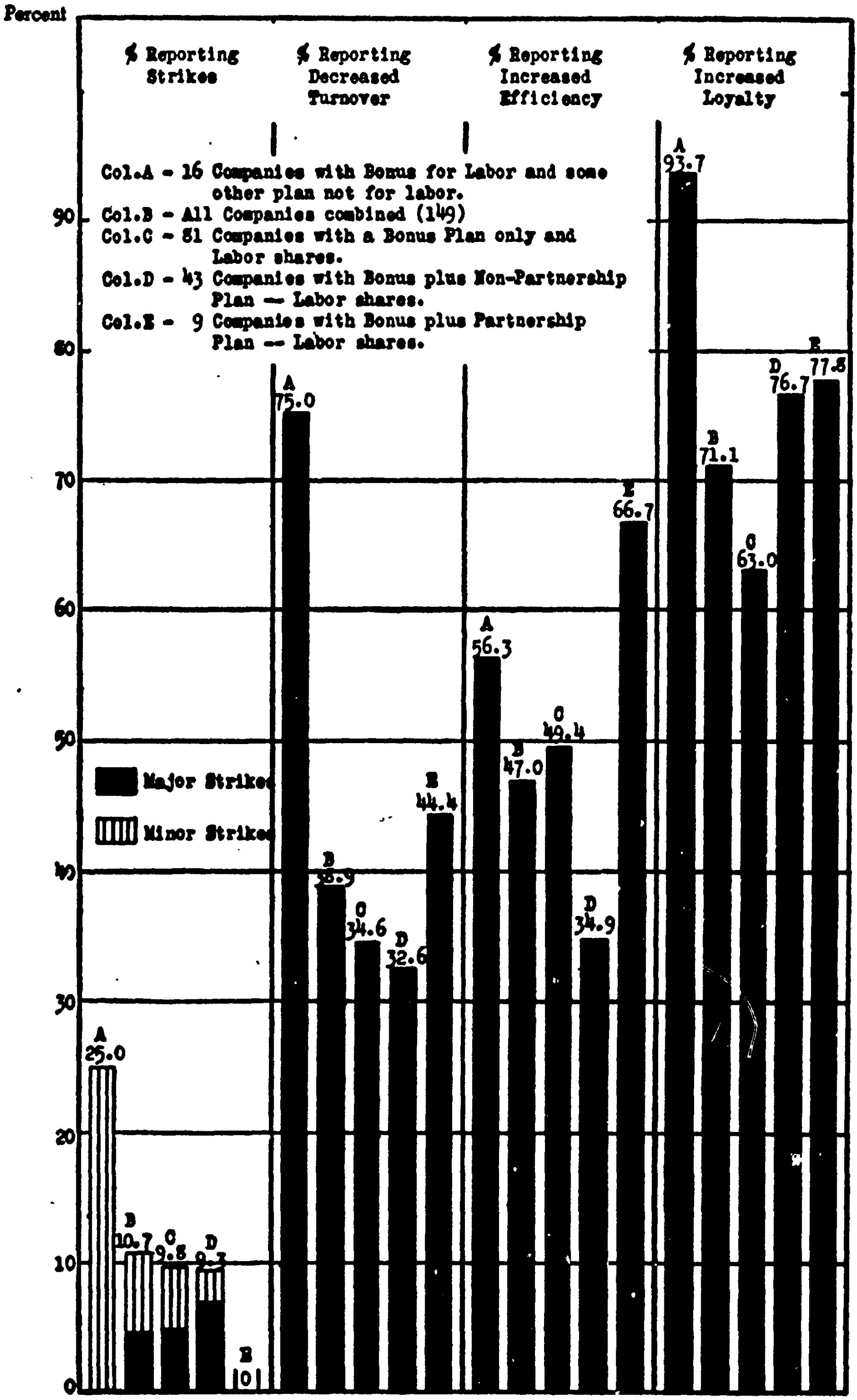


EXPERIENCES OF 149 COMPANIES WITH BONUS PLANS

The relationship of bonus plans to other plans was shown in chart 9 by the use of 81 companies where the bonus plan was the only plan, and labor shared in it.

In order to find out if there might be combinations of bonus plans with other profit-sharing plans which might or might not have as good a record as bonus plans alone, the experiences of 149 companies having bonus, or bonus and other plans, was plotted on chart 12.

CHART 12.—Industrial relations record of 149 companies with bonus plans either alone or in combination with other plans (by groups)



The companies were divided according to whether they had no plans for labor (column A); a bonus plan only (column C); a bonus plan and a partnership plan both for labor (column E); and a bonus plan and a nonpartnership plan, both for labor (column D). In addition the whole group of 149 companies was consolidated in column B for comparative purposes.

Using column C as a base, where bonus is the only plan and labor shares in that plan, it is seen that 9.8 percent of the 81 companies reported strikes of which about half were major and half minor. Columns B and D are almost identical as regards total strikes, but column D has a greater proportion of major strikes.

Column A—where there are plans in which labor does not share—showed the greatest percentage of strikes—25.0 percent—but it should be noticed that they are all minor. It might be inferred that such plans occasion dissatisfaction among the labor force sufficient to arouse petty disagreements and yet such bonuses for management might not be sufficient grounds for a major strike over wages, hours of work, or the right to collective bargaining.

At the other extreme, column E shows no strikes as here are found bonus plans in combination with some partnership plan.

This range is what might be expected, but in this case the samples (only nine companies with bonus and partnership plan) are too small in number to indicate that the variations are significant and yet previous experiences lend some weight to the inference that partnership plans achieve the best results and where an executive or nonlabor plan is present, the worst results occur.

Under the sections covering turn-over, efficiency, and loyalty it is found that column A—where there are non-labor plans—rises out of proportion to the group, and above what might be expected from the strike record. Here again, it is believed that employers were thinking of management and not of labor when they answered these questions.

If column A is disregarded, it is seen that column E (where there are partnership plans) maintains the superiority that is expected of it in regard to turn-over and efficiency and loyalty. Likewise there is not much difference between columns B, C, and D.

Although column E maintains its superiority throughout, the differences are small enough to be due to chance and are, therefore, of no particular significance.

Although no one section gives grounds for drawing definite conclusions, all four questions together give some reason for believing that a bonus plan in combination with a partnership plan is superior to a bonus plan alone, and a bonus plan in combination with some plan in which labor does not share is inferior to a bonus plan alone. This tends to follow the conclusions drawn from charts 8 and 9.

EXPERIENCES OF 87 COMPANIES WITH PROFIT-PERCENTAGE PLANS

Chart 9 gave reason for believing that profit-percentage plans were definitely better in achieving an improved industrial relations condition among all the other various types of profit-sharing plans. Having expressed the opinion that this type of plan shows the best results, it seems pertinent to inquire as to whether or not there are any variations of the profit-percentage plans which might show bettter results than the group as a whole.

Both in the testimony at the public hearings in Washington and in the literature in the field numerous people have expressed the thought that it is a mistake to give the worker cash as his share of the profits as there is a tendency for him to spend it quickly and not to save anything for the future. The worker is apt to increase his standard of living in anticipation of a cash bonus and, consequently, the blow is that much harder when the cash fails to materialize.

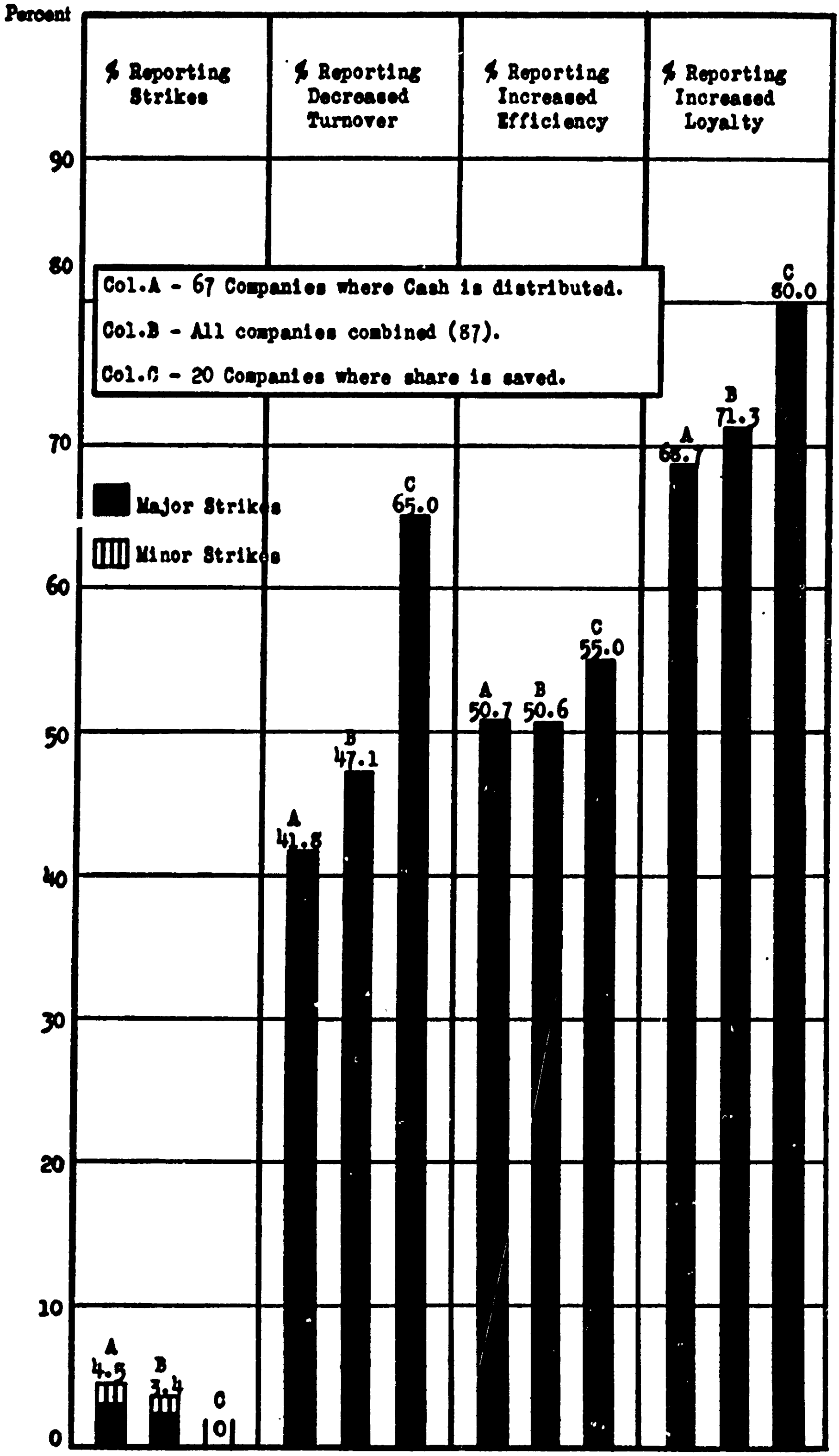
Several well-known profit-sharing plans have been altered from their original form because of the recognition of this weakness in their plans. Likewise, it is claimed that the employee is better off and ultimately shows more effectiveness, loyalty, and appreciation to his employer, if he is enabled to build up some capital with which to build a home, establish an estate, or create a retirement fund that will take care of him in his old age in comfort and dignity. He becomes a "capitalist" and a "partner" in the business and thus can be relied upon to expend the best efforts to insure the success of the company.

Therefore, in chart 13 are shown the experiences of 87 companies with "profit percentage" plans divided according to whether or not the worker's share is paid in cash or saved for the future.

Column A represents 67 companies where cash is distributed; column C, 20 companies where the share is saved; and column B represents the experiences of the group as a whole. It is noticeable that where the share is saved there were no strikes, while the 60 companies that paid out cash had 3 strikes—2 major and 1 minor. However, the variations, due to the small size of the sample, might be due to chance and not to any fundamental differences in the two types of plans. The superiority of the plans where the share is saved might be inferred, however, due to the fact that these plans also make the best showing in regard to decreased turn-over, increased efficiency, and increased loyalty and appreciation. In each of these sections the variations are small enough to be within the realm of chance distribution and yet the consistency of the superiority of column C indicates that it might be reasonable to base an opinion on the figures shown, on the experiences of employers, and from the philosophy expressed in the literature in the field.

There has been good reason for stating that profit-percentage plans (or other "partnership" plans) achieved the best results, as to the specific questions with which we are concerned, among the various types of profit-sharing plans. It does not seem unreasonable to conclude that the profit-percentage plan, where the worker's share is saved, is the most effective of all plans.

CHART 13.—Industrial relations record of 87 companies with profit-percentage plans (by groups)



SUMMARY

From the foregoing series of charts and analyses, it is believed that the two major problems established in the beginning of the chapter have been answered.

It was first demonstrated that out of a group of 774 companies with and without profit-sharing plans, the companies that had some plan, in which labor shared, achieved superior results in the matter of strikes over companies without plans and over companies that had plans for executives or plans in which labor did not share.

By isolating companies that had only one plan, and labor shared in that plan, it was demonstrated that the companies that had profit-percentage plans achieved better results than those companies with other types of plans.

It was then demonstrated that companies having plans that created the partnership interest, either alone or in combination with some other plan, had a better record than did those companies having only a plan of the non-partnership-interest type.

It was then demonstrated that various combinations of pension and bonus plans showed no significant changes in the employer-employee relations unless the plan was in combination with some partnership-interest plan.

Having demonstrated the superiority of the profit-percentage type of plan it was then shown that there was reason to believe that the profit-percentage plan, wherein the workers' share is saved for the future, achieved the best results of any single type of plan or of any combinations of plans.

Numerous other tests and combinations of plans were studied but the details were not included in the report because they neither add nor detract from the arguments given and the conclusions drawn. Table C in the appendix gives a complete break-down of the various grouping of the 462 commercial companies used in the analysis. From these tables can be constructed any desired combination in order to check or disprove the work presented in the report.

Some of the experiments did indicate, however, that among pension plans, the formal plan (preannounced and predetermined) was more effective than the informal pension plan; there was little difference between joint-contributory and noncontributory pension plans but there was some slight evidence in favor of noncontributory pension plans; insured plans and uninsured plans showed little difference one way or the other.

Among bonus plans, the formal (preannounced and predetermined) showed to good advantage over the informal bonus plan. This might be expected as the formal bonus plan approaches and has several aspects of the profit-percentage plan where cash is distributed.

Companies that install pension or bonus plans usually have some desired result in mind—humanitarian or otherwise. It should be pointed out that a profit-percentage plan can achieve any or all of these desired results without costing the company any more than its present pension or bonus plan, merely by adjusting the percentage of profits to correspond with the company's experience as to costs and profits. Then, with the profit-percentage plan the originally desired results will be obtained. In addition, there should appear the advantages of profit-percentage plans that are natural to it, and are additional to the advantages obtained from pension and bonus plans alone.

CONCLUSIONS

The staff, and especially the statistical division, entered upon this survey without preconceived opinions and solely with the determination to conduct an impartial objective—

study of and report to the Senate upon all existing profit-sharing systems, between employers and employees, now operative in the United States with a special view to the preparation of an authentic record of experience which may be consulted by employers who are interested in voluntarily establishing profit-sharing plans.[1]

The intensive study and analyses, hereinbefore presented, of the employee-relations policies operative in hundreds of businesses and commercial and industrial institutions throughout the United States lead us to certain definite and unalterable conclusions, to wit:

1. A profit-sharing plan, based upon percentage sharing wherein the "partner in interest" consciousness is established, is the most effective of all formulas for creating the capitalistic conception with its approval and allegiance to the profit system.
2. The formula of "percentage sharing" definitely creates the partnership relation which in turn promotes a closer, friendlier, and cooperative attitude on the part of the employee toward his employer.
3. Profit sharing on a percentage basis naturally develops the same selfish desire in the employee for the enjoyment of profits as actuate the employer, hence there is established the "common interests" reflecting itself in increased personal interest for company success and in doing all those things which have an influence upon the making of profits.
4. The "conflict of interest" which centers in the wage question, whereby the employee's interest and concern is concentrated in the *one* desire for "higher wages" is unquestionably tempered and modified by the introduction of profit sharing as a "differential" which establishes *two* sources of income, causing the employee to look in two directions for personal financial betterment.
5. There appears to be far greater effectiveness for satisfaction, peace of mind, removal of fear of the future, and in the stimulation of ambition by the system of accumulation of funds for the creation of an estate for old-age security, than by the regular distribution of the cash resulting from the sharing.

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Statistician.
FREDERICK H. BRADSHAW,
Research and Analysis.

[1] Wording of S. Res. 215, authorizing and directing this survey.

CHAPTER XIX

DIGEST AND SUMMARY OF DIVERSIFIED TYPES OF PROFIT-SHARING PLANS

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PROFIT PERCENTAGE PLANS

Under this classification the plans in general are based, some definitely and predetermined, others indefinite and optional, upon a "percentage of profits." In some instances the percentage is determined when the results of the season's or the year's profits have been ascertained; in others fixed rates of interest or dividend on capital are reserved and the remaining balance of surplus earnings divided between stockholders and employees according to such agreement as may exist. In all cases this type of plan bears a direct relationship to the annual earnings of the company.

Under this general type of plan, as in practically all types, there exist varying methods of payment and distribution of the shared percentage. In many instances the profit shared is distributed at stated intervals in cash; other plans provide for the share to be declared at the end of a year and to be credited to the employee in a retirement fund or trust, where it continues to accumulate under the impetus of sound investment return. Some companies compute the annual share and make payment in the form of stock of the company which may or may not be delivered and which in some cases is nonnegotiable for a certain period and in others continues to accumulate in a permanent fund.

In succeeding pages four different outstanding types of profit-percentage plans are presented in reasonable detail. Following these are listed other companies having this general type of plan in operation.

PROFIT SHARING—PROFIT-PERCENTAGE PLAN

JOSLYN MANUFACTURING & SUPPLY CO., CHICAGO, ILL.

Manufacturer of pole-line equipment; 750 employees; net worth December 31, 1937, $5,297,000

Type of plan.—Profit-percentage type wherein the employee's share is 10 percent of net operating profit before any provision for dividends on stock or earnings on invested capital. Plan in operation 20 years.

Eligibility.—All employees are eligible after 3 years' service when participation in the profit-sharing plan is compulsory.

Contributions.—The plan calls for joint contributions. Employees pay in from 2½ to 5 percent of their earnings, but not in excess of $200 per year and the company contributes 10 percent of net operating profit but not in excess of four times the contributions of employees.

Management of plan and fund.—The plan is managed by an advisory committee of five members, of which the president of the company is a member and the trustee. Three of the members are selected from among the officers of the company by the board of directors. Two of the members are elected by the employees from among their ranks.

Investment of fund.—The profit-sharing fund is invested under the direction of the trustee and the advisory committee. It is required that funds paid in by the employees and accumulated interest must be invested in securities approved by the State of Illinois for investment of trust funds. The funds paid in by the company and accumulated interest may be invested as approved by the trustee and the advisory board.

Retirement and withdrawal.—Members of the fund reaching the age of 60 years must retire, except under special conditions, at which time their entire credit in the fund is paid in cash or may be paid in 11 annual installments.

Upon the death of any member before reaching retirement age, the entire credit standing in his name is paid to his specified beneficiary or to his estate.

If a member of the fund is discharged or leaves the employ of the company before reaching the age of 60, he receives all that he contributed to the fund with compound interest, plus one-half of the company's contributions with compound interest. In such a case, the remainder of his credit goes back into the general fund to increase the credits of the other members, no part of it ever going back to the company.

Discharge of members.—No member of the fund can be discharged without a hearing before the advisory committee—of whom four out of five must concur in the dismissal. Two fellow workers are on this committee.

Life insurance.—There is a provision for life insurance during the first 7 years of membership in progressively decreasing amounts, so as to insure at least $2,000 to the beneficiary, if death occurs during these early years of membership.

Loans against the fund.—While loans to members from the fund are discouraged, the advisory board may in emergencies make such loans, but until repaid the member ceases to share in company contributions, thus insuring as prompt repayment as possible. All his contributions apply first to his indebtedness.

What the member gets.—The plan provides for the average workman at the end of 20 years, based on actual experience, about $21,000 for every $100 a year paid into the fund, and about $46,000 at the end of 30 years.

Opinion of management.—The plan has decidedly decreased turn-over, increased efficiency, and increased the loyalty and appreciation of the employees. "We are convinced that we have made more per dollar of investment than we could have made without the plan."

Sears, Roebuck & Co., Chicago, Ill.

Mail order and retail merchandising; 53,200 employees; net worth, over $235,000,000

Type of plan.—Employees share based on a percent of net profits. Requires a joint contribution by employees. The fund thus created is invested in the common stock of the company to take care of the employee in his old age. Plan in operation 22 years.

Method of calculation.—Employees contribute 5 percent of their earnings but not more than $250 per year. The company contributes 5 percent of net profits before any allowance for dividends or Federal income tax, as shown by the annual audit of the books. The company's contributions are distributed in proportion to employee deposits and length of service. Depositors are divided into three groups: Less than 5 years' service, share prorated according to deposits of previous year; 5 to 10 years' service, share prorated according to twice deposits of previous year; 10 or more years' service, share prorated according to three times the deposit of the previous year.

Form and period of payment.—The company payments are deposited in the fund annually. The entire amount credited to a depositor may be withdrawn after 10 years' service (5 years in the case of a woman leaving to be married). If a depositor has not completed 10 years' service he may withdraw only the amount he has deposited plus 5 percent interest, compounded semiannually. However, if a depositor dies, or if after 3 years' service his employment is terminated neither of his own volition nor because of unsatisfactory work, he or his beneficiary receives all money or securities credited to his account.

American Sash & Door Co., Kansas City, Mo.

Manufacturers and wholesalers of millwork; 350 employees; net worth, over $700,000

Type of plan.—Profit-percentage plan wherein payments to employees are based on a percentage of profits. Plan in operation 20 years.

Method of calculation.—After 6 percent is earned on capital, profits are divided among employees and capital in the proportion between total pay roll and capital. All employees with 6 months' service are eligible to participate.

Turn-over and appreciation.—Turn-over has been reduced 50 percent since the installation of the plan. Many employees have shown their appreciation. Have had no labor trouble in 48 years.

Hoskins Manufacturing Co., Detroit, Mich.

Manufacturer of special alloys and castings, electric furnaces, and pyrometers; 200 employees; net worth December 31, 1937, over $1,700,000

Type of plan.—Employees' share based on a percentage of manufacturing profits after deducting 6 percent on capital stock. Plan in operation 15 years. The company also has a joint-contributory annuity plan.

Method of calculation.—All employees at the close of each year share in 25 percent of net manufacturing profits after deducting 6 percent on capital stock. Such extra compensation is paid in cash about February 15 each year, or as soon as the books are audited.

Effect of plan.—"Turn-over is now less than 8 percent compared with over 90 percent per year before the plan was installed. Scrap is now 29¼ percent of prior years even though the required quality is higher than before. It is very evident that the great majority of employees recognize the advantage of careful work and do not hesitate to complain of the careless work done by others."

Appreciation.—"Employees have individually shown appreciation on several occasions. Last February (1938) sit-down strikes were still common in Detroit when we paid extra compensation for the year 1937. Our factory employees wanted to be original so they purchased a sterling silver cup and one noon hour they marched up to our general office to see Mr. Marsh, our president. Then one of our oldest employees made a very appropriate presentation speech in which he thanked the president for the extra compensation."

PROFIT-PERCENTAGE PLAN—FUNDS ACCUMULATED

Bowes "Seal-Fast" Corporation, Indianapolis, Ind.

Manufacturing and sale, automotive necessities; business started 1918; 70 employees

Profit-percentage plan for all employees. When profits are satisfactory, company contributes either in cash or preferred or common stock, which employee may sell at par upon discontinuing services.

Bonus system for all employees distributed either in cash or preferred stock at 7 percent.

Other plans and activities include noncontributory group insurance for all employees but executives.

Paid vacations of 1 week for all employees.

Bank of America National Trust & Savings Association, San Francisco, Calif.

Banking; business started 1904; 8,082 employees

Profit-percentage plan for all employees. Company contributes from 5 to 7½ percent of salaries, the latter amount for the lower salaried employees, and invests in capital stock which is held in trust for 5 years. Adopted 1938.

Joint contributory annuity plan for all employees. Adopted 1937.

Other plans and activities include credit unions maintained by employees.

Atlas Life Insurance Co., Tulsa, Okla.

Life insurance; business started 1918; 50 employees

Profit-percentage plan for all employees. After dividend of $1 per share on common stock, company contributes 50 percent of excess to be distributed to employees, which is cumulative for purposes of this plan. Adopted 1937.

Birtman Electric Co., Chicago, Ill.

Manufacturers of vacuum cleaners and washing machines; business started 1909, 600 employees

Profit-percentage plan for all employees with 1 year's service. Employee contributes from $24 per year up to 20 percent of salary and company contributes from 2 to 6 percent, depending upon amount of net profit and the entire amount is held for accumulation. Adopted 1933.

Paid vacations of 1 week to all hourly wage employees.

Samuel Cabot, Inc., Boston, Mass.

Manufacturing, coal-tar products, paints, insulation; business started 1877; 230 employees

Profit-percentage plan for all employees except executives and salesmen. Company contributes one-fifteenth of profits and distributes one-half in cash and one-half accumulated until employee leaves.

Company discretionary pension plan for all employees, with 25 years' service if incapacitated. Adopted 1908.

Paid vacations to all employees.

Commercial Merchants National Bank & Trust Co. of Peoria, Peoria, Ill.

Banking service; business started 1885; 94 employees

Profit-percentage plan for all employees. Company contributes 5 percent of net earnings to a retirement fund.

Other plans and activities include noncontributory group life insurance.

Paid vacations to all employees.

The De Laval Separator Co., New York, N. Y.

Manufactures centrifugal separating machinery and number of allied products; business started 1883; 1,025 employees

Profit-percentage plan for all employees. Employees permitted to save up to 10 percent of salaries, on which company will guarantee 5 percent on investment, otherwise same percent paid on savings as is earned on capital. One hundred and seventy-one participate.

Other plans and activities include group life insurance.

Paid vacations of 1 week to all hourly wage employees.

DENNISON MANUFACTURING CO., FRAMINGHAM, MASS.

Manufacturing and marketing of tags and paper specialties; business started 1844; 2,700 employees

Profit-percentage plan for all employees with 5 years' service. After allowing for debenture, preferred dividends and some reserve, company contributes two-thirds of balance to managerial employees and one-third to nonmanagerial employees in form of nontransferable stock only at termination of employment when it may be exchanged for preferred stock.

GENERAL ELECTRIC CO., SCHENECTADY, N. Y.

Electrical manufacturing; business started 1878; 65,000 employees

Profit-percentage plan for all employees. After 8 percent on common stock, company contributes 12½ percent of excess earnings and distributes in cash or stock or credits to accounts of employees in income-accumulation plan.

Company contractual-joint contributory annuity plan for all employees in service prior to 1936, and receiving $3,000 after 1935. Adopted 1912.

Other plans and activities include 1-year-term group-life insurance, savings and relief and loan plans, mutual-benefit associations, housing, educational, and cost-of-living adjustment of earnings.

Paid vacations of from 1 to 2 weeks to all hourly wage employees on basis of years of service.

HARDWICKE-ETTER CO., SHERMAN, TEX.

Manufacturing cotton-gin machinery; business started, 1900; 205 employees

Profit-percentage plan for all employees. Company contributes 20 percent of net earnings before income taxes. From this a payment is made to the pension fund and balance is distributed in cash on basis of earnings.

HARRIS TRUST & SAVINGS BANK, CHICAGO, ILL.

Banking; business started 1882; 708 employees

Profit-percentage plan for all employees. Company contributes 5 percent of net earnings which is held with employees contribution for accumulation.

Paid vacations of 2 weeks to all employees.

ILG ELECTRIC VENTILATING CO., CHICAGO, ILL.

Manufacturers electric cooling, heating, and ventilating apparatus; business started 1906; 277 employees

Profit-percentage plan for all employees, payable by company in form of stock-purchase certificates. Adopted 1907.

Stock purchase plan for all employees. At various times stock has been offered to employees at very favorable prices and a large percentage of employees are stockholders. Profit-sharing certificates can be used to purchase stock when available.

Pension plan is in the control of the Ilg Co. Welfare Club, which determines amount of pension on basis of length of service and salary.

Other plans and activities include noncontributory group life, accident, and health insurance and hospitalization.

Paid vacations of from 1 to 3 weeks on basis of length of service.

IOWA FIBER BOX CO., KEOKUK, IOWA

Manufacturers of corrugated shipping containers and specialties; business started 1920; 72 employees

Profit-percentage plan for all employees. Company contributes 8 percent of net profits for benefit of employees. One part connected with salary-savings insurance is predetermined and another part is paid out during year according to need and balance distributed at end of year. Company matches up to $1 per week on salary savings. Employee owns his salary savings insurance outright and retains company contributions should he leave the company.

Paid vacations on basis of years of service.

KANSAS CITY PUBLIC SERVICE CO., KANSAS CITY, MO.

Street railway, trolleybus, and motorbus operation; business started 1918; 1,835 employees

Profit-percentage plan for all employees except three corporate officers. Company contributes 25 percent of all net earnings after operating expenses, taxes, interest, and depreciation, on basis of salary, and distributes in participation certificates exchangeable for securities of company. Adopted 1931.

Company discretionary pension plan for all employees. Company expense. Adopted 1917.

Other plans and activities include noncontributory life, accident, and health insurance. Employees maintain their own building and loan association.

Paid vacations to all on basis of hourly rate and optional with employees.

A. R. MEEKER & CO., NEWARK, N. J.

Mimeographers; business started 1917; 33 employees

Profit-percentage plan for all employees. Company contributes 20 percent profits after 6 percent on capital stock and distributes to employees on basis of length of service and salary. Company contributes an additional 20 percent to credit of employee's purchase of nondividend stock, convertible into cash only upon leaving company.

NUNN-BUSH SHOE CO., MILWAUKEE, WIS.

Manufacturing and retailing and wholesaling of men's shoes; business started 1912; 1,388 employees

Profit-percentage plan for all employees earning less than $4,000 per year. Share to fund determined annually by board of directors and held for accumulation. Invested in securities and used as a retirement fund.

Annual wage plan guarantees 48 weekly wage checks annually. Weekly wage dependent on sales volume.

Paid vacations to all hourly wage employees.

PACIFIC IRON & STEEL CO., LOS ANGELES, CALIF.

Fabrication of structural steel and steel plates; business started 1919; 110 employees

Joint contributory profit-percentage plan for all employees with 3 years' service. Employees must save from 2½ to 5 percent of salary (maximum $200) per year. Company contributes 10 percent of net income. Employees' funds invested in "legals" and held for accumulation with provision for loans until retirement, when payment is made in lump or in installments.

PEERLESS MACHINERY CO., JOPLIN, MO.

Manufacture rock drill parts; business started 1912; 77 employees

Profit-percentage plan for all employees except salesmen and executives. Company contributes 33⅓ percent of the net profits for the month to be equally divided among employees which at present includes 66 employees. Optional with employees to hold for accumulation. Adopted 1938.

Bonus system for all employees including executives, distributed on percentage basis of salaries or wages. Adopted 1937.

JOE SMITH & CO., COUNCIL BLUFFS, IOWA

Dealers in retail clothing, furnishings, and shoes—Men and women; business started 1905; 25 employees

Profit-percentage plan for all employees except executives. Company contributes, after 6 percent on net worth, 40 percent of balance of net profit toward profit-sharing fund. Adopted 1937.

Other plans and activities include a small sum given to employees as Christmas gifts.

Paid vacations of 1 week to all employees.

SMITH LUMBER CO., SAN FRANCISCO, CALIF.

Wholesale and retail lumber; business started 1912; 125 employees

Profit-percentage plan to all employees and executives. Company contributes 20 percent of net profits distributed according to years of service and merit. If accumulated, company pays 6-percent interest on savings. Adopted 1934.

Paid vacations of 1 week to all hourly wage employees on basis of years of service.

THE SNOW & PETRELLI MANUFACTURING CO., NEW HAVEN, CONN.

Manufacture marine gears, business started 1906

Profit-percentage plan for all with 4 years' service. Company distributes 30 percent of net profits, after 7 percent on capital, in common stock at par value in proportion to annual salary or wages. This must be cashed in at par value within 3 months after retirement. Adopted 1923.

UNITED STATES RUBBER CO., NEW YORK, N. Y.

Manufacture and sale of rubber tires, footwear and clothing, mechanicals, sundries, chemicals; business started 1892; 28,536 employees

Profit-percentage plan to which both company and employees contribute, employees receiving not to exceed 5 percent of net profits on their retirement and savings plan plus service shares after 15 years' service. Adopted 1938.

Company discretionary pension plan for all employees on basis of annual salary and years of service. Company expense. Adopted 1917.

Bonus system executives, key men and selected employees distributed on basis of merit in either stock or cash.

Paid vacations of from 1 to 2 weeks to all hourly wage employees on basis of years of service.

VANADIUM-ALLOYS STEEL CO., LATROBE, PA.

Manufacturing, tool steel and allied products; business started 1856; 743 employees

Profit-percentage plan for all employees with 6 months' service. After reserving 7 percent for stockholders on working capital, the employees receive 25 percent of the profit on manufacturing and selling operations. It is optional with employees whether to accept cash or certificates of investment which bear 7 percent interest.

Other plans and activities include group life insurance with permanent disability and death benefits; hospitalization and medical care.

THE VISKING CORPORATION, CHICAGO, ILL.

Chemical, manufacture of cellulose and fibrous sausage casings; business started 1926; 663 employees

Profit-percentage plan for all employees. Company contributes a percentage of net earnings, 10 percent of which is paid in cash and remainder held in trust to be withdrawn for sickness, death, acute need, unemployment, pension, etc., and distributed on basis of salary class and length of service. Funds held may be invested in securities eligible for Illinois Trusts.

Paid vacations of 1 week or less to all employees.

PROFIT PERCENTAGE PLAN—FUNDS DISTRIBUTED

The American Brake Shoe & Foundry Co., New York, N. Y.

Manufacturing iron castings; business started 1902; 5,775 employees

Profit-percentage plan for all employees. After $1.50 per share on common stock, company contributes 8 percent of net income for wage adjustments.

Company discretionary pension plan for all employees on basis of individual merit. Company expense. One hundred and thirty-seven participate.

Bonus system for key men and sometimes all hourly employees.

Other plans and activities include group insurance, welfare, and sick benefit.

Paid vacations, with some exceptions, to all hourly wage employees.

Bower Roller Bearing Co., Detroit, Mich.

Manufacturing, roller bearings; business started 1907; 1,100 employees

Profit-percentage plan for all employees except president and chairman. Of the net profit, the portion exceeding 12½ percent of sales is divided with the employees, the first $50,000 of excess is guaranteed to employees and balance is divided evenly between the company and employees. Adopted 1936.

Other plans and activities include welfare and recreation. Company maintains credit union.

Proctor & Schwartz, Inc., Philadelphia, Pa.

Manufacturing dryers, textile machinery, and small household electric appliances; business started 1812; 750 employees

Profit-percentage plan for all employees. Company contributes, after 6 percent on common stock, profits split 50–50 between employees and stock and holds in unemployment fund to augment unemployment insurance.

Company discretionary pension plan for old or incapacitated employees.

Bonus system to shop and office workers.

Other plans and activities include group-life, health, and accident insurance.

Paid vacations of from 1 to 2 weeks on basis of length of service and profitable years.

Minnesota Mining & Manufacturing Co., St. Paul, Minn.

Coated abrasives, adhesive tapes, roofing granules, rubber cements, and specialties; business started 1902; 1,700 employees

Profit-percentage plan for all employees except those receiving other extra compensation. Company contributes 10 percent of net quarterly income less taxes and a reserve for net worth and distributes on basis of ratio of profit-sharing fund to average quarterly pay roll. Adopted 1936.

Company contractual-joint contributory annuity plan for all employees distributed on basis of length of service and annual salary. Adopted 1930.

Paid vacations of from 1 to 2 weeks for all employees on basis of position and length of service.

Keystone Steel & Wire Co., Peoria, Ill.

Manufacturer, steel and wire products; business started 1889; 1,465 employees

Profit-percentage plan for all factory and office employees except keymen. Company contributes 4 percent of all net profits up to $1,000,000, graduating thereafter. Adopted 1936.

Bonus system for executives and keymen distributed on basis of merit. Adopted 1937.

Paid vacations of from 1 to 10 days for all hourly wage employees on basis of length of service.

Jahn & Ollier Engraving Co., Chicago, Ill.

Makers of fine printing plates, art work, photographs, halftones, zincs and color plates; business started 1902; 230 employees.

Profit-percentage plan for all employees except sales force and errand boys. Company guarantees 52 30–40 hour weeks for 2 years with overtime 1½ over 40 hours, double Sundays and holidays and in addition 5 percent of salary up to

$3,000, from first profits, then one-third of net profits after $3.50 dividend, plus $5,000 to surplus.

Pensions to old or incapacitated employees (not a plan).

Other plans and activities include noncontributory group life insurance to all employees.

Paid vacations of 1 week to all employees with 3 years' service.

DEFENDER PHOTO SUPPLY CO., INC., ROCHESTER, N. Y.

Manufacturers of photographic papers, etc.; business started 1914; 400 employees

Profit-percentage plan for all employees and keymen distributed on basis of ratio of profits to earnings of employees. Company expense.

Bonus system to executives and salesmen distributed on basis of profits of company and merit of employee.

Other plans and activities include group life, health, and accident insurance.

Paid vacations of from 1 to 2 weeks on basis of length of service.

EATON PAPER CORPORATION, PITTSFIELD, MASS.

Manufacturing, stationery and writing-desk accessories; business started 1893; 540 employees

Profit-percentage plan for all employees except executives, with at least 5 years' continuous service. The company, as of the close of the fiscal year 1937 and of each of the next 4 ensuing fiscal years, will set aside for distribution 50 percent of the net profits as are available for common dividends, after all charges on bonds and preferred stock. Adopted 1937.

Paid vacations to all employees in profitable years.

HIBBARD SPENCER BARTLETT & CO., CHICAGO, ILL.

Wholesale hardware; business started 1855; 730 employees

Profit-percentage plan for all employees except salesmen. Company contributes 50 percent of net profits, after not less than 5 nor more than 8 percent on capital invested, to be distributed on basis of salaries received.

Joint contributory annuity plan for all employees except executives and keymen. Adopted 1937.

Other plans and activities include an employees' saving and loan association.

Paid vacations of from 1 to 2 weeks on basis of position and length of service.

THE DOW CHEMICAL CO., MIDLAND, MICH.

Manufacturer of chemicals; business started 1897; 3,800 employees

Profit-percentage plan for all employees. Company, each month after deducting five-sixths of 1 percent on total capital, contributes 20 percent of remainder on basis of position, years of service, and merit. Adopted 1913.

Company contractual pension plan for all old or incapacitated employees. Company expense. Adopted 1937.

Other plans and activities include joint contributory group life, accident, and health insurance for all employees. Employees maintain own credit union.

Paid vacations of from 3 to 12 days for all employees on basis of length of service.

HENRY DISSTON & SONS, INC., PHILADELPHIA, PA.

Manufacturing saws, tools, files, steel, etc.; business started 1840; 3,000 employees

Profit-percentage plan for all except salesmen on salary and commission. Company contributes, when average income for 3 consecutive months exceeds a base of 4½ percent on capital stock, by increasing the salaries for next succeeding month over employees base pay 1 percent for each determined "unit."

Company discretionary pension plan for all employees. Company expense. Adopted 1888.

Other plans and activities include group life, accident, and health insurance which provides medical assistance through well equipped dispensary and maintenance of room in city hospital for hospitalization purposes.

Paid vacations to all employees of 2 days in 1937 and 1938.

ALTO MILL & LUMBER CO., TEXARKANA, TEX.

Millwork manufacture and lumber yard and planing mill; business started 1911, 27 employees

Profit-percentage plan for all employees. Company contributes 10 percent of earnings and distributes annually on basis of earnings during the year. Adopted 1922.

Other plans and activities include a credit union maintained by company.

ANDERSEN CORPORATION, BAYPORT, MINN.

Manufacturing window and door frames and window units; business started 1904; 320 employees

Profit-percentage plan for all employees. Company contributes, after 6 percent on capital, remaining profits in same proportion as the investment compares to the total annual pay roll, between stockholders and employees. Adopted 1914.

Other plans and activities include noncontributory group life insurance and joint contributory accident and health benefits.

Paid vacations to all at inventory time when plant is closed, in amount of 5 percent of annual salary.

THE ANDERSON NEWCOMB CO., HUNTINGTON, W. VA.

Department store; business started 1895; 150 employees

Profit-percentage plan for all employees. Company contributes 50 percent of net earnings above 3.5 percent on sales distributed according to salary rates Adopted 1936.

Joint contributory annuity plan for all employees. Adopted 1934. 55 employees participate.

Paid vacations of 2 weeks or less on basis of length of service.

AUSTIN BROS., DALLAS, TEX.

Structural steel, reinforcing steel; business started 1892; 80 employees

Profit-percentage plan to all employees. Company contributes, after 7 percent to stockholders, about one-third to employees.

Other plans and activities joint contributory life, accident and health insurance.

Paid vacations of from 3 days to 1 week on basis of position.

BAKER MANUFACTURING CO., EVANSVILLE, WIS.

Manufacture and sale of farm pumping equipment; 130 employees

Profit-percentage plan for all employees except executives. Adopted 1900. Amended 1920.

HENRY S. BEACH (BEACH'S GIFT SHOP), EL PASO, TEX.

Wholesale and retail imported art merchandise; business started 1900; 8 employees

Profit-percentage plan for all employees. Company contributes 25 percent of net profits on basis of length of service and loyalty.

BEACON NEWS CO., INC., BEACON, N. Y.

Newspaper publishing; business started 1927; 15 employees

Profit-percentage plan for all employees. Company contributes approximately 10 percent of profits on basis of earnings and length of service.

JAMES A. BELL CO., ELKHART, IND.

Printing, binding, office supplies

Profit-percentage plan for all employees. Company distributes all profits in excess of 10 percent net on gross sales applied to purchase of stock. Adopted 1910.

Bergen Market Co., Jersey City, N. J.

Retail meat stores; 170 employees

Profit-percentage plan for all employees except executives. Adopted 1937.

Brinly-Hardy Co., Louisville, Ky.

Manufacturer and jobber of agricultural implements; business started 1839; 35 employees

Profit-percentage plan for all employees. After payment of 6-percent dividend on capital invested, company contributes approximately 50 percent of balance to employees. Adopted 1936.

H. H. Buggie & Co., Toledo, Ohio

Manufacture rubber printing plates for corrugated boxes; business started 1932; 32 employees

Profit-percentage plan for all employees with 6 months' service. Company contributes 10 to 15 percent of net earnings.

Other plans and activities include hospitalization and death benefits.

Paid vacations of from 1 day to 2 weeks to all hourly wage employees on basis of years of service.

Burton Manufacturing Co., Jasper, Ala.

Manufacture leather specialties, golf bags, horse collars; 50 employees

Profit-percentage plan for all employees. Company computes net profit over $6,000 annually and distributes on a 50-50 basis between employees and company in proportion to salary or wages earned. Adopted 1938.

Columbia Mantel Co., Louisville, Ky.

Manufacturing, wood mantels and wood furniture; business started 1905; 45 employees

Profit-percentage plan for all employees. After 6 percent on invested capital is earned for stockholders, the company distributes 50 percent of the remainder to all employees on basis of percentage to their individual wages during year.

Continental Oil Co., Ponca City, Okla.

All phases of oil industry; 5,100 employees

Profit-percentage plan for all employees. Adopted 1936.

Company discretionary pension plan. Sixty-eight participate. Adopted 1929.

Bonus system; 1,500 participate.

Other plans and activities include joint contributory life insurance; health and nonoccupational accident benefit, company expense; permanent and total disability benefit; step plan; and medical and hospital service.

Paid vacations of from 1 day to 2 weeks on basis of classification and length of service.

The Cushman Motor Works, Lincoln, Nebr.

Manufacture, engines, lawn mowers, etc.; business started 1902; 135 employees

Profit-percentage plan for all employees. Company contributes 30 percent of net profit divided among everyone on pay roll.

The Duffy Silk Co., Buffalo, N. Y.

Silk throwsters, 830 employees

Profit-percentage plan for all employees. Adopted 1937.

ELMIRA STAR-GAZETTE, INC., ELMIRA, N. Y.

Newspaper publishers; business started 1919; 194 employees

Profit-percentage plan for all employees. Company contributes 10 percent of profits and distributes on basis of earnings up to and including the last 5 years.

ENDICOTT JOHNSON CORPORATION, ENDICOTT, N. Y.

Manufacture and sale of leather and shoes; business started 1892; 21,000 employees

Profit-percentage plan for all employees with 2 years' service. Company contributes 50 percent of net income after $5 per share on common stock. Adopted 1919.

Other plans and activities include hospitalization; medical and dental care; relief payments, recreation; care of aged workers and widows; housing and sanitation.

EXCEL CURTAIN CO., INC., ELKHART, IND.

Manufacturers of automobile and railroad parts, sash, curtains and miscellaneous rolled shapes and stampings; business started 1935; 191 employees

Profit-percentage plan, for all employees except executives. After 28 percent of net profit for reserves, and 7 percent for invested capital, profits are split 50–50 between employees and stockholders. Adopted 1938.

Other plans and activities include mutual relief association, recreational and athletic activities.

Paid vacations of from 1 to 10 days to all hourly wage employees.

FAIRBANKS, MORSE & CO., CHICAGO, ILL.

Manufacturing; machinery and allied products; business started 1858; 8,000 employees

Profit-percentage plan for all employees except those under commission contracts. Company contributes a percentage, graduated on basis of earnings, after 7 percent on capital. Adopted 1937.

Company discretionary and joint contributory annuity plans for all salaried employees; 139 participate. Adopted 1931.

Paid vacations of 1 week for all hourly wage employees.

GANNETT CO., INC., ROCHESTER, N. Y.

Newspaper publishing; business started 1923; 2,323 employees

Profit-percentage plan for all employees. Company contributes approximately 10 percent of net and distributes on basis of earnings and length of service.

THE GATES RUBBER CO., DENVER, COLO.

Manufacturers of rubber products; business started 1912; 1,800 employees

Profit-percentage plan for all employees, except those receiving direct bonus or commission on sales, with 2 years' service. Adopted 1936.

Other plans and activities include a company-maintained credit union.

Paid vacations of 1 week plus percentage of previous 12 months' earnings.

GENERAL CIGAR CO., INC., NEW YORK, N. Y.

Cigar manufacturer; business started 1906; 7,207 employees

Profit-percentage plan for all employees and executives. Company contributes 3 percent of net profits after deducting $3 per share on common stock.

HAMMERMILL PAPER CO., ERIE, PA.

Manufacturing pulp and paper; business started 1898; 1,510 employees

Profit-percentage plan for all except unskilled employees.

Company discretionary pension plan for all employees on basis of individual merit. Adopted 1921.

Other plans and policies include dismissal wage to employees dismissed permanently through no fault of their own, distributed on basis of age plus length of service.

Paid vacations of from 3 days to 2 weeks on basis of length of service.

THE HARTFORD TIMES, INC., HARTFORD, CONN.

Newspaper publishing; business started 1928; 319 employees

Profit-percentage plan for all employees with 1 year service. Company contributes approximately 10 percent of profits and distributes on basis of past earnings.

TOM HOUSTON PEANUT CO., COLUMBUS, OHIO

Manufacturers of salted peanuts, peanut candies, sandwiches, and peanut butter; business started 1926; 550 employees

Profit-percentage plan for all office and factory employees. All persons on pay roll for 26 weeks prior to end of company's fiscal year are entitled to participate in the pro rata share of the profits allocated for this purpose, the pro rata share being based on the employee's income for the entire fiscal year.

INNIS, SPEIDEN & CO., NEW YORK, N. Y.

Manufacturers and wholesalers of chemicals; business started 1906; 285 employees

Profit-percentage plan for all employees with 3 months' service. Company contributes, after 7 percent on invested capital, remainder of net profits which is equally distributed between business and employees, on basis of percentage of pay roll.

Other plans and activities include joint contributory group life insurance.

ITHACA JOURNAL-NEWS, INC., ITHACA, N. Y.

Newspaper publishers; business started 1929; 58 employees

Profit-percentage plan for all employees with 1 year of service. Company contributes 10 percent of profits and distributes on basis of past earnings.

JOANNA COTTON MILLS, GOLDVILLE, S. C.

Manufacturing window shade cloths; business started 1924; 865 employees

Profit-percentage plan for all employees. Company distributes an amount equal to 50 percent of the earnings in excess of 6 percent on the investment, provisional only to the extent of setting aside a reserve out of profits due to abnormal conditions to be carried forward into the next year to offset losses due to reversal of conditions. Adopted 1937.

Paid vacations of 1 average weekly wage during period plant is closed for that period in summer.

LA PORTE-DANIELS WOOLEN MILLS, INC., LA PORTE, IND.

Manufacturing textiles; business started 1935; 445 employees

Profit-percentage plan for all employees. Company contributes 10 percent of net profits. Adopted 1935.

THE MASLAND DURALEATHER CO., PHILADELPHIA, PA.

Manufacture, artificial leather; business started 1914; 101 employees

Profit-percentage plan for all employees. Company contributes percentage of year's profits and distributes on basis of wages or salaries.

Other plans and activities include noncontributory life insurance.

Paid vacations of from 1 day to 1 week to all hourly wage employees on basis of years of service.

JAS. H. MATTHEWS & CO., PITTSBURGH, PA.

Manufacture, marking devices in steel, brass, rubber, bronze; business started 1850; 170 employees

Profit-percentage plan for all employees. Company contributes 25 percent of net profits after 6 percent on capital. Adopted 1936.

Paid vacation of from 1 day to 2 weeks to all hourly wage employees on basis of length of service.

W. N. MATTHEWS CORPORATION, ST. LOUIS, MO.

Manufacture of electrical equipment for light and power lines; business started 1899; 55 employees

Profit-percentage plan for all employees in service of company 1 year or more. Company contributes one-third of net profits to all employees on a pro rata basis. Adopted 1938.

Other plans and activities include group life insurance and sick leave. Employees maintain own credit union.

MCCRAY REFRIGERATOR CO., KENDALLVILLE, IND.

Manufacturers of commercial refrigerators, cases and cooling rooms; business started 1890; 415 employees

Profit-percentage plan for all employees. Company contributes to employees on basis of annual wage and participation grouping and upon the amount of profit earned by the company over and above a stated dividend requirement.

Joint contributory annuity plan for all employees. Adopted 1938.

MILWAUKEE FOUNDRY EQUIPMENT CO., MILWAUKEE, WIS.

Manufacturing foundry equipment; business started 1924; 25 employees

Profit-percentage plan for all employees with 1 year continuous service on basis of salary and merit.

Paid vacations of from 1 to 2 weeks for all employees.

MURPHY VARNISH CO., NEWARK, N. J.

Manufacturers of paints, varnishes, lacquers, enamels; business started 1865; 291 employees

Profit-percentage plan for all employees. After 6 percent on preferred and 10 percent on common stock and 50 percent of balance to stockholders, company contributes balance—33 percent to employees and 17 percent to executives and key men—on basis of salary and years of service. Inactive for past 10 years.

Company discretionary pension plan for all employees with 20 years' service and reaching retirement age of 60. Company expense. Adopted 1908.

Paid vacations of 1 week to all hourly wage employees.

NEWBURGH NEWS PRINTING & PUBLISHING CO., NEWBURGH, N. Y.

Newspaper publishers; business started 1896; 87 employees

Profit-percentage plan for all employees with 1-year service. Company contributes 10 percent of profits and distributes on basis of past earnings.

NORTHWESTERN PUBLISHING CO., DANVILLE, ILL.

Newspaper publishers; business started 1934; 98 employees

Profit-percentage plan for all employees with 1-year service. Company contributes 10 percent of profits and distributes on basis of past earnings.

A. J. NYSTROM & CO., CHICAGO, ILL.

School map publishers; business started 1904; 80 employees

Profit-percentage plan for all employees with 6 months' service. Company contributes one-half of profits after reasonable return on invested capital.
Other plans and activities include credit union maintained by company; group insurance and recreations.
Paid vacations of from 1 to 3 weeks to all employees on basis of length of service.

O'NEIL DURO CO., MILWAUKEE, WIS.

Manufacturing, paint, enamel, lacquer; business started 1925; 47 employees

Profit-percentage plan for all employees except president. Company contributes 10 percent of net profits and distributes on basis of length of service.

OWOSSO METAL INDUSTRIES, INC., OWOSSO, MICH.

Manufacturing small electrical motors; business started 1938; 550 employees

Profit-percentage plan for all employees. Of amount available for dividends, employees first receive a bonus of 20 percent of their guaranteed rate. Profits over this sum split 50-50 until employees received a maximum of 30 percent of rate. Adopted 1938.

PEERLESS CEMENT CORPORATION, DETROIT, MICH.

Manufacture and sale of Portland cement; business started 1897; 180 employees

Profit-percentage plan for all employees with 1 year's service. Company contributes percent of profits determined by formula and modified by amount of bonds outstanding, and distributes on basis of classification.
Other plans and activities include group life insurance.
Paid vacations of 1 day for each year of service.

PITTSBURGH MERCANTILE CO., PITTSBURGH, PA.

Department stores; business started 1903; 600 employees

Profit-percentage plan for all employees, distributed on basis of merit. Adopted 1928.
Other plans and activities include group life insurance.
Paid vacations of from 1 to 2 weeks to all employees on basis of length of service.

PLAINFIELD COURIER-NEWS CO., PLAINFIELD, N. J.

Newspaper publishers; business started 1927; 92 employees

Profit-percentage plan for all employees with 1 year's service. Company contributes 10 percent of profits and distributes on basis of past earnings.

THE PUBLIC BANK OF MARYLAND, BALTIMORE, MD.

Banking, 33 employees

Profit-percentage plan for all employees. Adopted 1923. Amended 1930.
Other plans and activities include joint contributory group life insurance.

THE QUAKER OATS CO., CHICAGO, ILL.

Manufacturing, cereal products; business started 1854; 4,522 employees

Profit-percentage plan for all employees. Company contributes a percentage of earnings after making provision for preferred dividends and distributes in varying amounts as applicable to three groups. Adopted 1936.
Joint contributory annuity plan for all employees on basis of salary and length of service. Adopted 1938.
Bonus system for all employees distributed on basis of years of service.
Paid vacations of from 1 to 2 weeks on basis of length of service.

REIMERS ELECTRIC APPLIANCE CO., WEST NEW YORK, N. J.

Manufacture, electric appliances; 19 employees

Profit-percentage plan for all employees. Company distributes about one-third of net profits monthly on basis of wages earned during month, which varies from 5 to 15 percent of wages.

REMINGTON RAND, INC., BUFFALO, N. Y.

Manufacturing and selling, office equipment, supplies, and electric shavers; business started 1873; 17,000 employees

Profit-percentage plan for all factory employees. Company contributes a percentage of profits and distributes on basis of wages.

Other plans and activities include joint contributory group insurance with health and accident benefits.

Paid vacations of 1 week to all hourly-wage employees in 1938. No established policy.

THE SARATOGIAN, INC., SARATOGA SPRINGS, N. Y.

Newspaper publishers; business started 1934; 59 employees

Profit-percentage plan for all employees with 1 year service. Company contributes 10 percent of profits and distributes on basis of past earnings.

SIMPLEX WIRE & CABLE CO., CAMBRIDGE, MASS.

Manufacturers of insulated wires and cables; business started 1885; 800 employees

Profit-percentage plan for all employees except executives, with 1 year service. Company contributes a predetermined percentage of profits, which percentage has been increased several times but never decreased. Adopted 1901.

Other plans and activities include sickness and death benefits.

Paid vacations of 1 week to all hourly-wage employees on basis of length of service.

SPECIALTY INSULATION MANUFACTURING CO., INC., HOOSICK FALLS, N. Y.

Molded plastic parts; business started 1913; 165 employees

Profit-percentage plan for all employees. Company contributes 50 percent of known profits for the month and distributes on equal basis to all employees.

SPROUSE-REITZ CO., INC., PORTLAND, ORE.

Wholesale and retail limited-price variety-store merchandise; business started 1908

Profit-percentage plan for all warehouse and office employees who have been with the company 2 years or more. Company assigns a certain number of "units," on basis of length of service and importance of position. Each unit receives the same share of the profits of the company as one share of the common stock of the company.

Other plans and activities include noncontributory life insurance increasing in amount with length of service, and medical and hospital service.

Paid vacations of 1 week to all hourly wage employees on basis of length of service.

U-DRIV-IT AUTO RENTAL CO., INC., CAMBRIDGE, MASS.

Commercial truck leasing

Profit-percentage plan for all employees. Company contributes 10 percent of net profit before dividends on common stock and distributes on basis of annual salary in form of preferred stock.

UTICA OBSERVER-DISPATCH, INC., UTICA, N. Y.

Newspaper publishers; business started 1929; 303 employees

Profit-percentage plan for all employees with 1 year service. Company contributes 10 percent of profits and distributes on basis of past earnings.

VAN RAALTE CO., INC., NEW YORK, N. Y.

Textile manufacturing; women's silk stockings, fabric gloves, underwear; business started 1880; 3,000 employees

Profit-percentage plan for all employees. Company contributes 20 percent of net profit, after deducting $200,000. Adopted 1933.
Paid vacations of from ½ to 1 week to all hourly wage employees.

WATERVLIET PAPER CO., WATERVLIET, MICH.

Coated and uncoated book paper manufacturer; business started 1910; 410 employees

Profit-percentage plan for all employees. When earnings exceed 9 percent on capital the company contributes 50 percent of the remaining profits to the employees. Adopted 1935.
Paid vacation of 1 week on basis of length of service.

J. WEINGARTEN, INC., HOUSTON, TEX.

Retail super-food markets; business started 1914; 515 employees

Profit-percentage plan for all employees. Company contributes 25 percent net profits after income tax and preferred stock dividends and distributes on basis of department profits. Adopted 1936.
Other plans and activities includes group insurance and mutual aid association. Employees maintain and benefit by the latter.
Paid vacations of from 1 to 2 weeks on basis of length of service.

WHITING CORPORATION, HARVEY, ILL.

Manufacturer, heavy industrial equipment and domestic stokers; business started 1884; 725 employees

Profit-percentage plan for all employees. Company contributes 50 percent of net profits over a required base as a fund for wage adjustment.
Paid vacations of 1 week for all hourly wage employees, on basis of years of service.

WICO ELECTRIC CO., WEST SPRINGFIELD, MASS.

Magneto manufacturers; 213 employees

Profit-percentage plan for all employees. Adopted 1937.

WILMINGTON TRUST CO., WILMINGTON, DEL.

Banking and fiduciary; business started 1903; 170 employees

Profit-percentage plan for all employees with 2 years' service. Company contributes 15 percent of net profits after 4 percent on capital and surplus and distributes on basis of salary and merit.
Pensions for old or incapacitated employees on basis of need.
Other plans and activities include group life insurance and hospitalization.
Paid vacations to all employees.

THE WOOSTER BRUSH CO., WOOSTER, OHIO

Manufacturers, paint and varnish brushes; business started 1851; 121 employees

Profit-percentage plan for all employees except salesmen. Company distributes 30 percent of net profits, before Federal income taxes, on basis of years of service, salary, position.
Bonus system for all employees except salesmen on basis of company earnings.
Other plans and activities include death, sick, and disability benefits covered by group insurance.
Paid vacations to all employees on basis of position and length of service.

OTHER COMPANIES HAVING PROFIT-PERCENTAGE PLANS

Air Reduction Co., Inc.
Allis-Chalmers Manufacturing Co.
American Hard Rubber Co.
American Rolling Mill Co.
Barnard Stationery, George D.
Beacon Milling Co., The
Behr-Manning Co.
Blaw-Knox Co.
Celotex Corporation
Chase Bag Co.
Cleveland-Cliffs Iron Co., The
Cochrane Corporation
Colgate-Palmolive-Peet Co.
Columbia Conserve Co., The
Commercial Investment Trust Corporation and consolidated subsidiaries
Detroit Steel Products Co.
Deuscher Co., The H. P.
Dibrell Bros., Inc.
Emporium Capwell Corporation and subsidiary, Emporium Capwell Co.
Esterline-Angus Co., The
Food Machinery Corporation
General Box Co.
General Foods Corporation
Goodyear Tire & Rubber Co., The
Grand Union Co., The
Grant Co., W. T.
Guaranty Trust Co. of New York
Holly Sugar Corporation
Houghton & Co., E. F.
Hoyer Engineering Co.
Interlake Iron Corporation
Jewel Tea Co., Inc.
Johns-Manville Corporation
Kresge Co., S. S.
Lawrence & Co., James
Life Savers Corporation and subsidiaries
Liggett & Myers Tobacco Co.
Lynchburg Foundry Co.
Mayer & Co., Oscar
McCrory Stores Corporation
McKeesport Tin Plate Corporation
Miehle Printing Press & Manufacturing Co.
Morgan Construction Co.
Morris & Co., Ltd., Inc., Philip
Murray Corporation of America
Nash Finch Co.
Nashua Gummed & Coated Paper Co.
National Bank of Detroit
National Distillers Products Corporation
Overmeyer Mould Co.
Owens-Illinois Glass Co.
Package Machinery Co.
Penick & Ford Ltd., Inc.
Penney Co., J. C.
Peoples Drug Stores, Inc.
Permutit Co., The
Republic Supply Co. of California, The
Schroder Banking Corporation, J. Henry
Seng Co., The
Shepard Niles Crane & Hoist Corporation
Southland Ice Co.
Southwest Box Co.
Sperry Corporation, The
Spiegel, Inc.
Squibb & Sons, E. R.
Standard Sanitary Manufacturing Co.
Sturtevant Co., B. F.
Symington-Gould Corporation (and subsidiaries)
Thompson Co., John R.
Tool Steel Gear & Pinion Co., The
United Engineering & Foundry Co.
U. S. Gypsum Co.
U. S. Industrial Alcohol Co.
Vanadium Corporation of America
Wanamaker, Philadelphia, John
Waverly Press, Inc.
Woolworth Co., F. W.

WAGE-DIVIDEND PLAN

Wage-dividend plans include that type of plan where the amount to be shared with employees is directly related to the amount of dividends paid or declared on some class of stock. A wage-dividend plan is directly related to profits and places the employee on a similar basis of relationship to the company as the stockholder.

Generally, under these plans the employee enjoys no benefit unless dividends are paid or declared on the stock of the company regardless of how much profit may have been earned that year. On the other hand, in a year when the company may operate at a loss, the employee participates in his dividend if the dividend is paid or declared on the stock of the company out of surplus accumulated from previous years' earnings.

The purpose of this type of plan is to enable the employee to participate in the earnings of the business after a reasonable return has been paid to the stockholders on their investment. A wage dividend is an extra return to the employees in the form of a dividend on their wages, just as the return to stockholders is a dividend on their investment. It is a recognition of the contribution which loyal workers make to the success of the company. In addition to creating a personal interest on the part of the employee in the profitable operation of his company, it has the additional purpose of creating continuity of service and the stimulation of cooperation.

Immediately following are descriptions of two outstanding wage-dividend plans operated by prominent American companies and which have been in effect for a long period of time. Following these descriptions is a list of other companies operating wage-dividend plans in behalf of their employees.

PROFIT SHARING—WAGE-DIVIDEND PLAN

EASTMAN KODAK CO., ROCHESTER, N. Y.

Manufacturer of cameras and photographic supplies; 24,000 employees; net worth December 31, 1937, $145,179,000

Type of plan.—Wage-dividend plan wherein the payments to the workers are directly related to the amount of dividends per share paid on the common stock. (Also has stabilized employment, annuities, vacations with pay, sick allowance, medical service.)

Method of calculation.—For each dollar declared on the common stock of the company the preceding year, over and above $3.50 per share, the wage-dividend rate is one-half of 1 percent of the salaries or wages received by the worker for the last 5 years. For example: In 1937 the company declared dividends of $8 per share on common stock. That was $4.50 above the minimum. Consequently, the wage-dividend rate was 2¼ percent, to be applied to the workers earnings for the previous 5 years.

Eligibility.—Every employee with 6 months' service is entitled to participate with the exception of regular part-time workers. For 5 years' (or more) service, the employee received about 5 weeks' pay based upon the 1937 dividends. Of course, employees with less than 5 years' service received proportionately smaller amounts.

Amounts distributed.—In March of 1938, the company paid out about $2,896,322 for the previous year. Since the plan was inaugurated in 1912, about $43,000,000 has been so distributed up to 1938; $36,000,000 of this amount went to American workers.

Aims of plan.—The plan was originally installed for the purpose of giving the employees a share in the financial success of the business and affording a source of income over and above the regular wages in order to help the employees provide for the future. It had also, for its purpose, the continuity of employment. The company later realized, however, that the employees were not putting money away for the future but were inclined to spend it as received. Consequently, in 1929, the original minimum of $1 on the common was raised to the present $3.50 and the difference was used to buy annuities for the employees. The annuities now provide for an annual retirement income of about 1 percent of the total wages earned, to which social-security benefits will be added.

Opinion of management.—The purposes of the plan have been accomplished and the company has been able to get and retain the higher type of workmen. In conjunction with their program of employment stabilization, group insurance, sick and disability pay, and healthful working conditions, labor turn-over has been reduced to about 8 percent at Rochester against an average of about 40 percent for industry in general. The company feels that the employees are loyal and satisfied. They have repeatedly shown their appreciation and the company has never had any labor troubles.

THE CLEVELAND TWIST DRILL CO., CLEVELAND, OHIO

Manufacturer of metal-cutting tools; 750 employees; net worth over $2,500,000

Type of plan.—Wage-dividend plan wherein the payments to the workers are directly tied in to the amount of dividends paid on the common stock. (Also have a savings plan, mutual benefit association, recreation club, restaurant, and recreation room.)

Method of calculation.—After 8 percent in dividends paid to the common stock any further dividends are divided between (1) the stockholders in proportion to the book value of their stock and (2) the employees in proportion to the amount of salary or wages earned by them during the 12 months ending June 30 of that year. Employees with less than 1 year's service receive dividends at one-half the rate paid to stockholders; employees with more than 1 but less than 2 years' service receive three-fourths of the rate; employees with over 2 years' service receive the same rate.

Results.—Turn-over is very low and has been since the plan was installed in 1914. The plan "apparently has created a self-imposed supervision that has been very beneficial to company operations."

COMPANIES HAVING WAGE-DIVIDEND PLANS

Allied Kid Co.
Calumet & Hecla Consolidated Copper Co.
Carolina Savings Bank
Coleman Lamp & Stove Co., The
Cupples Co.
Eclipse Laundry Co.
Finzer Brothers Clay Co., The
National Cash Register Co., The
Ohio Forge & Machine Corporation
Package Machinery Co.
Plymouth Cordage Co.
Rochester Germicide Co., Inc.
Roos Bros., Inc.
Sheaffer Pen Co., W. A.
Veeder-Root, Inc.

STOCK-OWNERSHIP PLANS

There are several types of plans for giving employees the status of stockholders through advantageous terms, offered them by the company by which they are employed. By one plan the employees may obtain stock on installments at less than the current market price, the company charging interest on unpaid balances and crediting dividends on the purchase account. By another plan, the employees receive a bonus if they do not sell the stock or leave the service of the company for a given term of years. By another, employees may pay partly in cash and partly through special credits accorded them by the company. By yet another plan, the employees make no payment, the stock being credited to their accounts and held for a prescribed time before it is given them outright. In the case of certain stock-ownership plans, there is no actual profit distribution nor any expense incurred on the part of the company other than in the bookkeeping that records the receipts and credits of part payments.

Under many plans, though the number is less than a majority, any employee is eligible to apply for stock. Officers and directors are sometimes specifically excluded, but in other cases specifically included. Most plans omit any reference to them, however, and likewise to minors, although the latter are occasionally included or excluded. A few companies specify any permanent employee in good standing.

One of the primary reasons urged upon the employee for investing in the stock of the company he is working for is that he is in a position to know about the business and to watch his investment. It is sometimes further suggested, in this connection, that ownership in the business would be advantageous to the employee since he would thus share in the profits he had helped to earn.

Some companies declare that they want a wider distribution of their stock. To this end they may invite the general public, the customer public, or their own employees.

That buying stock on an installment plan affords the employee an excellent opportunity to save is the argument emphasized by some companies.

Recommendation sometimes takes the form of pointing out that the company will itself gain directly and the employee gain indirectly. Thus, one company urges investing in its stock because it believes such ownership will provide the employee a "still greater incentive * * * to give the company his very best efforts." Another states: "While the directors believe that to share in the future development of the company will be an advantage to the employee so subscribing, they also believe that no element will contribute so largely to that development as the cooperation which (the) plan is intended to secure."

On the succeeding pages there are presented outlines of the provisions of three typical stock-ownership plans followed by a list of other prominent companies operating such plans.

PROFIT SHARING—STOCK-OWNERSHIP PLAN

SUN OIL CO., PHILADELPHIA, PA.

Producers, refiners, and marketers of petroleum; 13,000 employees; net worth June 30, 1938, $100,828,000

Type of plan.—Stock-ownership plan wherein employee subscribers are given credits toward the purchase of stock equal to 50 percent of their own deposits. (Company also has an informal pension plan, sick allowances, death and burial allowances, and recreation allowances.)

Eligibility.—All employees with 1 year's service, either with the parent company or its subsidiaries, are eligible to subscribe to stock offerings at specified times.

Employees' contribution.—Employees may authorize pay deductions in even dollars or tenths of dollars up to but not exceeding 10 percent of total earnings.

Company contribution.—For each dollar deposited by the employee, the company deposits 50 cents in the employee's account.

Subscription period.—Each subscription period runs for 5 years from the date of its inception. New subscription periods are opened on July 1 of each year.

Price of stock.—Stock is credited to the employee at the cost to the trustees. It is purchased either from the company or in the open market, whichever is lower.

Dividends.—All participating employees in good standing shall be entitled to receive all cash dividends paid upon the stock credited to their accounts upon the books of the trustees.

Distribution of stock.—Any employee who shall continue a participant in good standing up to July 1, 5 years after the date of the beginning of the plan, shall, upon said date, be entitled to delivery of all shares of stock purchased for his account by the trustees and shall thereafter have full title to the same.

Number of participants.—Approximately 5,300 employees are stockholders in the company.

Opinion of management.—The stock-ownership plan has "very definitely resulted in increased loyalty and interest" on the part of the employees. "Turn-over has never been severe" and the company has experienced no labor troubles—which they attribute to the loyalty of the employees.

STANDARD OIL CO. (INDIANA), CHICAGO, ILL.

Manufacturing and marketing petroleum products; business started 1889; 18,615 employees

Stock-purchase plan for all employees. Employees may subscribe up to 10 percent of their salary. For each $1 employee contributes company matches with 50 cents for purchase of common stock.

Company discretionary pension plan for all employees retired on account of incapacitation; company expense; 737 participate. Adopted 1903.

Other plans and activities include death, health, and accident benefits. Employees maintain own credit union.

Paid vacations of from 1 to 2 weeks for all employees on basis of length of service.

AMERADA CORPORATION, NEW YORK, N. Y.

Producers of crude oil and natural gas; business started 1919; 1,300 employees

Joint contributory stock-ownership plan for all employees. Employees contribute from 2 percent to a maximum of 12 percent of annual salary and the company matches with deposits of 2 to 8 percent maximum. Out of the fund created, the employee must use a minimum amount to purchase annuities. The balance is used to purchase stock; 800 participate. Adopted 1927.

Joint contributory annuity plan for all employees; 1,000 participate. Adopted 1937.

Paid vacation of 2 weeks to all hourly wage employees.

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COMPANIES HAVING STOCK-OWNERSHIP PLANS

American Hide & Leather Co.
American Oil Co., The.
Barnard Stationery Co., George D.
Business Men's Assurance Co. of America.
Columbia Conserve Co., The.
Household Finance Corporation.
Ilg Electric Ventilating Co.
Larsen Baking Co., Inc.
Leeds & Northrup Co.
Louisville Cement Co.
Pan American Petroleum Co.
Pitney-Bowes Postage Meter Co.
Republic Supply Co. of California, The.
Strathmore Paper Co.
Youngstown Sheet & Tube Co., The.

BONUS PLANS

Until recently, when profit sharing has become more widely adopted and recognized, the term "bonus plans" was generally construed as "time and bonus" or "task and bonus" systems which in reality were production incentives. For many years there were five outstanding types of bonus plans which had as their purpose the "speeding up" of work and the increasing of production.

Today this classification is recognized as including those types of extra-compensation-payment plans where the amount to be distributed to the employee may be definite or indefinite, optional or predetermined as to the amounts, or may be based upon some factor such as seniority or service, the merit system, or directly associated with profits.

Distributions may be made on an uneven scale as between employees engaged in different kinds of work. Many bonus plans apply only to executive or managerial officials. These, of course, have for their purpose the rewarding of management for superior results in success or profits. On the other hand, there are many bonus plans for employees on a regular and established scale according to a predetermined plan, as in the case of the Procter & Gamble Co., but the amount distributed annually to the employee is generally based upon some factor other than the fluctuation in profit dollars or dividends paid.

Several prominent bonus plans operated by well-known industrial concerns are outlined in detail as to their character and provisions. Following these descriptions is a list of many other companies operating bonus plans.

PROFIT SHARING—BONUS PLAN

THE PROCTER & GAMBLE CO., CINCINNATI, OHIO

Manufacturer of soap and edible oil products; 10,000 employees; net worth June 30, 1937, $123,449,000

Type of plan.—A bonus-type profit-sharing plan the benefits to the employee being regulated by his years of participation in the plan and contingent upon the employee depositing 5 percent of his earnings (up to $2,000 in any 1 year) for a period of 6 years. The fund so created during this 6 years is used to purchase common stock of the company.

Eligibility.—All employees (except salesmen) with 12 months' consecutive service not earning over $3,000 per year are eligible to become participants in the profit-sharing plan.

Calculation of bonus.—Bonus payments are regulated by the number of years the employee participates in the plan. The schedule of payments is as follows: 1 to 2 years, 5 percent; 3 to 4 years, 6 percent; 5 to 6 years, 7 percent; 7 to 9 years, 8 percent; 10 to 12 years, 10 percent; 13 to 15 years, 12 percent; over 15 years, 15 percent.

Stock purchase.—For the first 6 years of participation, the payments of the company and the employees' 5 percent of earnings (up to $2,000 annually) are used to purchase common stock of the company. At the end of this period, certificates are delivered to the employee.

Cash participation.—After 6 years, payments by the employee cease but the company continues to make payments in cash according to the schedule above. This cash participation continues as long as the employee remains eligible for profit sharing. However, the employee may enter into another stock-purchase agreement if he so desires.

Loss of eligibility.—Employees may lose their right of participation if their salaries are increased to over $3,000 per year or if they are transferred to a position which is automatically excluded from the plan. In addition, in order to remain eligible for cash distribution, employees must retain their original purchase of stock intact for a period of 10 years. Exceptions will be made only under special condition and by the written consent of the trustees. After 10 years' participation, employees may dispose of 50 percent of their original stock holdings if they so desire, but any disposal of stock in excess of 50 percent will exclude them from further participation in profit sharing unless they have received the express authority of the trustees to do so.

Administration.—The plan is administered by the treasurer and three trustees selected by the board of directors from the officers, directors, or employees.

Aims of plan.—"In originating and continuing this plan it was and is the desire of the company to encourage thrift among all its employees and to favor those who remain continuously in its employ. It has always been the declared policy of the company to recognize that its interests and those of its employees are inseparable, and in keeping with that policy the company is willing * * * to assist its employees financially in the acquisition and holding of its shares of stock."

Opinion of management.—"The plan of stock ownership has given most of the employees a feeling of security in the knowledge that they have a certain amount of capital with which to purchase homes, take care of unusual expenses, etc. It eliminates the fear of being without money to meet emergencies."

Other plans.—The company also has a pension plan and a regular-employment plan which guarantees 48 weeks' work per year. The company also gives 1 week's vacation with pay to hourly employees and conducts other welfare and benefit programs.

Amount distributed.—Since the inception of the plan about $13,000,000 has been distributed in profit sharing. Of the 7,000 manufacturing employees about 5,600 have participated in the plan. These participants own an average of about 25 shares of common stock each.

PITNEY-BOWES POSTAGE METER CO., STAMFORD, CONN.

Manufacture postage meters; 850 employees; net worth over $3,000,000

Type of plan.—In 1936 the company established a bonus plan based on the individual employee's earnings and length of service.

Method of calculation.—"For the past 3 years the company has paid bonuses to employees in the employ of the company on December 1 of each year. These bonuses have been based essentially as follows: 2 percent of the total salary earned during the 12 months immediately preceding December 1, for all employees with 1 year or less of continuous service, and an additional one-half of 1 percent for each additional 6 months, or portion thereof, of continuous service, up to a maximum of 5 percent for all over 3½ years of continuous service. This type of bonus is offered to employees as additional compensation over and above normal salary or wages as a method of sharing in the profits of the company."

Other plans.—The company also has a pension and stock purchase plan for employees.

Effect of plans.—"In our opinion, our various plans have had the result of somewhat lessening turn-over of labor. We feel that the plans have resulted in an increase in the loyalty of our employees and their interest in the welfare of the company."

SPENCER KELLOGG & SONS, INC., BUFFALO, N. Y.

Manufacturers and refiners of vegetable oils; 1,270 employees; net worth December 31, 1937, $18,739,000

Type of plan.—Bonuses are paid quarterly to all classes of employees. Individual participation is based on length of service. A bonus has been paid in each of the last 10 years although a loss was incurred in 1932.

Effect of plan.—The plan has reduced turn-over. Effect apparently good on waste reduction and increased efficiency. The employees have shown their appreciation of the plan and it is believed to have decreased industrial unrest.

COMPANIES HAVING BONUS SYSTEMS

Acker Printing Co., L. D.
Acme-Evans Co.
Acme Steel Co.
Addressograph - Multigraph Corporation.
Agfa Ansco Corporation.
Allied Kid Co.
Allied Stores Corporation.
Alling & Cory Co., The.
American Blower Corporation.
American Brake Shoe & Foundry Co.
American Hospital Supply Corporation.
American Optical Co.
American Sales Book Co.
American Seating Co.
American Smelting & Refining Co.
American Snuff Co.
American Steel Foundries, including its principal subsidiary, Griffin Wheel Co.
Anderson Co., The.
Ansul Chemical Co.
Arner Co., Inc., The.
Associated Seed Growers, Inc.
Auto-Owners Insurance Co.
Barnsdall Oil Co.
Bastian-Morley Co. and subsidiaries.
Bausch & Lomb Optical Co.
Bay State Milling Co.
Beacon Milling Co., The.
Beck & Gregg Hardware Co.
Belridge Oil Co.
Bethlehem Steel Corporation.
Bird & Son, Inc.
Blaw-Knox Co.
Bond Stores, Inc.
Borg-Warner Corporation.
Boston Wire Stitcher Co.
Bovaird Supply Co., The.
Bowes "Seal-Fast" Corporation.
Brunswick-Balke-Collender Co., The.
Buckeye Steel Castings Co., The.
Buescher Band Instrument Co.
Bullard Co., The.
Bullock's, Inc.
Butler Bros.
Butler Manufacturing Co.
Byron Jackson Co.
Calaveras Cement Co.
Camden Fire Insurance Association.
Canfield Oil Co.
Central New York Broadcasting Co.
Central Warehouse Co.
Chattanooga Medicine Co.
Cherry-Burrell Corporation.
Chesebrough Manufacturing Co., consolidated.
Chicago Daily News, Inc., The.
Chicago Mail Order Co.
Chipman Knitting Mills.
Chrysler Corporation.
Cleveland Electric Illuminating Co., The.
Colt's Patent Fire Arms Co.
Columbia Broadcasting Co.
Columbia Steel Castings Co.

Commercial Investment Trust Corporation and consolidated subsidiaries.
Congdon & Carpenter Co., The.
Connecticut Power Co., The.
Consolidated Lithograph Co.
Container Co., The.
Continental Assurance Co.
Continental Oil Co.
Corpus Christi National Bank.
Crowley, Milner & Co.
Crummer & Co., R. E.
Cutler-Hammer, Inc.
Deere & Co.
Defender Photo Supply Co.
Dewey Portland Cement Co.
Dibrell Bros., Inc.
Dickerson Co., The Walker T.
Dispatch Printing Co., The.
Dixie Mercerizing Co.
Dixon Crucible Co., Joseph.
Dobeckmun Co., The.
Dodge Manufacturing Co.
Doehler Die Casting Co.
Duluth Morris Plan Co.
du Pont de Nemours & Co., E. I.
Drackett Co., The.
Eddy Paper Corporation, The.
Edison Bros. Stores, Inc.
Electric Steel Castings Co.
Electric Vacuum Cleaner Co., Inc.
Electrolux Corporation.
Eloesser Heynemann Co.
Employers Casualty Co.
Ethyl Gasoline Corporation.
Eureka-Maryland Assurance Corporation.
Evening Star Newspaper Co., The.
Ferry Screw Products, Inc., F. W.
First National Bank of Atlanta.
First National Bank of Denver.
First National Bank, Missoula.
Flickinger Co., Inc., S. M.
Florence Stove Co.
Fort Pitt Steel Casting Co.
Fuller & Smith & Ross, Inc.
Fyr-Fyter Co., The.
Gaylord Bros., Inc.
General American Transportation Corporation.
General Aniline Works, Inc.
General Foods Corporation.
General Motors Corporation.
General Shoe Corporation.
Geometric Tool Co., The.
Gibson Art Co., The.
Gilmore Oil Co.
Gnatt Co., Inc., The Ove.
Good Humor Corporation.
Grant Co., W. T.
Graybar Electric Co., Inc.
Great Lakes Engineering Works.
Great Western Electro-Chemical Co.
Great Western Sugar Co., The.
Gristede Bros., Inc.
Guaranty Trust Co. of New York.
Hahne & Co.
Hardware Mutual Life Insurance Co. of Minnesota.
Hartford Electric Light Co., The.
Hemphill-Wells Co.
Hercules Cement Corporation.
Hercules Powder Co.
Herrick Co.
Hibernia National Bank in New Orleans, The.
Hinde & Dauch Paper Co., The.
Hobart Manufacturing Co., The.
Home Dairy Co.
Hoosier Engineering Co.
Hoover Ball & Bearing Co.
Houghton & Co., E. F.
Household Finance Corporation.
Hoyer Engineering Co.
Indiana Moulding & Frame Co.
International Clay Machinery Co.
International Harvester Co.
Jantzen Knitting Mills.
Jewel Tea Co., Inc.
Johnson & Son, Inc., S. C.
Kelley Island Lime & Transport Co.
Kerr & Co., Inc., Alexander H.
Keystone Steel & Wire Co.
Knox Gelatine Co., Inc., Chas. B.
Kohler Co.
Kroehler Manufacturing Co.
Kroger Grocery & Baking Co.
Kuhn, Loeb & Co.
Kurfees Paint Co., Inc., J. F.
Laros Silk Co., R. K.
Lawrence & Co., James.
Lawrence Portland Cement Co.
Leas & McVitty, Inc.
Lebanon Woolen Mills, Inc.
Leeds & Northrup Co.
Life Savers Corporation and subsidiaries.
Louisville Cement Co.
Lyon Metal Products, Inc.
Manchester, Inc., Harry S.
Material Service Corporation.
Matson Navigation Co. and subsidiaries.
McCreery & Co., James.
McCrory Stores Corporation.
Mead Johnson & Co.
Melville Shoe Corporation.
Mid States Steel & Wire Co.
Miles Laboratories, Inc.
Miller & Paine, Inc.
Miller & Sons, Inc., I.
Monarch Life Insurance Co.
Monroe Steel Castings Co.
Moore Paint Co., Leland.
Moorman Manufacturing Co.
Morgan Construction Co.
Morrell & Co., John.
Morris Music Shop.
Morris Plan Bank of Cleveland, The.
Morse Chain Co.
Narrow Fabric Company, The.
Nash Finch Co.

National Bank of Detroit.
National Distillers Products Corporation.
National Lock Co.
National Malleable & Steel Castings Co.
National Supply Co. and its subsidiary and predecessor companies.
Naylor Pipe Co.
Nelson Manufacturing Co., N. O.
New Bedford Cordage Co.
New Jersey Machine Corporation.
New Jersey Zinc Co., The.
Ohio Casualty Insurance Co., The.
Ohio State Life Insurance Co., The.
Okonite Co., The.
Oneida, Ltd.
Owen, Moore & Co.
Pacific Finance Corporation of California.
Pacific Lumber Co., The.
Pan American Life Insurance Co.
Paraffine Companies, Inc., The.
Peerless Machinery Co.
Penney Company, J. C.
Peoples Drug Stores, Inc.
Pepper Bottling Co. of Mississippi, Dr.
Pfeffer Rice Milling Co., Inc.
Philadelphia Storage Battery Co.
Pierce Co., S. S.
Pilgrim Laundry, Inc., The.
Pittsburgh Plate Glass Co.
Portous Mitchell & Braun Co.
Pritzlaff Hardware Co., John.
Proctor & Schwartz, Inc.
Quaker Oats Co., The.
Radio Corporation of America.
Reece Button Hole Machine Co., The.
Reed & Barton Corporation.
Reeves, Inc., Daniel.
Remington Arms Co., Inc.
Republic Supply Co. of California, The.
Rich's, Inc.
Rich Manufacturing Corporation.
River Raisin Paper Co.
Rockford Mitten & Hosiery Co.
Roos Brothers, Inc.
Russell-Miller Milling Co.
Safeway Stores Inc.
St. Louis Steel Casting Co.
St. Paul Fire & Marine Insurance Co.
Samuelson & Co., V. A.
San Diego Trust & Savings Bank.
Sangamo Electric Co.
Savannah Sugar Refining Corporation.
Scheirich Manufacturing Co.
Schroder Banking Corporation, J. Henry.
Sealed Power Corporation.
Sears, Roebuck & Co.
Second National Bank of Boston, The.
Seng Co., The.
Servel, Inc.
Shakespeare Co.
Sheaffer Pen Co., W. A.
Shell Oil Co.
Shelt Co., Inc., The.
Shepard Niles Crane & Hoist Corporation.
Simons Manufacturing Co., Ernest.
Smiley Co., The Thomas.
Smith, Kline & French Laboratories.
Sonoco Products Co.
Southern California Edison Co.
Speeder Machinery Corporation.
Spiegel, Inc.
Squibb & Sons, E. R.
Standard Screw Co.
Starrett Co., The L. S.
Steel Heddle Manufacturing Co.
Steel Products Co., The.
Strathmore Paper Co.
Sturtevant Co., B. F.
Sulloway Hosiery Mills.
Taylor, Miller, Busch & Boyden.
Texas Employers Insurance Association.
Title Insurance & Trust Co.
Towers, Perrin, Forster & Crosby, Inc.
Tracy Loan & Trust Co.
Traylor Engineering & Manufacturing Co.
Tremco Manufacturing Co., The.
Truck Engineering Company, The.
Truns Pork Stores, Inc.
Union Planters National Bank & Trust Co.
United Air Craft Corporation.
United-Carr Fastener Corporation.
United States Rubber Co.
Vaughn & Ragsdale Co.
Walgreen Co.
Warner & Swasey Co., The.
Warren Featherbone Co., The.
Wayne Pump Co., The.
Wellington Sears Co.
Westinghouse Electric & Manufacturing Co., and consolidated subsidiaries.
White Castle System, Inc.
White Dental Manufacturing Co., The S. S.
Whittier Co., Ltd., M. H.
Willoughby Camera Stores, Inc.
Wiremold Co., The.
Wooster Brush Co., The.
Yale & Towne Manufacturing Co., The.
Youngstown Sheet & Tube Co., The.

PENSION AND ANNUITY PLANS

Pension and annuity plans fall into three groups: Informal noncontributory, formal noncontributory, and formal joint contributory.

Under the heading of "Informal" are included all plans where the employer pays pension only to selected employees, and then primarily on the basis of need, each case being judged on its merits, with no employee having any definite assurance that upon retirement he will secure a pension.

Under "Formal Noncontributory" are included all plans where the company assumes the entire cost but where, because of a specific contractual arrangement between the employer and the employee, or because of company policy and long operation of the plan, each employee has reasonable cause to believe that upon retirement he will receive a pension, regardless of actual need. Such a plan may or may not be funded by the company through an insurance company and may or may not be on an actuarial basis.

Under "Formal Joint Contributory" are included those plans where the employer and the employee each contribute part of the cost, each contributing employee, subject to the terms of the plan, being assured of a pension upon retirement. Such plans are usually operated on a contractual basis with an insurance company, the employee looking to the insurance company for his pension rather than to the employer.

Following are descriptions of two pension plans of long standing. After these two descriptions are listed other companies having various types of pension plans.

PROFIT SHARING—PENSION PLAN

UNITED STATES STEEL CORPORATION, PITTSBURGH, PA.

Manufacturer of iron and steel products; 187,000 employees; net worth December 31, 1937, $1,643,315,000

Type of plan.—Noncontributory pension plan handled entirely by the corporation.

Eligibility.—Pensions are granted to all with 25 years service reaching retirement age. Retirement is compulsory at age 70 for men and age 60 for women. Retirement is voluntary at age 65 for men and age 55 for women.

Method of calculating pension.—Individual pensions amount to 1 percent of the average monthly pay received in the last 10 years of service multiplied by the years of service.

Amounts distributed.—For the year 1937 the corporation paid out $7,821,958 in pensions. Since the inception of the plan in 1911, the corporation has paid out a total of $83,308,719.

Number of pensioners.—In the latter part of 1938, 11,615 persons were receiving pensions.

Other plans.—The corporation also offers group insurance, housing, unemployment assistance, accident and sanitation engineering, and other welfare activities.

Opinion of management.—The corporation states the employees have shown appreciation of their various plans and the pension plan has removed the worries concerning the future that can be a disturbing element in the minds of workers.

SOCONY-VACUUM OIL CO., INC., NEW YORK, N. Y.

Producers, refiners, and marketers of petroleum products; 34,300 employees; net worth December 31, 1937, $665,281,056

Type of plan.—Joint contributory purchase of annuities from an insurance company. Annuity plan installed in 1931. Company pays for service prior to the installation of the plan.

Method of calculation.—Employee's contributions are regulated by their individual salary or wage class. The company pays about $1.50 to the insurance company for each dollar contributed by the employee. Annuities are designed to pay the employee about 2 percent of earnings for each year of service since the present plan was established, and 2 percent of salary on December 31, 1930, for each year of service prior to 1931. No pension is to exceed 75 percent of the annual salary prior to retirement or 75 percent of the average salary for the last 5 years prior to retirement if that is greater.

Eligibility.—All employees with 6 months' service are eligible to subscribe to the plan.

Retirement age.—The normal retirement age is 65 or 40 years of service regardless of age. No years of service are required if the employee is 65.

Other plans.—The annuity plan also includes death benefits. There are additional benefits for accidental death, dismemberment, and total and permanent disability.

GENERAL MILLS, INC., MINNEAPOLIS, MINN.

Manufacturing, flour, feed, and cereals; business started 1889; 7,124 employees

Company discretionary pension plan for all employees upon retirement. Company expense. Adopted for as long as company has been required to retire employees, and on sums on which he can live comfortably.

Other plans and activities include credit unions maintained by employees.

Paid vacations of from 1 to 2 weeks to all employees.

GENERAL CABLE CORPORATION, NEW YORK, N. Y.

Manufacturing, copper wire and cable; business started 1889; 6,000 employees

Joint contributory annuity plan for all employees, on basis of length of service and salary. Plan adopted 1930; amended 1932.

Other plans and activities include benefit associations and credit unions maintained by employees; joint contributory life insurance.

Paid vacations to all employees since 1936.

COMPANIES HAVING PENSION PLANS

Agfa Ansco Corporation
Air Reduction Co., Inc.
Ajax Pipe Line Corporation
Allied Kid Co.
Allied Stores Corporation
A. C. Allyn & Co., Inc.
Amerada Corporation
American Bank Note Co.
American Brake Shoe & Foundry Co.
American Can Co.
American Cast Iron Pipe Co.
American Hard Rubber Co.
American Hospital Supply Corporation
American Locomotive Co.
American Metal Co., Ltd., The
American Metal Co. of Illinois, The
American Metal Co. of Texas, The
American Optical Co.
American Rolling Mill Co.
American Sales Book Co., Inc.
American Smelting & Refining Co.
American Snuff Co.
American Sugar Refining Co. and its domestic subsidiaries
American Steel Foundries, including Griffin Wheel Co., its principal subsidiary
American Telephone & Telegraph Co.
American Zinc & Chemical Co.
Anchor Post Fence Co.
Anderson Newcomb Co., The
Arkansas Power & Light Co.
Armstrong Cork Co.
Arner Co., Inc., The
Associated Seed Growers, Inc.
Atlantic Refining Co., The
Atlas Powder Co.
Auto-Owners Insurance Co.
Ball Brothers Co.
Ballard & Ballard Co., Inc.
Bank of America National Trust & Savings Association
Bankers Life Co.
Bankers Trust Co.
Barber Asphalt Corporation
Barnsdall Oil Co.
Bay State Milling Co.
Behr-Manning Co.
Belridge Oil Co.
Best & Co., Inc.
Bethlehem Steel Corporation
Bird & Son, Inc.
Blackwell Zinc Co., Inc.
Bloomington-Lake National Bank of Minneapolis
Borden Co., and all subsidiaries
Boston Consolidated Gas Co.
Boston Edison Co.
Boston Wire Stitcher Co.
Brooklyn-Manhattan Transit System, all companies
Brooklyn Union Gas Co., The
Brown & Sharpe Manufacturing Co.
Brunswick-Balke-Collender Co., The
Buckeye Steel Castings Co., The
Buda Co., The
Builders Iron Foundry
Cabot, Samuel, Inc.
California Fruit Growers Exchange
California Packing Co.
Camden Fire Insurance Association
Campbell Soup Co.
Central Hanover Bank & Trust Co.
Central Hudson Gas & Electric Corporation
Century Indemnity Co.
Chase Bag Co.
Chattanooga Medicine Co.
Chemical Bank & Trust Co.
Cheesebrough Manufacturing Co., Consolidated
Chicago Daily News, Inc., The
Cincinnati Gear Co., The
Clark County National Bank of Clark, The
Cleveland Electric Illuminating Co., The
Clinton Co.
Cluett, Peabody & Co., Inc.
Colgate-Palmolive-Peet Co.
Colt's Patent Fire Arms Manufacturing Co.
Columbia Conserve Co., The
Columbus Mutual Life Insurance Co.
Commercial Cable Co., The
Commercial National Bank of Bozeman
Commercial National Bank & Trust Co. of New York
Commonwealth Edison Co.
Connecticut General Life Insurance Co.
Connecticut Light & Power Co., The
Connecticut Mutual Life Insurance Co., The
Connecticut Power Co., The
Consolidated Edison Co. of New York, Inc. & affiliated companies
Consolidated Gas, Electric Light & Power Co. of Baltimore
Continental Illinois National Bank & Trust Co. of Chicago

Continental Life Insurance Co., Inc.
Continental Oil Co.
Corn Products Refining Co.
Crocker First National Bank of San Francisco
Cudahy Packing Co., The
Curtis Publishing Co.
Cutler-Hammer, Inc.
Deere & Co.
Detroit Edison Co., The
Dick & Co., A. B.
Henry Disston & Sons, Inc.
Dixon Crucible Co., Joseph
Dow Chemical Co., The
du Pont de Nemours & Co., E. I.
Eastman Kodak Co.
Thomas A. Edison, Inc. (not including subsidiary companies)
Electrical Testing Laboratories
Eloesser Heynemann Co.
Employers Casualty Co.
Equitable Life Assurance Society of the United States
Equitable Life Insurance Co.
Ethyl Gasoline Corporation
Evening Star Newspaper Co., The
Fairbanks, Morse & Co.
Fairchild Sons, Inc.
Farmers & Mechanics Savings Bank of Minneapolis
Farmers & Merchants National Bank of Ivanhoe, Minn.
Farmers & Merchants State Bank of Minneota, Minn.
Farmers & Merchants State Bank of St. Paul.
Farrel-Birmingham Co., Inc.
Federal Trust Co.
First National Bank of Atlanta, The
First National Bank, The, Brainerd, Minn.
First National Bank of Chicago, The
First National Bank, The, Graceville, Minn.
First National Bank, Great Falls, Mont.
First National Bank of Denver, The
First National Bank, Lidgerwood, N. Dak.
First National Bank of Mankato
First National Bank, The, Miller, S. Dak.
First National Bank & Trust Co. of Minneapolis
First National Bank of the City of New York
First National Bank at Orlando, The, Orlando, Fla.
First National Bank, Paterson, N. J.
First National Bank, The, Portland, Oreg.
First National Bank, The, Rochester, Minn.
First National Bank of St. Paul
First National Bank, Valley City, N. Dak.
Flickinger Co., Inc., S. M.
Florence Pipe Foundry & Machine Co.
Food Machinery Corporation
Freeborn County National Bank of Albert Lea
Gardner-Richardson Co., The
Gary Heat, Light & Water Co.
General American Transportation Corporation.
General Aniline Works, Inc.
General Candy Corporation
General Electric Co.
General Foods Corporation
General Shoe Corporation
Gilmore Oil Co.
Gleason Works
Glens Falls Portland Cement Co., The
Godman Co., The H. C.
Goodrich Co., The B. F.
Goodyear Tire & Rubber Co., The
Gorham Manufacturing Co.
Graybar Electric Co., Inc.
Great Western Sugar Co., The
Guarantee Mutual Life Co.
Guaranty Trust Co. of N. Y.
Guardian Life Insurance Co. of America, The
Hahne & Co.
Hammermill Paper Co.
Hardware Mutual Insurance Co. of Minnesota
Hart & Cooley Manufacturing Co.
Hartford Electric Light Co., The
Hennepin State Bank
Hercules Powder Co.
Herrick Co.
Hibbard Spencer Bartlett & Co.
Hibernia National Bank in New Orleans, The
Holly Sugar Corporation
Home Friendly Insurance Co. of Maryland
Honolulu Oil Corporation
Hoskins Manufacturing Co.
Howard Savings Institution, The
Huron Portland Cement Co.
Ilg Electric Ventilating Co.
Illinois Northern Utilities Co.
Indiana Service Corporation
Indianapolis Railways, Inc.
Ingersoll-Rand Co.
Inland Steel Co.
International Business Machines Corporation
International Harvester Co.
International Nickel Co., Inc.
Jahn & Ollier Engraving Co.
Jantzen Knitting Mills
Jersey Central Power & Light Co.
Johnson & Son, Inc., S. C.
Jones & Laughlin Steel Corporation
Johns-Manville Corporation
Kansas City Life Insurance Co.
Kansas City Power & Light Co.
Kansas City Public Service Co.
Kelley Island Lime & Transport Co., The
Kerr Glass Manufacturing Co.
Kerr & Co., Inc., Alexander H.
Kimberly-Clark Corporation
Knox Gelatine Co., Inc.. Charles B.

Kohler Co.
Kuhn, Loeb & Co.
Laclede Gas Light Co., The
Lamar Life Insurance Co., The
Langeloth Townsite Co.
Langeloth Water Co.
Lawrence Leather Co., A. C.
Leas & McVitty, Inc.
Lewis & Bros. Co., John T.
Libby, McNeill & Libby
Liberty Mutual Insurance Co.
Life Insurance Co. of Virginia, The
Life Savers Corporation and subsidiaries
Liggett & Myers Tobacco Co.
Eli Lilly & Co.
Lincoln National Life Insurance Co.
Lion Oil Refining Co.
Loeser & Co., Inc., Frederick
Loose-Wiles Biscuit Co.
Louisville Cement Co.
Lumbermans Mutual Casualty Co.
Lynchburg Foundry Co.
Lyon Metal Products, Inc.
Mannings, Inc.
Marquette Cement Manufacturing Co.
Massachusetts Mutual Life Insurance Co.
Matson Navigation Co. and subsidiaries
Mayer & Co., Oscar
McCrary Refrigerator Co.
McCreery & Co., James
McGrady-Rodgers Co.
Mead Johnson & Co.
Melville Shoe Corporation
Merchant & Miners Transportation Co.
Merchants National Bank & Trust Co., The
Merck & Co., Inc.
Meredith Publishing Co.
Metals Bank & Trust Co.
Metropolitan Life Insurance Co.
Midland National Bank of Illinois, The
Miehle Printing Press & Manufacturing Co.
Miller & Paine, Inc.
Minnehaha National Bank of Minneapolis
Minneapolis Gas Light Co.
Minnesota Mining & Manufacturing Co.
Mohawk Carpet Mills, Inc.
Monarch Life Insurance Co.
Monongahela West Penn Public Service Co.
Montana National Bank
Monumental Life Insurance Co.
Morrell & Co., John
Morris Plan Bank of Cleveland, The
Murphy Varnish Co.
Narrow Fabric Co., The
National Bank of Detroit
National Bank of South Dakota, The
National Biscuit Co.
National Fuel Gas Co.
National Guardian Life Insurance Co.
National Life & Accident Insurance Co., Inc., The
National Metals Bank of Hancock, The
National Old Line Insurance Co.
National Park Bank
National Shawmut Bank of Boston
National Sugar Refining Co. of New Jersey, The
National Supply Co., The, and its subsidiary and predecessor companies
National Transit Co.
Nevada-California Electric Corporation, The
New Jersey Zinc Co., The
New York Air Brake Co., The
New York Life Insurance Co.
Northern Indiana Public Service Co.
Northern Natural Gas Co.
Northwestern Bank of Langdon, The
Northwestern Mutual Life Insurance Co.
Northwestern National Bank & Trust Co. of Minneapolis
Northwestern National Insurance Co. of Milwaukee
Northwestern National Life Insurance Co.
Ohio Oil Co., The
Okonite Co., The
Omaha National Bank, The
Oneida, Ltd.
Otis Elevator Co.
Owens-Illinois Glass Co.
Oxford Paper Co.
Pacific Gas & Electric Co.
Pacific Lighting Corporation
Penn Mutual Life Insurance Co. of Philadelphia, The
Pennsylvania Edison Co.
Pennsylvania Water & Power Co.
Peoples Drug Stores, Inc.
Peoples Gas Light & Coke Co., The
Philadelphia Electric Co.
Phillips Petroleum Co.
Phoenix Mutual Life Insurance Co.
Pierce Co., S. S.
Pillsbury Flour Mills Co.
Pitney-Bowes Postage Meter Co.
Pittsburgh Plate Glass Co.
Plymouth Cordage Co.
Portland Gas & Coke Co.
Potomac Electric Power Co.
Potter County Bank
Prentice-Hall, Inc.
Procter & Gamble Co., The
Proctor & Schwartz, Inc.
Produce State Bank
Prudential Insurance Co. of America, The
Public Service Corporation of New Jersey
Public Service Co. of Northern Illinois
Puget Sound Power & Light Co.
Pullman Co., The
Pullman-Standard Car Manufacturing Co.
Pure Oil Co., The
Quaker Oats Co., The
Quaker State Oil Refining Corporation
Raybestos-Manhattan, Inc.
Red River National Bank of Grand Forks

Reed & Barton Corporation
Remington Arms Co., Inc.
Republic Supply Co. of California, The
Rochester Gas & Electric Corporation
Rockland Light & Power Co.
Roebling's Sons Co., John A.
Rumford Chemical Works
St. Albans National Cathedral School for Boys
St. Louis Rocky Mountain & Pacific Co.
St. Paul Fire & Marine Insurance Co.
Salt River Valley Water User's Association
Sangamo Electric Co.
Savannah Sugar Refining Corporation
Schroder Banking Corporation, J. Henry
Scovill Manufacturing Co.
Sealed Power Corporation
Seattle First National Bank
Second National Bank of Boston, The
Security Life & Trust Co.
Shakespeare Co.
Shell Oil Co.
Signal Oil Gas Co.
Simmons Co.
Smith, Kline & French Laboratories
Society for Savings
Sonoco Products Co.
Southern California Edison Co.
South Norwalk Electric Works
South Penn Oil Co.
Spaulding-Moss Co.
Springfield Gas Light Co.
Squibb & Sons, E. R.
Standard Accident Insurance Co.
Standard Oil Co. of California
Standard Oil Co. of Indiana
Standard Oil Co., Inc., in Kentucky
Standard Oil Co. of Ohio, The
Standard Oil Co. of Nebraska
Standard Sanitary Manufacturing Co.
Stanley Works, The
Steel Heddle Manufacturing Co.
Steketee & Sons, Paul
Stockham Pipe Fittings Co.
Sun Life Insurance Co. of America
Sun Oil Co.
Swift & Co.
Texas Corporation, The
Texas Employers' Insurance Association
Texas Gulf Sulphur Co.
Title Guarantee & Trust Co.
Towers, Perrin, Forster & Crosby, Inc.
Tremco Manufacturing Co., The
Trenton Saving Fund Society
Underwriters' Laboratories, Inc.
Union Bag & Paper Corporation
Union Central Life Insurance Co., The
Union National Bank in Minot, The
Union Oil Co. of California
Union Planters National Bank & Trust Co.
Union Tank Car Co.
United Benefit Life Insurance Co.
United-Carr Fastener Corporation
United States Freight Co. and subsidiaries
United States Industrial Alcohol Co.
United States Metals Refining Co.
United States National Bank
United States National Bank of Portland
United States Rubber Co.
Vaughn & Ragsdale Co.
Wallace & Sons Manufacturing Co., R.
Wanamaker, Philadelphia, John
Washington Gas Light Co.
Waverly Press, Inc.
Wellington Sears Co.
Western & Southern Life Insurance Co., The
Western Electric Co., Inc.
Western Union Telegraph Co., The
Westinghouse Air Brake Co. and subsidiaries
Westinghouse Electric & Manufacturing Co. and consolidated subsidiaries
Westvaco Chlorine Products Corporation
White Dental Manufacturing Co., The S. S.
Whittier Co., Ltd., M. H.
Wickwire Spencer Steel Co.
Wilmington Trust Co.
Wisconsin Power & Light Co.
Woodmen of the World Life Insurance Society
Woolworth Co., F. W.
World Publishing Co. and Herald Building Co., wholly owned subsidiary consolidated
Yale & Towne Manufacturing Co., The

ANNUAL-WAGE PLANS

Annual-wage plans, while not classed as profit-sharing plans, are a relatively recent attempt at the solution of the employer-employee relations problem and are usually indicative of an enlightened employer attitude which is trying to benefit the laboring employee.

Such plans have for their purpose the leveling off of the peaks and valleys of the working man's income so that he may anticipate a steady weekly income and thus budget his future expenditures. He can also make plans for the future because the fear of short pay-checks is removed.

As might be expected, annual-wage plans have the greatest applicability in the consumers-goods field where production and sales tend to be more constant and stable.

Following are descriptions of four annual-wage plans, the details of which have been brought to the attention of the staff in the course of conducting this survey.

COMPANIES HAVING ANNUAL-WAGE PLAN

PROCTER & GAMBLE CO.

In 1923, Procter & Gamble astounded the industrial world by announcing an annual-wage plan for all factory employees that would insure them 48 pay checks per year, the pay check being based on a standard workweek of 40 hours. Actually, employees usually receive 52 weeks' pay a year, including 1 week's vacation with pay. This regularization of employment was obtained and installed only after the company had made a thorough analysis of its sales and warehousing policies and instituted many changes therein which would better enable the company to maintain a regular production schedule.

The plan is effective for all employees with 2 years' service—with the exception of those employed in the crushing of cottonseed. This latter exception brings out the point that in some lines of business it is almost impossible to guarantee steady employment due to factors beyond the control of the business.

Although noted for its profit-sharing plan, the company considers its annual-wage plan just as important—if not more so—in contributing to the security of its employees. Mr. Richard R. Deupree, president, in an address before the Forty-third Annual Business Congress of the National Association of Manufacturers said: "It is my belief that the one outstanding desire of any man is the opportunity to work—with the assurance that if he works well, he will continue to hold his job. To plan his family life, he must have some idea of his income for the next 6 months or a year. To put yourself in his shoes, you must strip yourself of all capital income and rely solely upon a daily wage, without any positive assurance of work beyond the next 8-hour day. It is not a pleasant thought. If you think of one workman, one employee this way and then multiply that one man by several million wage earners, you then realize the vital importance of this problem in our national, social, and economic life."

This program of guaranteed pay checks is in addition to the profit-sharing plan and the many other employee benefit programs carried on by this company.

NUNN-BUSH SHOE CO.

On June 3, 1935, the Nunn-Bush Shoe Co. instituted an annual-wage plan guaranteeing certain employees 52 pay checks a year.

The unique feature of this plan is the fact that wages are keyed to a definite percentage of gross sales. In the words of H. L. Nunn, president, "there seems to be some unknown economic law which enabled labor to receive just so much of each dollar regardless of how many dollars came in."

In the 10 years before the plan was instituted, labor's share in the Nunn-Bush Milwaukee plant averaged about 20 percent of the total sales value and 20 percent was used in setting up the plan in that plant while 18 percent was used in the Edgerton plant where cheaper shoes are manufactured.

The plan works in this manner: Estimates of probable sales are made by the company. As shoes are sold, 20 percent of their value is put into a group salary fund. From this fund are paid weekly wages equal to the product of the hourly rate before the plan went into effect (now called the differential rate) and a multiplier which was originally the average hours worked per week in the plant. When the fund accumulation exceeds wages paid out in any contract period, the excess is distributed pro rata as adjusted compensation, and when the fund accumulation is overdrawn, as in periods of unanticipated declines in sales, the multiplier is reduced or if business picks up again, held unchanged, until the deficit in the group salary fund is made up.

In order to provide flexibility only employees with the company when the plan started are included in the guaranteed 52 pay-check or class A group, while other class B employees taken on temporarily to handle peak production are not included until they have 2 years' service and even then can be laid off until the natural growth of the business or diminution of the class A group by death and retirement warrants their acceptance as permanent employees.

This guaranteed pay-check plan is in addition to profit sharing and other employee benefits.

George A. Hormel & Co.

The hog-packing business is a seasonal business, with the hogs coming in two main crops, spring and fall. This occasioned the letting out of men as soon as work slacked, and even though it might be interpreted as a means of giving full pay checks to those still in employment, the practice never seemed quite right to Mr. Hormel. He regarded it as a kind of chisel, as he has said, a forcing of the employee to take the rap first for the management's failure to maintain work.

This belief led to the working out of a "straight time arrangement" which was first tested out in 1931. It was determined how much work one department had to do in a year and, at a rate of work of the then going average hours per individual per week, how many men would be required to do that work, assuming that the flow of work was steady. Then, he proposed to hire that number of men by the year, and let them work longer hours when the rush of business was on, and shorter hours when it was slack. Thus, instead of the discharge of men at slack season and rehiring these men at rush season, he would have the same crew the year around. The rate of pay for each person was 40 times the hourly rate plus $1. The plan was installed department by department until the whole plant was operating on this basis.

A bonus plan has been incorporated to care for increased production schedules. For instance, in 1935, 115 men and women in one department were given a year's budget of work. Business in that department picked up so that at the end of 40 weeks this volume had been accomplished. More work was given them. They undertook the additional work for the balance of the year, and for that they earned a bonus. The present straight-time arrangement now provides a regular bonus clause and, in each instance, sets up the bonus which is proper for the character of the work of that department.

Jahn & Ollier Engraving Co.

This company, makers of fine printing plates, not only have a profit-sharing plan but also guarantee 52 weeks' steady employment for 2 years—to all except sales force and office boys. The guarantee provides for a maximum of 40 hours and a minimum of 30 hours per week, with time-and-a-half for over 40 hours per week, and double time for Sundays and holidays. The minimum pay for journeymen is $1.25 per hour.

The company also gives $1,500 free life insurance and 1 week's paid vacation after 3 years' service.

COMPANIES HAVING SPECIAL PLANS

Bankers Trust Co.
Banning & Co.
Beneficial Life Insurance Co.
Builders Iron Foundry
Cleveland Twist Drill Co., The
Continental Assurance Co.
Doehler Die Casting Co.
Evening Star Newspaper Co., The
Ford Motor Co.
Gordon Co., Claud S.
Great National Life Insurance Co.
Humble Pipe Line Co., Consolidated
Laclede Steel Co.
Musebeck Shoe Co.
Pittsburgh Steel Foundry Corporation
Samuelson & Co., V. A.
Scranton Lace Co., The
Seaboard Oil Corporation
Southwest Box Co.
Southwest Life Insurance Co.
Spaulding-Moss Co.
Standard Oil Co. of New Jersey
Tremco Manufacturing Co., The
Westinghouse Electric & Manufacturing Co. and consolidated subsidiaries

CHAPTER XX

ABANDONED PROFIT-SHARING PLANS

Although this survey has been directed to the analysis of active profit-sharing plans, it seems pertinent to examine some of the plans which have been abandoned to ascertain what unsound features, impractical forms, and structural faults are advisable to avoid, if profit sharing is to be successfully operated.

Any attempt to intelligently analyze the causes of discontinuance or abandonment of profit-sharing plans over a long period of years, or say for the last half century, is futile because of the mortality of companies. In our effort to trace the history and operations of many companies, reported in previous researches as being abandoned, they were found to have long ago disappeared from the scene of business activity. Therefore, a detailed study can only be made in companies yet active.

From our study of a large number of companies which discontinued various forms of profit-sharing plans, the causes for their inefficiency, ineffective operation, and abandonment can be assigned to the following causes or faults which will encompass practically all cases:

1. Few, if any, gave consideration to the all-important psychological factors.
2. Total absence of features which established any partner-in-interest relation.
3. Unsound design which failed to differentiate the sharing from wages—hence intensified the wage conflict.
4. Plans designed for ulterior purposes and without honest objective.
5. Installed arbitrarily without consultation or educational effort to create understanding and appreciation by the worker.
6. Depression, with resulting loss of earnings, compelled discontinuance.
7. Enactment of Federal Social Security Act conflicted with continuance of plan.

Detailed records of 69 abandoned and discontinued plans were submitted to the committee but it should be noted that 26 of the companies who abandoned some form of profit sharing either had some other plan in operation or substituted a different form of plan. The 69 abandoned profit-sharing plans studied included the following: 9 pension plans, 4 wage-dividend plans, 12 stock ownership plans, 21 bonus plans, 22 profit percentage plans.

ABANDONED PENSION PLANS

Of the nine companies which abandoned pension plans, four were discontinued at the time the Federal Social Security Act became effective, the companies contending that they were financially unable to continue their pension plan and also contribute to Federal Social

Security. One of these four companies—a large mining enterprise—was faced with an unusual condition, in that one of their major mines was exhausted, thus creating a large group of retired men. This extra demand upon their resources could not be met at the time and their pension plan was abandoned in favor of a retirement-bonus plan which called for the payment of a cash sum upon retirement, which plan is still in force.

Three of the companies went into receivership and consequently had to abandon their plans. Two of the companies had losses in every year since 1928 and the pension plans constituted a fixed and serious drain upon their resources. The other company, engaged in coal mining and steel production, also showed a very poor earnings record.

One company inaugurated a joint contributory annuity plan in 1930 but they "were obliged to abandon it in April 1932 because of our heavy losses due to the depression which made the company's share too great a burden." This company was in an industry that particularly suffered during the depression. Like the others, they were faced with pension costs which became a *fixed charge* against the business and which tended to increase each year as the company grows older. Consequently, when they run into a period of losses, the pension plan becomes more of a burden than they can sustain. Such failures might be due to the over-optimism of the management at the time of installing the plan or it might be due to the lack of a sound actuarial study.

The remaining company, a large mining enterprise, abandoned their pension plan in 1931 when the "burden of the plan became too great." However, this abandonment was due primarily to faulty structure to begin with, as they granted pensions after 22 years of service with no limitation on the age of retirement; thus it was possible for a man of 42 to retire on a pension. This is apparently what happened and when a number of men were put on short hours they "retired" and took the pension which would give them for nothing almost as much as they were able to make by working 1 or 2 days a week, which was all the production schedule allowed for at the time. Thus it can be seen that, in order to have a successful pension plan, it must be well designed, it should be actuarially sound, and it should be within the limits of the company's ability to pay. Even with the best internal precautions, there is still the possibility of outside factors—such as Government regulations and interference or the economic degeneration of a particular industry (such as the textile business) which might destroy the plan.

ABANDONED STOCK-OWNERSHIP PLANS

Considering the drastic decline in the stock market after 1929, it is not difficult to conceive why many stock-ownership plans ended disastrously and had to be abandoned. In the early twenties, stock ownership usually was considered highly advantageous and employees were able to see a substantial appreciation in the value of their securities. All too frequently, however, the losses suffered from 1929 to 1932 were enough to wipe out all the profits gained in the previous years plus much of the equity that the companies themselves had donated. In many instances this loss of value created an antagonistic spirit in the worker, which, of course, was just opposite to the effect that had been desired when inducing them to purchase the stock originally.

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Out of 12 companies reporting abandoned stock-ownership plans, 10 gave the reason as being the decline in value of the common stock. As one employer expressed it: "Business conditions during the last few years have been so uncertain that it could not be predicted whether the investment would be a good one or not and the plan was abandoned." Another says: "The wide fluctuation in stock values since 1929 is the principal reason for discontinuance of the practice." One of these companies abandoned their stock offering to employees as far back as 1920, when at that time they recognized some of the weaknesses inherent in the purchase of common stocks by employees. This company said: "The stock offering was not repeated in subsequent years because of the unfavorable effects of market-price fluctuations; when the price went up many employees sold, defeating the purpose of accumulation; when the price went down, many employees were dissatisfied with their ownership."

One company, however, offered its employees preferred stock and the stock-purchase plan was abandoned only after the company had sold all the preferred that they felt the financial structure should support. The company has been successful, so presumably the offering of preferred stock to employees was a success. The management apparently deemed it was unwise to offer their employees common stock.

The remaining company discontinued its stock-purchase plan for employees only after the employees had acquired 50 percent of the common stock; the employees having acquired 50 percent ownership, the purposes of the plan had been achieved and consequently no more stock was offered.

From all indications the offering of common stock to employees at preferential rates is to be avoided, if possible, unless the company has an unusually stable record or unless the company is willing to assume a high percentage of the cost so that even a drastic decline in stock value would not impair the capital which the employee paid out of his own pocket. If possible, it would seem advisable to permit the employees to purchase preferred stock rather than common and although they might sacrifice some opportunity for price appreciation, they would probably gain in the stability of their income and the safety of their investment, while at the same time the desired "partnership" interest would be gained.

ABANDONED WAGE-DIVIDEND PLANS

The four companies in this group all have different reasons for abandoning their wage-dividend plans. One company—a midwestern building-supply company—is in an industry that was severely affected after 1929 and suffered losses for many consecutive years, so that the plan was not necessarily abandoned because of not being workable but simply died because of business collapse. The company's operations have not returned to a level which would warrant the resumption of extra payments to their employees.

Another company—an eastern public utility—discontinued their wage-dividend plan after 1930, due to a decline in earnings, although they did not actually suffer deficits. Apparently the employees participated only after a minimum requirement for common stock and the company found itself unable to earn this minimum. As in the first company, cash was distributed under the plan so it may be naturally assumed the abandonment was regretted by the employees.

The third company abandoned their wage-dividend plan early in 1938, substituting for it a joint contributory annuity plan which they thought would best accomplish the desired results. The wage dividend had been paid in cash and apparently they discovered that the cash payments were not being saved but were being spent almost as soon as received. It should be noted here that a "nonpartnership" plan was substituted for a "partnership" plan and the employees no longer had a direct interest in the profits of the company. The management has privately expressed the opinion that they may have made a mistake in that the basis for the increased loyalty of the employees, which had definitely resulted from the wage-dividend plan, no longer exists.

The fourth company installed a wage-dividend plan early in 1937. Shortly thereafter union organizers started to work and eventually had enough employees to call a strike in June of 1937, which lasted for several weeks. The strike was settled by granting wage increases of from 10 to 14 percent and the wage-dividend plan was abandoned. Previously the wage-dividend plan had been paying the employees about 10 percent of their wages. A few months after the strike was settled the union was defeated in an election which was won by an employees' union. There is some suspicion here that the wage-dividend plan was primarily installed to forestall a demand for higher wages on the part of the employees. If such was the case, the plan was doomed to failure, as this study has repeatedly stressed that profit sharing begins only after legitimate wage rates are paid and, if profit-sharing plans are installed as a substitute for wage increases, there is almost certain to be trouble.

ABANDONED BONUS PLANS

The records of 21 companies that have abandoned bonus plans presents a crosscut of reasons, some of which can be avoided while some are due to outside factors that are uncontrollable.

Nine of the companies abandoned their bonus plans because of heavy losses incurred over a period of from 4 to 9 years. Several of the companies were in industries which had started to decline even before 1929 and the conditions in these industries were such as to make almost any profit-sharing plan fail unless designed for "long time" accumulation. In every instance cash was distributed and the shutting off of this added income undoubtedly caused unfavorable repercussions and resentments.

There is some reason to believe that four of the companies have been using their bonus plan as a substitute for legitimate wage increases and consequently were doomed to failure. One employer even admitted that an "annual bonus was paid to all salaried employees in lieu of raises in rates." Both of the other companies increased wages by the amounts they had been paying under bonus plans at the time the plans were discontinued. It is not fair to assume that labor would be satisfied with a low wage plus only the prospect of a bonus they might or might not get. As one of these employers expressed it: "The company believes that workers prefer to receive fair wages at regular intervals rather than less wages plus uncertain percentages of equally problematical profits." This study would not deny such a statement but reiterates that profit sharing, to obtain the maximum benefits, must begin only after market wages are paid.

One company engaged in road and street paving had to abandon their bonus plan—and almost their business—simply because the Works Progress Administration has practically taken over their kind of work. This is the kind of an outside situation which might not only wreck a profit-sharing plan but wreck the business itself, and is certainly a situation over which the company has little or no control.

One bonus plan was abandoned as far back as 1915 because the "employees requested its discontinuance; stating that, unless they could get a bonus each pay day, they would rather it be discontinued." Here is found an example of one of the fundamental weaknesses of cash bonuses wherein the worker assumes that the bonus is part of his regular wages and consequently adopts a standard of living on a level with his expectations; then, if by some chance the bonus is not forthcoming, the worker finds himself in difficulties and may very well blame all his troubles on the employer. Most bonus plans were initiated with the hope that the workers would lay these funds aside to create some capital with which to meet emergencies and with which to take care of themselves in their old age. If employers desire these particular advantages to accrue to the worker they had best give consideration to some other method of payment rather than distributing cash at regular intervals.

One company paid bonuses of 5 and 10 percent of annual wages when the employees were working 8 hours a day. When the N. R. A. went into effect, working hours were reduced to 7 hours per day but no reduction was made in wages; consequently the bonus plan was discontinued as the company's costs were greatly increased and profits therefore reduced.

One company discontinued their bonus plan but no explanation was given. Because of the nature of the industry, it is generally known that there was a severe decline in earnings and there is the distinct likelihood that heavy losses were incurred. Another company abandoned its plan after labor organizers had created confusion with their employee relations and apparently they became dissatisfied with the plan. Particular details are lacking but it should be pointed out that it is extremely difficult to have a successful plan unless the employer takes the employee into his confidence and literally educates his employees to the business of profit making in general. If the employees do not fully appreciate the sources and hazards of making a profit, they are apt to become disgruntled when profit-sharing payments cease and, from such situations, there may eventually result more harm than good.

Such a failure to educate the employees might explain why a western company said: "The plan was abandoned not because of its cost but because it was arbitrary and particularly because it became an expectancy that was not accompanied by any discernible productive effort to maintain it." Another employer echoed somewhat the same sentiment when he said: "After the plan had been in effect a few years, employees took it for granted the bonus was part of their regular compensation, and when it was discontinued it was taken as a reduction in wages or salary." One employer apparently finally discovered one of the inherent weaknesses of bonus payments when he said: "We believe our plan, which based the bonus solely on length of service, would have been improved if it had been more closely tied in with the annual profits of the company in order to get the benefit of employees trying to cut down expenses." That is one of the dominant objectives of this study: To ascertain the type of plan which ties the workers' share directly into the profits of the company, thus making him profit-conscious at every stage.

ABANDONED PROFIT-PERCENTAGE PLANS

The details on 22 abandoned profit-percentage plans indicate a variety of reasons why these plans were discontinued. Three of the companies gave no specific reasons for abandonment, but in 2 of the companies cash was distributed and plans were abandoned some time ago—one in 1918, the other in 1925. Another plan required a joint contribution by employees but this plan was abandoned at approximately the same time Federal social security came into effect, which might mean that under the Federal law the employees would be taken care of in the manner desired by the company.

A group of eight companies, all of whom distributed cash, first required that capital earn a specified amount before the employees started to share in the profits. The employees' share ran as high as 50 percent of the excess but still it is conceivable why these plans would be so unfavorably received. In a period of economic distress, such as recently experienced, it has been difficult for well-managed companies to earn a substantial amount on their capital even if they were able to avoid deficits. Thus there might conceivably be a period of 4, 5, or 6 years when there might be profits earned, but yet not enough profits to warrant distributing a share to the employees. Such a condition would tend to kill whatever interests the employees would have in the plan. Also such an arrangement would probably be less effective in increasing the employees' efficiency, as whatever savings the employee might make would simply accrue to the stockholders and no portion to himself. For instance, assume that a company required earnings of $200,000 for its stockholders before the employees started to participate in the profits. If the company had come to a period when its earnings averaged $50,000 the employee would probably not exert any special effort to increase his efficiency, because, even though he did do so to the point of aiding in earning $50,000 extra for the company, he would not receive anything personally because the net earnings would remain less than $200,000 required for capital. Furthermore, if the employee at some time had enjoyed a distribution under this type of profit-percentage sharing, he might resent the fact that profits were made and still he received no part of them. Therefore, it is suggested that if a profit-percentage plan is to be installed, the employees share immediately in any profits even though the percentage allotted to them may seem small. Under this arrangement the employee is aware that of every dollar that he can add to profits a certain amount will accrue to himself. Thus, granting the prospects of any profit at all being made, the employee would be more inclined to do his best to increase profits.

Four of the companies which distributed cash ascribed the reason for abandonment to a decline of earnings and the incurring of losses. In this respect these plans followed closely the experiences of bonus plans which were abandoned as soon as profits disappeared. It is perhaps appropriate to point out here that one successfully operated profit-percentage plan went through 3 years in which they incurred losses and yet in each of the 3 years it was possible for the employees to be credited with substantial sums. Under this particular plan the company did not distribute profits in cash each year but retained them in a fund which also required a joint contribution from the employee. The fund had accumulated to such an amount by 1931, 1932, and 1933—the period during which the company suffered losses—the investment return from the fund alone equaled more than 100 percent of the employees' contributions from their pay checks in those years. Thus, although the company actually contributed nothing out of current operations, for 3 successive years the employees all the more appreciated the earnings that had previously been accumulated and invested for them. This company was thus able to maintain the faith, cooperation, and loyalty of its working force and no expression of complaint or dissatisfaction was heard from their employees during this most trying period.

Another company abandoned its profit-percentage plan in 1925 and substituted therefor a joint contributory pension plan. Under its profit-percentage plan the company had been distributing cash and it was apparently soon recognized that this was not satisfactory as the employees were not inclined to save it for a time of need but to spend it immediately, which is the general result of cash distribution.

Another company discontinued their profit-percentage plan when Federal Social Security was adopted. They also paid out cash but they said: "It was found that the employees did not appreciate the plan. If they get any extra money, apparently they prefer to have it each week. If profits fall off, they are dissatisfied if their bonus is less." However, this company had an informal pension plan, and upon abandoning the profit-percentage plan, the pension plan was strengthened and arrangements were made to give greater benefits than had been bestowed before.

One midwestern manufacturer abandoned what was apparently a very generous profit-percentage plan in 1937 after his plant had been organized by outside labor leaders. This company paid 30 percent of profits each year to its employees, based on the earnings and the length of service of the individual employed. However, they said "When we entered into an agreement with the union in June of 1937, the profit-sharing plan was dropped because of the fact that the committee representing our union members expressed the opinion that the profit-sharing plan was of no value." Thirty percent of net profits, with no deductions for a return on capital, is about the highest figure the survey has uncovered and it would appear to be a most generous arrangement. However, in view of the fact that organizers were able to unionize the company, and the declaration of a committee of employees that the plan was of no value, leads to the suspicion that the profit-percentage plan—very attractive from outward appearances—may have been used as a device to keep wages down to a point not warranted by market conditions. If such were the case, this of course would be a violation of one of the fundamental requirements for a successful profit-percentage plan.

This study has indicated that where there are profit-percentage plans or bonus plans for the benefit of some special group, and not for the labor group as a whole, friction is certain to occur. This brings up the plight of an eastern public utility which abandoned its profit-percentage plan in 1930. Sometime earlier all employees shared in the plan, but for reasons of their own the management changed the participation and restricted it to employees selected by the officers of the company. The company said: "The plan proved to be impracticable because certain employees thought they were being discriminated against." Which is a natural result. It is utterly impracticable to set up a profit-sharing plan, the benefits of which are to accrue to some of the workers, and not to all of them. Those excluded from the plan might contribute just as much to the profit making as those included but, if their participation depends upon the whims of a foreman or their boss, they are most certain to resent the discrimination. In this particular instance the company was probably wise in abandoning the plan rather than continue it as a source of irritation to a large portion of the employees.

Two instances present themselves to indicate that the companies have not seriously endeavored to win their employees to the idea of profit sharing and have not endeavored to educate them to the economics of profit making. One company said: "This company made two attempts to establish profit-sharing plans with employees and both proved to be most unsatisfactory. One attempt was made during World War days and another around 1922. In both instances, profits shared with the employees were accepted by them with great pleasure. When the profits failed to materialize, or were lessened, ill will developed that caused some minor troubles in relationship between the employees and the management. It was then definitely decided to discontinue any profit-sharing arrangements and increase the rate of pay. We have since operated on that basis." The other company said: "Employees not interested in long-range view thought they would rather have immediate benefits." In both of these instances the employees apparently were not satisfied that profit sharing was beneficial to themselves. Naturally, it is up to management to point out the fairness or the reasonableness of any profit-sharing plan and, unless this is done with complete frankness and clarity, suspicions among the employees will be aroused to the point of creating an unwholesome employer-employee relationship. Profit-percentage plans have within themselves the power to help create a loyal group of workers and also the ability to make capitalists out of the workers far beyond what they might hope to achieve, working under a straight-wage system. If management does not win acceptance of the workers, no matter how well-intentioned their plan is, the chances of success are problematical and doubtful.

Further discussion of factors and procedures for insuring the successful and effective operation of profit-sharing plans will be found in chapter X of this report, entitled "Essential Features of an Efficient and Effective Profit-Sharing Plan."

APPENDIX

STATISTICAL TABLES UPON WHICH CHARTS, TABULATIONS, AND ANALYSES IN THE REPORT HAVE BEEN BASED

CHAPTER XXI

APPENDIX

TABLE A.—127 *companies not employing labor*

[Italics indicate plans for special groups]

Grouped by plan combinations, according to who shares in benefits, and showing reported effect of operation of plan on (a) Employee turn-over, (b) efficiency, and (c) loyalty and appreciation	Type of plan and number of companies having plan indicated: Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan	Number of companies	Turn-over: Decreased	No known effect	No answer	Efficiency: Increased	No known effect	No answer	Loyalty and appreciation: Increased	No known effect	No answer
Group A:																
Insurance companies	34						34	7	24	3	12	12	10	22	5	7
Financial companies	46						46	9	27	10	17	14	15	24	7	15
Commercial service	3						3		2	1	2		1	2	1	
Insurance companies		1					1		1			1		1		
Financial companies		3					3	1	2		1		2	3		
Commercial service		1					1	1			1			1		
Insurance companies				2			2		2		2			2		
Financial companies				4			4		2	2	1	1	2	1	1	2
Commercial service				1			1			1		1		1		
Insurance companies					1		1		1			1				1
Do						4	4		4		3	1		3	1	
Financial companies						1	1			1			1			1
Group B:																
Insurance companies	6			6			6		6		4	1	1	6		
Financial companies	9			9			9	2	4	3	4	1	4	7		2
Do	1					1	1	1					1			1
Commercial service	1			1			1		1		1				1	
Group C: Financial companies	1	1					1		1			1			1	
Total 119 companies, having 1 or more plans where all employees share in all plans in operation	101	6		23	1	6	119	21	77	21	48	34	37	73	17	29
Percent							100	17.6			40.4			61.4		
Group D:																
Finance companies	2	*2*		2			2		1	1		1	1	1		1
	1	*1*		1			1		1			1		1		
		1		1			1		1				1			1
				1	*1*		1		1			1		1		
Commercial service		*1*		1		1	1	1					1	1		
		5			*1*											
Total 6 companies, group D	3			6		1	6	1	4	1		3	3	4		2
Percent							100	16.6						66.7		
Group E: Insurance companies	*2*						2	1	1		1		1	2		
Total 127 companies, groups A, B, C, D, and E	*2* 104	*5* 6		29	*1* 1	7	127	23	82	22	49	37	41	79	17	31
Percent							100	18.2			38.6			62.3		

Group A: Companies having only 1 plan, all employees sharing.
Group B: Companies having 2 or more plans all of the "nonpartnership interest" type, all employees sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type, all employees sharing in all plans.
Group D: Companies having 2 or more plans in at least 1 of which all employees share and in another of which only a special group shares. Italics indicate plans in which only special groups share.
Group E: Companies having only plans for special groups, none in which all employees share.

TABLE B.—*53 public-service companies employing labor having some type of profit-sharing plan*

[Italics indicate plans in which labor does not share]

Grouped by plan combinations, according to who shares in benefits, and showing (1) reported strikes and (2) reported effect of operation of plan on (*a*) labor turn-over, (*b*) efficiency, and (*c*) loyalty and appreciation	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
	Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A:																				
Public utilities	38						38	1	2	33	2	12	26		19	15	4	32	3	3
Communication	3						3		1	2		2	1		2		1	3		
Transportation	2						2			2			2		1	1		1	1	
Transportation service	2						2			2		1	1		1	1		2		
Group B: Public utilities	4			4			4			4		3	1		2		2	4		
Group C: Public utilities	1	1					1			1		1			1			1		
Total (50 companies) groups A, B, and C	50	1		4			50	1	3	44	2	19	31		26	17	7	43	4	3
Percent							100.0	2.0	6.0			38.0			52.0			86.0		
Group D: Transportation service	1			*1*							1		1		1			1		
Group E:																				
Public utilities	*1*						1			1				1			1			1
Transportation service	*1*						1		1											
Total (53 companies) groups A, B, C, D, and E	{ *2* 51 }	1		{ *1* 4 }			53	1	4	45	3	19	32	1	27	17	8	44	4	4

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans, all of the "nonpartnership interest" type—labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.
Group D: Companies having 2 or more plans in at least 1 of which labor shares, and in another of which only a special group shares. Italics indicate plans in which labor does not share.
Group E: Companies having only plans for special groups—none in which labor shares.

TABLE C.—*Commercial companies employing labor—Key table from which all subsequent tables relating to this group of companies have been compiled*

[462 commercial companies having 1 or more types of plan for some group, whether or not labor shares. Figures in italics indicate plans in which labor does not share]

Grouped by plan combinations, according to who shares in benefits, and showing (1) reported strikes, and (2) reported effect of operation of plan on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No.	Type of plan and number of companies having plan indicated: Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan	Number of companies	Strikes: Major	Minor	None	No answer	Turn-over: Decreased	No known effect	No answer	Efficiency: Increased	No known effect	No answer	Loyalty and appreciation: Increased	No known effect	No answer
Group A, B, and C, 312 companies: 267 Manufacturing	1	77						77	15	1	58	3	20	48	9	22	42	13	38	24	15
	2	9	9					9	1		8		5	4		5	4		8		1
	3	2	2		2			2			1	1	2			2			2		
	4	1	1			1		1			1		1			1			1		
	5	1	1				1	1			1		1				1				1
	6	1		1				1			1		1				1		1		
	7	1		1	1			1				1			1			1			1
	8	1		1			1	1				1			1			1			1
	9	34			34			34	2	1	29	2	12	20	2	12	14	8	26	3	5
	10	2			2	2		2			2			1	1	1		1	2		
	11	1			1		1	1			1			1			1		1		
	12	3				3		3			3		1	2		1	2		1	1	1
	13		54					54			49	5	22	27	5	30	20	4	43	3	8
	14		4		4			4			4		2	1	1	3	1		4		
	15		2				2	2			2		2			1	1		2		
	16			6				6			6		5	1		3	3		5	1	
	17			1			1	1			1		1			1			1		
	18				61			61	4	2	52	3	22	29	10	36	17	8	42	7	12
	19						5	5		1	3	1	4		1	3	1	1	3		2
36 wholesale and retail trade	20	5						5			5		1	4		1	2	2	3		2
	21	2	2					2	1		1			2			2		1	1	
	22	8			8			8	1		7		2	4	2	3	3	2	6		2
	23		4					4			4		3	1		2		2	3		1
	24			1				1				1		1		1			1		
	25				17			17		2	14	1	4	5	8	3	4	10	7		10
9 commercial service	26	4						4			4		1	3		1	3		2		2
	27		1					1			1		1			1			1		
	28			1				1			1		1				1		1		
	29				3			3			3		2	1		1	1	1	2	1	

TABLE C.—*Commercial companies employing labor—Key table from which all subsequent tables relating to this group of companies have been compiled*—Continued

Grouped by plan combinations, according to who shares in benefits, and showing (1) reported strikes, and (2) reported effect of operation of plan on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No.	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A, B, and C, 312 companies—Con.																					
Total, 312 companies, group A, B, and C		152	80	12	133	6	11	312	24	7	262	19	116	155	41	134	124	54	207	41	64
Percent								100.0	7.7	2.2			37.2			42.9			66.4		
Group D, 62 companies:																					
54 manufacturing	30	16	*16*					16	5	2	9										
	31	*2*	2					2		1	1										
	32	1	1		*1*			1			1										
	33	4	*4*		4			4		1	3										
	34	1	*1*				*1*	1			1										
	35	17			*17*			17	5		12										
	36	*2*			2			2			2										
	37	1			1		*1*	1			1										
	38		*1*	1				1			1										
	39		3		*3*			3			3										
	40		*5*		5			5		1	4										
	41				*1*	1		1			1										
8 wholesale and retail trade	42	1	*1*		1			1			1										
	43	1	*1*		1	1		1			1										
	44	3			*3*			3		2	1										
	45		1		*1*			1			1										
	46		*2*		2			2		2											
Total, 62 companies, group D		*4* 45	*31* 7	1	*26* 16	2	*2*	62	10	9	43										
Percent								100.0	16.1	14.5											
Total, 374 companies, groups A, B, C, and D		*4* 197	*31* 87	13	*26* 149	8	*2* 11	374	34	16	305	19									
Percent								100.0	9.3	4.2											

Group E, 88 companies:																					
70 manufacturing	47	*11*						11	3	1	5	2									
	48	*1*	*1*					1			1										
	49	*1*	*1*		*1*			1			1										
	50	*5*			*5*			5			5										
	51		*24*					24	4		20										
	52		*2*		*2*			2			2										
	53			*1*				1			1										
	54				*23*			23	4	3	16										
	55				*1*	*1*		1	1												
	56						*1*	1			1										
15 wholesale and retail trade	57	*2*						2		1	1										
	58		*6*					6	1	1	4										
	59		*1*		*1*			1			1										
	60				*6*			6	1	3	2										
3 commercial service	61	*1*						1			1										
	62		*2*					2		1	1										
Total 88 companies, group E		*21*	*37*	*1*	*39*	*1*	*1*	88	14	10	62	2									
Percent								100.0	15.9	11.3											
Total 462 companies		{ *25* / 197 }	*68*	{ *1* / 13 }	*65* / 14	*1* / 8	*3* / 11 }	462	48	26	367	21									
Percent								100.0	10.4	5.6	79.4	4.6									

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans, all of the "nonpartnership interest" type, labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type, labor sharing in all plans.
Group D: Companies having 2 or more plans in at least 1 of which labor shares and in another of which only a special group shares. Italics indicate plans in which labor does not share.
Group E: Companies having only plans for special groups, none in which labor shares.

TABLE C-1.—*320 commercial companies with no plans for anyone*

	Type of plan and number of companies having plan indicated: Pension	Profit percentage	Wage dividend	Bonus	Stock purchase	Special plan	Number of companies	Strikes: Major	Minor	None	No answer
Commercial companies with no plans for anyone	0	0	0	0	0	0	320	60	15	......	......
Percent	......	......	......	......	......	......	......	18.7	4.7	......	......

TABLE D.—*Commercial companies employing labor—150 companies having plans in which labor does not share, whether or not labor shares in some other plan*

[Italics indicate plans in which labor does not share]

Grouped by plan combination and who shares, showing number of strikes	Line No. (Table C)	Type of plan and number of companies having plan indicated: Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan	Number of companies	Strikes: Major	Minor	None	No answer
88 companies having only plans in which labor does not share (for details, see group E, table C)	....	*21*	*37*	*1*	*39*	*1*	*1*	88	14	10	62	2
37 companies having (*a*) a profit-percentage plan or bonus plan in which labor does not share, and (*b*) only a pension plan for labor:												
Manufacturing	30	16	*16*	....	....	....	....	16	5	2	9	....
	34	1	*1*	....	....	....	*1*	1	......	......	1	....
	35	17	....	....	*17*	....	....	17	5	......	12	....
Wholesale and retail trade	44	3	....	....	*3*	....	....	3	......	2	1	....
Total (37 companies)	....	37	*17*	....	*20*	....	*1*	37	10	4	23	....
Percent	....	....	....	....	....	....	....	100.0	27.0	10.8	....	....
Total (125 companies)	....	{*21* 37	*54*	*1*	*59*	*1*	*2*	125	24	14	85	2
Percent	....	....	....	....	....	....	....	100.0	19.2	11.2	....	....
25 companies having (*a*) some type of plan in which labor does not share, but having also (*b*) either a bonus or a plan of the "partnership interest" type in which labor does share:												
Manufacturing	31	*2*	2	....	....	....	....	2	......	1	1	....
	32	1	1	....	*1*	....	....	1	......	......	1	....
	33	4	*4*	....	4	....	....	4	......	1	3	....
	36	*2*	....	....	2	....	....	2	......	......	2	....
	37	1	....	....	1	....	*1*	1	......	......	1	....
	38	....	*1*	....	1	....	....	1	......	......	1	....
	39	....	3	....	*3*	....	....	3	......	......	3	....
	40	....	*5*	....	5	....	....	5	......	1	4	....
	41	....	....	....	*1*	1	....	1	......	......	1	....
Wholesale and retail trade	42	1	*1*	....	1	....	....	1	......	......	1	....
	43	1	*1*	....	1	1	....	1	......	......	1	....
	45	....	1	....	*1*	....	....	1	......	......	1	....
	46	....	*2*	....	2	....	....	2	......	2	....	....
Total (25 companies)	....	{*4* 8	*14* 7	....	*6*} 17	2	*1*	25	......	5	20	....
Percent	....	....	....	....	....	....	....	100.0	......	20.0	....	....
Total (150 companies), groups D and E, chart C	....	{*25* 45	*68*} 7	*1*	{*65* 17	*1*} 2	*3*	150	24	19	105	2
Percent	....	....	....	....	....	....	....	100.0	16.0	12.7	....	....

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TABLE E.—*Commercial companies employing labor—215 companies having only plans of the "nonpartnership interest" type—labor sharing in all plans*

Grouped by type of plan or plan combination and showing (1) reported strikes and (2) reported effect of operation of plan on (a) labor turn over, (b) efficiency, and (c) loyalty and appreciation	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
	Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
86 companies where pension plan is only plan in operation (group A of tables G, H, and I)	86	------	------	------	------	------	86	15	1	67	3	22	55	9	24	47	15	43	24	19
81 companies where bonus plan is only plan in operation (group A of table J)	------	------	------	81	------	------	81	4	4	69	4	28	35	18	40	22	19	51	8	22
43 companies having pension plan and bonus plan in combination (including 1 special plan) (group B of tables G, H, and I)	43	------	------	43	------	1	43	3	1	37	2	14	25	4	15	18	10	33	3	7
5 companies where a special plan is only plan in operation (group A of table L)	------	------	------	------	------	5	5	------	1	3	1	4	------	1	3	1	1	3	------	2
Total (215 companies)	129	------	------	124	------	6	215	22	7	176	10	68	115	32	82	88	45	130	35	50
Percent	------	------	------	------	------	------	100.0	10.2	3.2	------	------	31.6	------	------	38.1	------	------	60.5	------	------

TABLE F.—*Commercial companies employing labor—97 companies having "partnership interest" types of plans, labor sharing in all plans*

Grouped by type of plan or plan combination and showing (1) reported strikes and (2) reported effect of operation of plan on (*a*) labor turn-over, (*b*) efficiency, and (*c*) loyalty and appreciation	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
	Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A (67 companies having only 1 plan):																				
8 companies where wage dividend is only plan in operation (group A, table M)	------	------	8	------	------	------	8	------	------	7	1	6	2	------	4	4	------	7	1	------
47 companies where profit-percentage plan (funds being distributed) is the only plan in operation (group A, table O)	------	47	------	------	------	------	47	------	------	45	2	18	26	3	24	20	3	36	3	8
12 companies where profit-percentage plan (cash being saved) is only plan in operation (group A, table P)	------	12	------	------	------	------	12	------	------	9	3	7	2	3	8	1	3	10	------	2
Total (67 companies), group A	------	59	8	------	------	------	67	------	------	61	6	31	30	6	36	25	6	53	4	10
Group C: 30 companies having wage dividend, stock ownership, or profit-percentage plan in combination with other plans in which labor shares (table C)	23	21	4	9	6	5	30	2	------	25	3	17	10	3	16	11	3	24	2	4
Total (97 companies), groups A and C	23	80	12	9	6	5	97	2	------	86	9	48	40	9	52	36	9	77	6	14
Percent	------	------	------	------	------	------	100.0	2.1	------	------	------	49.5	------	------	53.7	------	------	79.4	------	------

Group A: Companies having only 1 plan—labor sharing.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

TABLE G.—*Commercial companies employing labor—45 companies having informal noncontributory pension plans, alone or in combination with other plans, labor sharing in all plans*

Grouped by plan combinations and showing (1) reported strikes and (2) reported effect of operation of plans on (*a*) labor turn-over, (*b*) efficiency, and (*c*) loyalty	Line No. (table C)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A:																					
Manufacturing	1	23						23	4		19		3	15	5	3	14	6	7	9	7
Wholesale and retail trade	20	2						2			2			2				2			2
Total (25 companies), group A		25						25	4		21		3	17	5	3	14	8	7	9	9
Percent								100.0	16.0				12.0			12.0			28.0		
Group B:																					
Manufacturing	9	9			9			9	2		5	2	3	5	1	3	2	4	5	2	2
Wholesale and retail trade	22	5			5			5	1		4		1	2	2	2	1	2	3		2
Total (14 companies), group B		14			14			14	3		9	2	4	7	3	5	3	6	8	2	4
Total (39 companies), groups A and B		39			14			39	7		30	2	7	24	8	8	17	14	15	11	13
Percent								100.0	17.9				17.9			20.6			38.5		
Group C: Manufacturing	2	3	3					3			3		1	2		1	2		2		1
	10	2			2	2		2			2			1	1	1		1	2		
	12	1				1		1			1			1			1			1	
Total (6 companies), group C		6	3		2	3		6			6		1	4	1	2	3	1	4	1	1
Total (45 companies), groups A, B, and C		45	3		16	3		45	7		36	2	8	28	9	10	20	15	19	12	14
Percent								100.0	15.6				17.8			22.2			42.2		

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans, all of the "Nonpartnership interest" type—labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

TABLE H.—*Commercial companies employing labor—61 companies having formal joint contributory pension plans, alone or in combination with other plans, labor sharing in all plans*

Grouped by plan combinations and showing (1) reported strikes and (2) reported effect of operation of plans on (a) labor turn-over, (b) efficiency, and (c) loyalty	Line No. (table C)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A:																					
Manufacturing	1	32						32	7	1	23	1	8	22	2	9	18	5	17	9	6
Wholesale and retail trade	20	2						2			2		1	1		1	1		2		
Commercial service	26	3						3			3		1	2		1	2		1		2
Total (37 companies), group A		37						37	7	1	28	1	10	25	2	11	21	5	20	9	8
Percent								100.0	18.9	2.7			27.0			29.7			54.1		
Group B:																					
Manufacturing	9	12			12			12			12		2	9	1	2	6	4	9		3
	11	1			1		1	1			1			1			1		1		
Wholesale and retail trade	22	3			3			3			3		1	2		1	2		3		
Total (16 companies), group B		16			16		1	16			16		3	12	1	3	9	4	13		3
Total (53 companies), groups A and B		53			16		1	53	7	1	44	1	13	37	3	14	30	9	33	9	11
Percent								100.0	13.2	1.9			24.5			26.4			12.2		
Group C: Manufacturing	2	3	3					3	1		2		3			3			3		
	3	2	2		2			2			1	1	2			2			1		1
	12	1				1		1			1			1			1				1
	21	2	2					2	1		1			2			2		1	1	
Total (8 companies), group C		8	7		2	1		8	2		5	1	5	3		5	3		5	1	2
Total (61 companies), groups A, B, and C		61	7		18	1	1	61	9	1	49	2	18	40	3	19	33	9	38	10	13
Percent								100.0	14.8	1.6			29.5			31.1			62.3		

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans, all of the "Nonpartnership interest" type—labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

TABLE I.—*Commercial companies employing labor—46 companies having formal noncontributory pension plans, labor sharing in all plans*

Grouped by plan combinations and showing (1) reported strikes and (2) reported effect of operation of plans on (a) labor turn-over, (b) efficiency, and (c) loyalty	Line No. (table C)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A:																					
Manufacturing	1	22						22	4		16	2	9	11	2	10	10	2	14	6	2
Wholesale and retail trade	20	1						1			1			1			1		1		
Commercial service	26	1						1			1			1			1		1		
Total (24 companies), group A		24						24	4		18	2	9	13	2	10	12	2	16	6	2
Percent									16.7				37.5			41.7			66.7		
Group B: Manufacturing	9	13			13			13		1	12		7	6		7	6		12	1	
Total (37 companies), groups A and B		37			13			37	4	1	30	2	16	19	2	17	18	2	28	7	2
Percent								100.0	10.8	2.7			43.2			45.6			75.7		
Group C: Manufacturing	2	3	3					3			3		1	2		1	2		2		1
	4	1	1			1		1			1		1			1			1		
	5	1	1				1	1			1		1				1				1
	6	1		1				1			1		1				1		1		
	7	1		1	1			1				1			1			1			1
	8	1		1			1	1				1			1			1			1
	12	1				1		1			1		1			1			1		
Total (9 companies)		9	5	3	1	2	2	9			7	2	5	2	2	3	4	2	5		4
Total (46 companies), groups A, B, and C		46		3	14	2	2	46	4	1	37	4	21	21	4	20	22	4	33	7	6
Percent								100.0	8.7	2.2			45.7			43.5			71.7		

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans all of the "nonpartnership interest" type—labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

TABLE J.—*Commercial companies employing labor—133 companies having bonus plans, labor sharing in all plans*

Grouped by plan combination, according to who shares in benefits, and showing (1) reported strikes and (2) reported effect of operation of plans on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No. (table O)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
133 companies where labor shares in all plans in operation:																					
Group A (81 companies):																					
61 manufacturing	18				61			61	4	2	52	3	22	29	10	36	17	8	42	7	12
17 wholesale and retail trade	26				17			17		2	14	1	4	5	8	3	4	10	7		10
3 commercial service	29				3			3			3		2	1		1	1	1	2	1	
Total (81 companies), group A					81			81	4	4	69	4	28	35	18	40	22	19	51	8	22
Percent								100.0	4.9	4.9			34.6			49.4			63.0		
Group B (43 companies):																					
34 manufacturing	9	34			34			34	2	1	29	2	12	20	2	12	14	8	26	3	5
1 manufacturing	11	1			1		1	1			1			1			1		1		
8 wholesale and retail trade	22	8			8			8	1		7		2	4	2	3	3	2	6		2
Total (43 companies), group B		43			43		1	43	3	1	37	2	14	25	4	15	18	10	33	3	7
Percent								100.0	7.0	2.3			32.6			34.9			76.8		
Group C (9 companies): 9 manufacturing	3	2	2		2			2			1	1	2			2			1		1
	7	1		1	1		1	1				1			1			1			1
	10	2			2	2		2			2			1	1	1		1	2		
	14		4		4			4			4		2	1	1	3	1		4		
Total (9 companies), group C		5	6	1	9	2	1	9			7	2	4	2	3	6	1	2	7		2
Total (133 companies), groups A, B, and C		48	6	1	133	2	2	133	7	5	113	8	46	62	25	61	41	31	91	11	31
Percent								100.0	5.3	3.8			34.6			45.9			68.5		

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans, all of the "Nonpartnership interest" type—labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

Table K.—*Commercial companies employing labor—29 companies having bonus plan in combination with a formal pension plan, labor sharing in both*

Group by type of formal pension plan, and showing (1) reported strikes and (2) reported effect of operation of plans on (a) labor turn-over, (b) efficiency, and (c) loyalty	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
	Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Companies having a bonus plan and a formal noncontributory pension plan (group B, table I)	16	......	......	16	......	1	16	......	......	16	......	3	12	1	3	9	4	13	......	3
Companies having a bonus plan and a formal joint contributory pension plan (group B, table H)	13	......	......	13	......	......	13	......	1	12	......	7	6	......	7	6	......	12	1	......
Total (29 companies)	29	......	......	29	......	1	29	......	1	28	......	10	18	1	10	15	4	25	1	3
Percent	......	......	......	......	......	......	100.0	......	3.4	......	......	34.5	......	......	34.5	......	......	86.2	......	......

TABLE L.—*Commercial companies employing labor—11 companies having special plans, labor sharing in all plans in operation*

Grouped by plan combinations, according to who shares in benefits, and showing (1) reported strikes and (2) reported effect of operation of plans on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No. (table C)	Type of plan and number of companies having plan indicated: Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan	Number of companies	Strikes: Major	Minor	None	No answer	Turn-over: Decreased	No known effect	No answer	Efficiency: Increased	No known effect	No answer	Loyalty and appreciation: Increased	No known effect	No answer
Group A (5 companies): 5 manufacturing	19	------	------	------	------	------	5	5	------	1	3	1	4	------	1	3	1	1	3	------	2
Total (5 companies), group A	------	------	------	------	------	------	5	5	------	1	3	1	4	------	1	3	1	1	3	------	2
Groups B and C (6 companies): 6 manufacturing	5	1	1	------	------	------	1	1	------	------	1	------	1	------	------	------	1	------	------	------	1
	8	1	------	1	------	------	1	1	------	------	------	1	------	------	1	------	------	1	------	------	1
	11	1	------	------	1	------	1	1	------	------	1	------	------	1	------	------	1	------	1	------	------
	15	------	2	------	------	------	2	2	------	------	2	------	2	------	------	1	1	------	2	------	------
	17	------	------	1	------	------	1	1	------	------	1	------	1	------	------	1	------	------	1	------	------
Total (6 companies), groups B and C	------	3	3	2	1	------	6	6	------	------	5	1	4	1	1	2	3	1	4	------	2
Total (11 companies), groups A, B, and C	------	3	3	2	1	------	11	11	------	1	8	2	8	1	2	5	4	2	7	------	4

Group A: Companies having only 1 plan—labor sharing.
Group B: Companies having 2 or more plans, all of the "nonpartnership interest" type—labor sharing in all plans.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

TABLE M.—*Commercial companies employing labor—13 companies having wage dividend plans, labor sharing in benefit of the wage dividend plans, whether or not it shares in others*

[Italics indicate plans in which labor does not share[

Grouped by plan combination, according to who shares in benefits, and showing (1) reported strikes and (2) reported effect on operation of plan on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No. (table C)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
Group A (8 companies):																					
6 manufacturing	16			6				6			6		5	1		3	3		5	1	
1 wholesale and retail trade	24			1				1				1		1		1			1		
1 commercial service	28			1				1			1		1				1		1		
Total (8 companies), group A				8				8			7	1	6	2		4	4		7	1	
Group C (4 companies): 4 manufacturing	6	1		1				1			1		1				1		1		
	7	1		1	1			1				1			1			1			1
	8	1		1			1	1				1			1			1			1
	17			1			1	1			1		1			1			1		
Total (4 companies), group C		3		4	1		2	4			2	2	2		2	1	1	2	2		2
Group D (1 company): 1 manufacturing			*1*	1				1			1		1			1			1		
Total (1 company), group D			*1*	1				1			1		1			1			1		
Total (13 companies), groups A, C, and D		3	*1*	13	1		2	13			10	3	9	2	2	6	5	2	10	1	2

Group A: Companies having only 1 plan—labor sharing.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.
Group D: Companies having 2 or more plans in at least 1 of which labor shares, and in another of which only a special group shares. Italics indicate plans in which labor does not share.

TABLE N.—*Commercial companies employing labor, 8 companies having stock-ownership plans, labor sharing in benefit of the stock-ownership plan, whether or not it shares in others*

[Italics indicate plans in which labor does not share]

Grouped by plan combination, according to who shares in benefits, and showing (1) reported strikes and (2) reported effect of operation of plan on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No. (table C)	Type of plan and number of companies having plan indicated: Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan	Number of companies	Strikes: Major	Minor	None	No answer	Turn-over: Decreased	No known effect	No answer	Efficiency: Increased	No known effect	No answer	Loyalty and appreciation: Increased	No known effect	No answer
Group C (8 companies): 6 manufacturing	4	1	1	------	------	1	------	1	------	------	1	------	1	------	------	1	------	------	1	------	------
	10	2	------	------	2	2	------	2	------	------	2	------	------	1	1	1	------	1	2	------	------
	12	3	------	------	------	3	------	3	------	------	3	------	1	2	------	1	2	------	1	1	1
Total (6 companies), group C	------	6	1	------	2	6	------	6	------	------	6	------	2	3	1	3	2	1	4	1	1
Group D (2 companies): 1 manufacturing	41	------	------	------	*1*	1	------	1	------	------	1	------	1	------	------	1	------	------	1	------	------
1 wholesale and retail trade	43	1	*1*	------	1	1	------	1	------	------	1	------	1	------	1	------	1	------	1	------	------
Total (2 companies), group D	------	1	*1*	------	{*1*, 1}	2	------	2	------	------	2	------	2	------	------	1	1	------	2	------	------
Total (8 companies), groups C and D	------	7	{*1*, 1}	------	{*1*, 3}	8	------	8	------	------	8	------	4	3	1	4	3	1	6	1	1

Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.

Group D: Companies having 2 or more plans in at least 1 of which labor shares and in another of which only a special group shares. Italics indicate plans in which labor does not share.

TABLE O.—*Commercial companies employing labor—67 companies having profit-percentage plans where funds are distributed, labor sharing in benefits of profit percentage plan whether or not it shared in other plans*

[Figures in italics indicate plans in which labor does not share]

Grouped by plan combinations, according to who shares in profits, and showing (1) reported strikes and (2) reported effect of operation of plan on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation.	Line No. (table C)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
62 companies where labor shares in all plans in operation:																					
Group A (47 companies):																					
43 manufacturing	13	-----	43	-----	-----	-----	-----	43	-----	-----	41	2	15	25	3	22	20	1	33	3	7
4 wholesale and retail trade	23	-----	4	-----	-----	-----	-----	4	-----	-----	4	-----	3	1	-----	2	-----	2	3	-----	1
Total (47 companies), group A	-----	-----	47	-----	-----	-----	-----	47	-----	-----	45	2	18	26	3	24	20	3	36	3	8
Percent	-----	-----	-----	-----	-----	-----	-----	100.0	-----	-----	-----	-----	38.3	-----	-----	51.1	-----	-----	76.6	-----	-----
Group C (15 companies):																					
13 manufacturing	2	8	8	-----	-----	-----	-----	8	1	-----	7	-----	5	3	-----	5	3	-----	7	-----	1
	3	2	2	-----	2	-----	-----	2	-----	-----	1	1	2	-----	-----	2	-----	-----	1	-----	1
	14	-----	2	-----	2	-----	-----	2	-----	-----	2	-----	1	-----	1	2	-----	-----	2	-----	-----
	15	-----	1	-----	-----	-----	1	1	-----	-----	1	-----	1	-----	-----	1	-----	-----	1	-----	-----
2 wholesale and retail trade	21	2	2	-----	-----	-----	-----	2	1	-----	1	-----	-----	2	-----	-----	2	-----	1	1	-----
Total (15 companies), group C	-----	12	15	-----	4	-----	1	15	2	-----	12	1	9	5	1	10	5	-----	12	1	2
Total (62 companies), groups A and C	-----	12	62	-----	4	-----	1	62	2	-----	57	3	27	31	4	34	25	3	48	4	10
Percent	-----	-----	-----	-----	-----	-----	-----	100.0	3.2	-----	-----	-----	43.5	-----	-----	54.8	-----	-----	77.4	-----	-----
Group D (5 companies): 5 manufacturing	31	*2*	2	-----	-----	-----	-----	2	-----	1	1	-----	-----	2	-----	1	1	-----	1	1	-----
	39	-----	3	-----	*3*	-----	-----	3	-----	-----	3	-----	1	1	1	2	-----	1	2	-----	1
Total (5 companies), group D	-----	*2*	5	-----	*3*	-----	-----	5	-----	1	4	-----	1	3	1	3	1	1	3	1	1
Total (67 companies), groups A, C, and D, having profit-percentage plans for labor where funds are distributed	-----	{ *2* / 12 }	67	-----	{ *3* / 4 }	-----	1	67	2	1	61	3	28	34	5	37	26	4	51	5	11
Percent	-----	-----	-----	-----	-----	-----	-----	100.0	3.0	1.5	-----	-----	41.8	-----	-----	55.2	-----	-----	76.1	-----	-----

Group A: Companies having only 1 plan—labor sharing.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type—labor sharing in all plans.
Group D: Companies having 2 or more plans in at least 1 of which labor shares and in another of which only a special group shares. Italics indicate plans in which labor does not share.

TABLE P.—*Commercial companies employing labor—20 companies having profit-percentage plans where all or part of the funds are saved, labor sharing in benefits of profit-percentage plan whether or not it shares in other plan*

[Figures in italics indicate plans in which labor does not share]

Grouped by plan combination in operation and showing (1) reported strikes and (2) reported effect of operation of plan on (a) labor turn-over, (b) efficiency, and (c) loyalty and appreciation	Line No. (table C)	Type of plan and number of companies having plan indicated						Number of companies	Strikes				Turn-over			Efficiency			Loyalty and appreciation		
		Pension	Profit percentage	Wage dividend	Bonus	Stock ownership	Special plan		Major	Minor	None	No answer	Decreased	No known effect	No answer	Increased	No known effect	No answer	Increased	No known effect	No answer
18 companies where labor shares in all plans in operation:																					
Group A (12 companies):																					
11 manufacturing	13		11					11			8	3	6	2	3	7	1	3	9		2
1 commercial service	27		1					1			1		1			1			1		
Total (12 companies), group A			12					12			9	3	7	2	3	8	1	3	10		2
Group C (6 companies)	2	1	1					1			1			1			1				1
	4	1	1			1		1			1		1			1			1		
	5	1	1				1	1			1		1				1				1
	14		2		2			2			2		1	1		1	1		2		
	15		1				1	1			1		1				1		1		
Total (6 companies), group C		3	6		2	1	2	6			6		4	2		2	4		4		2
Total (18 companies), groups A and C		3	18		2	1	2	18			15	3	11	4	3	10	5	3	14		4
Percent								100.0	0.0	0.0			61.1			55.6			77.8		
Group D (2 companies):																					
1 manufacturing	32	1	1		*1*			1			1		1					1	1		
1 wholesale and retail trade			1		*1*			1			1		1			1			1		
Total (2 companies), group D		1	2		*2*			2			2		2			1		1	2		
Total (20 companies), groups A, C, and D		4	20		{*2* 2}	1	2	20			17	3	13	4	3	11	5	4	16		4
Percent								100.0	0.0	0.0			65.0			55.0			80.0		

Group A: Companies having only 1 plan—labor sharing.
Group C: Companies having 2 or more plans, at least 1 of which is a plan of the "partnership interest" type; labor sharing in all plans.
Group D: Companies having 2 or more plans in at least 1 of which labor shares, and in another of which only a special group shares. Itliacs indicate plans in which labor does not share.

Conducted by the Subcommittee of the Committee on Finance of the United States Senate

Subcommittee:
CLYDE L. HERRING, Iowa, *Chairman*
EDWIN C. JOHNSON, Colorado
ARTHUR H. VANDENBERG, Michigan

Under Authority of U. S. Senate Resolution No. 215

SCHEDULE OF INFORMATION BY EMPLOYERS

To aid the Committee in making a "complete study of and report to the Senate upon all existing profit-sharing systems, between employers and employees now operative in the United States, with a special view (a) to the preparation of an authentic record of experience which may be consulted by employers who are interested in voluntarily establishing profit-sharing plans; (b) to the consideration of what advisable contribution, if any, may be made to the encouragement of profit sharing by the Federal Government, including the grant of compensatory tax exemptions and tax rewards when profit sharing is voluntarily established; (c) to the consideration of any recommendations which may prove desirable in pursuit of these objectives."

SECTION A

1. Name of company ....
   Street or building address ....
   City and State ....
2. When started .... When incorporated ....
3. Nature of business ....
   Kind of goods produced or service rendered ....
4. Are company operations closely integrated and localized or geographically distributed ....
   If latter, explain ....
   ....
5. Total number of persons employed normally .... Male .... Female ....
   Number employed as of this date .... Male .... Female ....
6. State number of employees between ages of:
   20 to 30 years .... 40 to 50 years .... Over 60 years ......
   30 to 40 years .... 50 to 60 years .... Average age of all ...
7. State number of employees, in length of service, as follows:
   Less than 1 year .... Over 3 and less than 5 years..........
   1 full year .... Over 5 and less than 10 years ....
   2 full years .... Over 10 years in service ....
   3 full years .... Average service, entire group ....
8. What has been the fluctuation of employment? High .. Normal .. Low ..
9. Capitalization of company ....
   ....

10. *Exhibit showing annual income, pay roll, dividends, taxes, and profits*

Year	Annual gross income	Annual pay roll to employees	Annual dividends paid stockholders		Total taxes annually	Annual net profit
			Common	Preferred		
1928....	$........	$........	$........	$........	$........	$........
1929....	....	....	....	....	....	....
1930....	....	....	....	....	....	....
1931....	....	....	....	....	....	....
1932....	....	....	....	....	....	....
1933....	....	....	....	....	....	....
1934....	....	....	....	....	....	....
1935....	....	....	....	....	....	....
1936....	....	....	....	....	....	....
1937....	....	....	....	....	....	....

SPECIAL REQUEST is made that answers herein be *typewritten*. Please remove staple at top to permit use of individual sheets.

11. Ratio of pay roll to sales dollar (10-year period) ....
12. Ratio of pay-roll dollar to net-profit dollar (10-year period) ....
13. Ratio of sales to net profit (10-year period) ....
14. Ratio of taxes paid to each sales dollar (10-year period) ....

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15. What is the base rate of pay for common labor? ....;
percentage of increase in past 10 years? ....; in past 5 years? ......
16. Do you have a profit-sharing, employee-savings, wage-dividend, bonus, pension, or annuity plan operating in your company? ....
(If "yes" state details and provisions under the appropriate section following. See sections B, C, D, E, F, and G.)
17. Is it compulsory for your employees to join such plan, or is it optional? ....
18. What are the provisions for eligibility to your plan, if any? ....
....
19. Does your plan include death benefits, disability payments, hospitalization, or medical care? ....
....
20. Do you extend vacations with pay to hourly wage employees? ....
State details ....
....
21. Do you maintain a credit union for employees? .... If so, state details ....
22. Has your plan or program affected turn-over? .... Give figures as to turn-over volume before and after inauguration of plan ......
....
23. What percentage of net earnings has your company expended or contributed, aside from wages, for employee benefit and welfare during any given period? (State period of time and nature of expenditures) ....
....
24. (a) State effect of your plan on reduction of waste ....
....
(b) What effect on breakage of machinery? ....
....
(c) On care and handling of product? ....
....
(d) Has it created self-imposed or automatic supervision beneficial to company operation? ....
....
25. Do your employees have representation in management through a council, grievance committee, or otherwise? ....
....
26. Are your employees organized, either within their own group or by affiliation with an outside organization? ....
....
27. What labor troubles have you experienced during recent years? (Explain as fully as possible, adding extra sheet if necessary) ....
....

Section B

If you have a PENSION or ANNUITY PLAN, give details below

EXPLANATORY NOTE: For purposes of standardization, pension-plan types are classified as follows
(a) "Company-contractual" which guarantees right of employee to continuance of pension after it award and initiation of payments.
(b) "Company-discretionary" which carries no contractual guaranty of permanency of payments after award and initiation of payments.
(c) "Joint-contributory" wherein both company and employees contribute to the building of the pension fund.
(d) "Employee-contributory" in which the employees are sole contributors to the creation and development of the fund.

28. What is the type of your pension plan? ....
29. Describe its provisions ....
....
30. Date of adoption of plan? ....
31. State eligibility requirements: (a) Age of retirement .... (b) Years of service .... (c) Class of employees affected ....
32. How is the plan administered? ....
....
33. State method of determining the annual pension (with reference to average annual wage, or to years of service, or otherwise) ....
....
34. Is pension on a predetermined or provisional basis? ....

35. What does the pension or annuity assure the *average* wage earner? ....

36. What is the relation or ratio of contribution to pension fund by employees and company? ....

37. How many employees are now eligible for future enjoyment of pensions?

38. What are the provisions in event of discharge, death, disability, or voluntary retirement of an employee prior to date the pension or annuity becomes operative? ....

39. (*a*) How many employees are now retired and receiving pensions? ....
(*b*) State total amount paid out to pensions, by years, since adoption of plan ....

(*c*) What is the average annual amount paid per pensioner over this span of years? ....

Section C

If yours is a direct PROFIT-PERCENTAGE PLAN, supply the following information

40. Is the amount to be shared with employees established and predetermined, or is it provisional and optional? ....

41. To what group or class of employees does it apply? ....
42. Is the amount shared paid out at stated periods or held for accumulation? (Give details.) ....

43. What are the terms and provisions of your profit-sharing plan? ....

(*Supplement this answer with literature descriptive of plan or by letter if space is too limited for complete reply.*)
44. Is your profit-sharing fund created by company contribution only, or is there joint contribution by employees? ....

45. Does it contain any provision making savings compulsory? ....

46. How and by whom is the fund or plan administered? ....

47. What are the relinquishment penalties in event of discharge or voluntary retirement of the employee? ....

48. State annual amounts paid to fund or employees (by years) since adoption of your plan ....

Section D

If you have a WAGE-DIVIDEND PLAN, give following information:

49. What is the ratio of dividends paid workers to those paid to stockholders? ....

50. Is your wage-dividend plan fixed and predetermined or provisional and optional? ....

51. Is the wage dividend paid quarterly, semiannually, or annually? ....

52. (*a*) Is it paid in cash or in stock? ....
(*b*) If in stock, what class of stock? ....
53. (*a*) To what class of employees does dividend apply? ....

(*b*) Do those participating share equally or according to years of service or other conditions? ....

(*c*) How many employees are now participating in your wage dividends? ....

54. State amounts paid annually (by years) in wage dividends since adoption of plan

Section E

If you have a BONUS SYSTEM, give following information:

55. Is the bonus based upon a fixed or predetermined basis or optional with management?

56. To what class or group of executives, management, and employees does your system apply?

57. Is the bonus paid, regulated, and governed by years of service, merit of work, or other provisions?

58. Is the bonus paid in cash or stock? (If stock, state class of stock.)
59. At what periods or intervals is bonus paid?

60. State amounts (by years) paid annually in bonuses since adoption of system?

61. How many persons have been beneficiaries of your bonus distribution each year since adoption of system? (List by years.)

62. If your system has features other than covered by above questions, please supplement by appended letter or literature.

Section F

If you have a STOCK-OWNERSHIP PLAN, give following information:
63. On what basis is stock apportioned or distributed?

64. To what class or group of employees does the plan apply?

65. What class of stock is distributed under your plan?
66. Does company make any guarantees as to values, dividends, or repurchase of stock?

67. What is the total value of stock distributed to employees (by years) since adoption of plan?

68. How many persons have enjoyed this distribution annually? (List by years.)

69. (*a*) What percentage of the total amount of this class of stock issued by the company has been distributed to employees under your plan?

(*b*) What percentage of total issue is now held by employees?

Section G—Special Type Employee Plan

70. If your company is operating a form or type of profit-sharing plan or employee-benefit policy to which the interrogations under sections B, C, D, E, and F do not apply, please describe same below. If space for full explanation is too limited, add additional data on an extra sheet:

Section H—General Information

71. Have your employees shown appreciation of the benefits of your system?

(Brief answer here, but extended explanation invited through appended typewritten statement)

72. Has your system materially promoted efficiency of employees through elimination of worries concerning their future?

73. Has your system decreased industrial unrest or had any actual effect in prevention of strikes or other labor troubles? ------------------------

74. From your experience with your plan or policy, have you any suggestions or ideas for its improvement? ------------------------

(Explain in appended letter—if desired)

Request for Comment on the Subject of "Incentive Taxation"

EXPLANATORY NOTE.—Inasmuch as this committee is authorized, under the Senate resolution creating it, to consider "What advisable contribution, if any, may be made to the encouragement of profit sharing by the Federal Government, including the grant of compensatory tax exemptions, tax rewards, when profit sharing is voluntarily established," the committee invites and solicits the sentiment, expressions of opinion, and suggestions of employers upon this subject.

Your comment and ideas are requested in the space below or by special letter which may be attached to this questionnaire.

General Remarks

The committee will appreciate any comment or expression of thought upon the principle of profit sharing and its practical application in industry which you may desire to contribute to the study of the subject and which may not have had appropriate place in the foregoing questionnaire.

NOTE.—If your company has no profit-sharing or employee-benefit plan now in operation, but has had in the past, please describe its nature and provisions, and explain when and why it was abandoned.

Form BB-9

Report of Employee Sentiment to Subcommittee of Committee on Finance of the United States Senate

1. (a) In your opinion what are the principal industrial problems today? ------------------------

   (b) Who is mostly to blame for such problems—Government, employers, or employees? ------------------------

   (c) What do you think would improve conditions? ------------------------

   (d) Is the average employee interested most in what he receives and has to spend today or in what he will have for comfort and security "at the end of the road"? ------------------------

2. (a) Do you think employees are generally satisfied with prevailing wages? ------------------------

   (b) Do you think wages should be increased or decreased with the rise or fall of company profits? ------------------------ What do you suggest? ------------------------

3. Do you think an employer should be responsible for the security of an employee:
   (a) During unemployment? ------------------------
   (b) During disability? ------------------------
   (c) In old age? ------------------------
   (d) Or his family at death? ------------------------

4. (a) Do you think the employer should share profits with the employees? ------------------------

   (b) If so, what division of profits do you think would be fair? ------------------------

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5. If you shared in the profits, how would you rather receive your share:
   (a) With your regular pay check? ____________________ or
   (b) Built up into a fund for the security and comfort of you and your family upon retirement or disability? ____________________
   ____
6. If employees shared fairly in the profits of a company:
   (a) Would it increase production? ____________________
   (b) Would it cause a saving of waste? ____________________
   (c) Would it save materials? ____________________
   (d) Would it save breakage of machinery? ____________________
   (e) Would employees be more careful in their work? ____________________
   (f) By sharing in profits and insuring old-age security, do you believe there would be fewer strikes and less dissatisfaction between employees and employers?
   ____
   ____

   What other benefits would result? ____________________
   ____
   ____
7. (a) What percentage of time have you been employed during the last 5 years?
   ____
   (b) What were your average annual earnings during the last year? $________
   During last 5 years? $________ Rate of pay per week today? $________
   What was your rate of pay per week 5 years ago? $________
8. (a) What is your trade or occupation? ____________________
   (b) By what company are you employed? ____________________
   ____
   (c) Do you own your home? ________ Number of dependents? ________
   Name____________________Age ________
   Address ____________________

(Signing of your name is entirely optional with you. While we would appreciate having your name and address for mailing you future reports of the committee, it is not necessary if you prefer not to do so.)
If you wish to offer other comments or suggestions, please write on separate sheet of paper or use the reverse side of this page.

Request for Employee Opinion and Comment on the Subject of Profit Sharing

Subcommittee on Finance, United States Senate,
Chicago, Ill.

Gentlemen: I am pleased to cooperate with your committee in its survey and study of profit sharing in industry by giving my frank and unprejudiced answers to the following questions:

1. Do you approve of profit sharing by a company with its employees?
   ____
2. In your opinion, does it produce a better spirit of cooperation between employees and management?
   ____
3. Do you believe profit sharing creates a feeling of partnership; does it cause an employee to have a greater personal interest in the success of the company?
   ____
   ____
4. Does profit sharing tend to eliminate unrest and dissatisfaction among employees, thereby reducing labor troubles?
   ____
5. Does it remove the fears that often worry employees, such as fear of the future and old-age security?
   ____
6. Does it cause employees to be more careful of material and equipment and to be more earnest and sincere in the performance of their work?
   ____

GENERAL REMARKS

If you wish to add further comment or remarks to what you have stated on the first page, please use this page to further express your opinion on other features or benefits which you believe profit sharing brings to both the company and to employees.

What beneficial improvements, if any, could be made to the plan now operating in your company?

Name -- Age -----------
Address ---
Occupation------------------------------------ Wage rate ----------
Company employed by ---

(Signing your name is entirely optional with you. While we would appreciate having your name and address for mailing you future reports of the committee, it is not necessary, if you prefer not to do so.)

SECTION 3

ANALYSIS AND DISCUSSION OF THE POSSIBILITIES OF COMPENSATORY TAX REWARDS

(INCENTIVE TAXATION)

CHAPTER XXII

THE POSSIBILITIES OF COMPENSATORY TAX EXEMPTIONS (INCENTIVE TAXATION)

INCENTIVE TAXATION—WHAT IS IT?

To a student of words the title "incentive taxation" is inconsistent to say the least. Evidence of this will be found in any dictionary. Examination of Webster's Collegiate Dictionary, fifth edition, disclosed the following definitions as applicable to the component parts of our title.

"Incentive" means—"inciting; stimulating."

"Taxation" means—"act of laying a tax or imposing taxes."

Incentive taxation in this report is used synomously and interchangeably with "tax abatements," "tax allowances," "tax benefits," "tax rewards," "compensatory tax exemptions," and other terms explicative of recognition by Government of meritorious action in meeting the national emergency.

A defender of the title would contend that in its ultimate goal, incentive taxation would stimulate the collection of revenues because of the improved business resulting from easing of the tax burdens on capital used for productive purposes.

This report, while acknowledging such a possible ultimate effect of compensatory tax exemptions, is more concerned with encouraging our system of private profit economy and of rewarding those of our citizens who recognize the imperative necessity for solving quickly and along healthy lines our terrifying unemployment problem, rather than by continuing to retard private initiative through the application of punitive tax measures. Our present tax system is constantly attacked as being designed to ferret out every dollar not actually working and to penalize it. Perhaps non-working dollars should be penalized and productive dollars rewarded.

This plan does not contemplate the imposition of additional taxes which can be avoided by compliance with certain requirements. On the contrary it provides for specific credits against amounts which the taxpayer may owe the Government under income tax regulations.

For 25 years, Government has sought to plug all loopholes in our tax laws, and tax specialists have as assiduously hunted for avenues to escape from taxation so that taxpayers would have more with which to pursue profitable ends. Let us take a step forward and ascertain if our taxpayers can attain the same profitable ends by applying equally diligent efforts along converse lines of research.

This new application of the age-old philosophy that you catch more flies with molasses than with vinegar is but partially explored, and is subject to continued and intense study. During 25 years of income tax laws in the United States, we are still short of the goal of perfection. Incentive taxation is but an infant. The very fact, however, that our tax structure is imperfect does not provide a sound reason for inclusion in it of other immature philosophies.

If the power to tax is the power to destroy—might the power to tax be the power to construct?

Pending the simplification of our tax laws, which is earnestly recommended, Congress is requested to experiment with tax rewards so as to determine to its satisfaction whether part or all of the suggested applications of tax rewards justify inclusion in, or rejection from our basic tax structure.

Our people want work, not charity; economic freedom, not punitive taxes.

Will incentive taxation assist our millions of unemployed in obtaining work and a greater economic freedom?

Tax rewards will not provide a panacea, but it together with the concurrent refining of much of our Federal legislation, tax and otherwise, should prove an immeasurable aid to the regenerating of confidence in the minds of capital.

This study will be divided into two general sections: The first will treat with incentive taxation in connection with profit sharing, and the second as it refers to the possibility of compensatory tax exemptions stimulating our general economy.

Much valuable assistance has been rendered the committee and its staff by all classes of taxpayers, accountants, bankers, industrialists, insurance people, merchants, and tax specialists, to name only a few. Due and grateful acknowledgment is hereby accorded them for their aid, patience, consideration, and understanding.

T. I. Walsh,
Technical Adviser.

ARE TAX REWARDS DESIRABLE IN CONNECTION WITH PROFIT SHARING?

In weighing the desirability of tax rewards in connection with the operation of profit-sharing systems, it is necessary that the definition of profit sharing as it appears in chapter VI be broken into component parts.

As will be noted in chapter VI, profit sharing encompasses all expenditures by employers over and above the contractural salary or wage, when such outlays are for the benefit of the employees.

Certain segments of those costs are now currently deductible in whole or in part, when determining net taxable income. Other portions thereof are in the nature of deferred credits, whereas some items are not, for tax purposes, subject to deduction from taxable income.

For the purpose of this section of the report, profit sharing may be divided into two general subdivisions, i. e.:

(*a*) Percentage profit sharing which flows from payments to employees of part or all of the net income of a business on either a voluntary or predetermined basis; with such payment being made in addition to the contractural compensation, and

(*b*) Expenditures by an employer for the benefit or welfare of employees, in the form of accident, death, and health insurance, hospitalization, sick pay, credit unions, mutual benefit associations, gymnasium, library, country club and other recreational facilities, guaranteed interest on savings funds, annuities, pension or retirement funds, and other similar contributions.

In view of the fact that "piece-work" bonuses, "stretch out" or "speed-up" incentive payments are not included in this survey as a form of profit sharing, they are not being considered in connection with the granting of additional tax rewards or compensatory tax exemption for the operation of profit-sharing plans. This is particularly true because "piece-work" bonuses and "speed-up" payments are payments of a type to insure increased production. Such payments are frequently made whether operations are conducted at a profit or at a loss and are included in the cost of manufacture.

Under existing income tax regulations, all profit-sharing payments of the type defined in section (*a*) above are now currently deductible by the employer as a cost of doing business, except if such payments take the form of dividends on shares of stock previously given to employees through the operations of profit-sharing plans.

Reserves appropriated irrevocably for the benefit of employees in connection with annuities, pensions, and retirement funds are about the only employer contributions which are not uniformly deductible by the employer in their entirety in the year in which they are established. Section 23 (p) of the Revenue Act of 1938, stipulates the manner by which such reserves are to be prorated for tax deduction purposes.

It will thus be noted that currently or subsequently all expenditures of this nature (except dividends on stocks previously donated to employees) on behalf of employees are deductible under existing income tax regulations. It therefore follows that the Government recognizes tax-wise the principle of profit sharing in its broad sense.

In commenting upon the tax exemption, we note in passing that the incidence of the tax is frequently transferred from the employer to the employee, particularly if the employee receives his portion of the profits in a lump sum and at a period when he enjoys, as a result of such payment, a net taxable income.

Theoretically, organizations having true percentage profit-sharing systems are said to be at a competitive disadvantage with concerns operating in the same field, but which do not recognize the benefits thought to result from a more close partnership between capital and labor. This conclusion holds true more particularly to the extent that expenditures of the type portrayed in section (*b*) above are included in the cost of goods or services. Incidentally amounts distributed as a result of percentage-profit sharing, as defined in section (*a*) above should not be added to costs, thereby nullifying, if profit-sharing is practiced upon a sufficiently broad scale, the additional spending power accruing from profit-sharing distributions.

Because of the assumption that competitive disadvantages exist, it may be argued that a compensatory tax exemption should be granted by Government so as to preserve the competitive equilibrium. The argument of competitive disadvantages requires more than a surface examination.

From a study of the results of operations of Montgomery Ward & Co. and Sears, Roebuck & Co., the two largest mail-order concerns in the United States, as shown below, is it logical to believe that Sears, Roebuck & Co., because of operating a profit-sharing plan is at a disadvantage in competing with its rival, which does not share profits with its employees?

	Percent of operating net to sales		Percent of operating net to net worth	
	Sears, Roebuck & Co.	Montgomery Ward & Co.	Sears, Roebuck & Co.	Montgomery Ward & Co.
1936	8.2	6.9	12.6	11.4
1935	7.1	5.7	10.9	9.0
1934	6.2	4.3	8.1	[1] 6.6
1933	5.9	1.4	6.1	1.7
1932	(2)	(2)	(2)	(2)
1931	4.0	(2)	6.0	(2)
1930	5.6	.2	7.1	.3
1929	8.8	5.4	15.3	7.6
1928	10.2	9.2	15.5	15.6

[1] Reflects elimination of $1,580,976 general reserve; amount of appreciation added to fixed assets in 1917 eliminated, and $304,413 transferred to accounts receivable, etc.
[2] Deficit.

Source: Moodys' Manual of Industrial Securities, 1938, p. A68.

General Wood, president of Sears, Roebuck & Co., stated that in his opinion profit sharing increased efficiency and lowered costs.

Numerous other instances of similar import can be cited to raise reasonable doubt that competitive disadvantages of consequence exist.

Testimony of witnesses at the public hearings in Washington, and communications from and schedules of information submitted by employers to the staff conducting this survey, tend to the conclusion that profit-sharing per se is its own reward.

Several witnesses testified to the effect that were government to grant additional tax exemption to taxpayers operating profit-sharing plans, principles of coercion would be further introduced into our tax situation.

Such allegation can be refuted, since the mere inclusion in our tax laws of the right to partial or complete exemption from taxation for donations to charitable, religious, or scientific organizations does not force taxpayers to make such donations. Adoption or rejection of profit-sharing systems would remain on as much of a voluntary basis as that of electing to perform charitable deeds of a financial nature. Further references thereto are incorporated in the chapter entitled "Will tax rewards stimulate adoption of profit-sharing plans?"

In voicing objection to congressional action with respect to granting tax rewards for the adoption of profit-sharing plans, Mr. Alfred P. Sloan, Jr., chairman, General Motors Corporation, stated:

> Anything that can be paid out, that is true profit sharing, Senator, but if you do it on a broad scale and it amounts to anything as a real effect on workers' income, then the question arises whether the profits of industry justify or make possible that type of thing and at the same time have enough to retain the profit urge, which we must have to develop and expand industry's productivity.

If Congress concurs in the conclusion that profit sharing stimulates the national welfare through reductions in number and intensity of labor conflicts and that it permits of larger profits subject to tax, then Congress should recognize the advantages of profit sharing, but through mediums other than our taxation schedules.

Congress could unquestionably promote the adoption of profit-sharing plans which seek the building up of distributable profits into a retirement fund by a form of interest subsidy. All too frequently, management has voiced its disinclination to add to the burdens of making profits, the responsibility of investing and reinvesting tens and hundreds of thousands of dollars—yes, even millions and tens of millions of dollars of funds reserved for the inevitable "rainy-day" of virtually all who are superannuated.

We need not do more than cite the unfortunate experiences of the late 1920's, and the early 1930's, when many experienced not only the dissipation of preferred- and common-stock values, but also the default of municipal bonds which but a few years previously were rated as credits of par excellence standing.

There is probably no factor of profit sharing which will do more to discredit the theory, laudable as it may be, than to experience the dissipation of one's share of the profits prior to the actual receipt thereof by the profit sharer.

The security specifically requested to be authorized could be a United States Government profit-sharing fund bond, nontransferable, issuable in registered form only, in denominations of $1,000 or multiples thereof, and redeemable by the registered holder in whole or in part on 30 days' notice.

Such bonds would be sold to the registered holders at par by the Secretary of the Treasury and would be delivered against certified check or cash remittances, and the funds accepted in payment of such bonds together with the interest accumulations on the bonds would not be available for the general revenue purposes of the Nation, but would be held in escrow by the Secretary of the Treasury against redemption on 30 days' notice of the bonds previously issued.

Complaint may be lodged against the proposal that Government should not incur any expense for the encouragement of profit sharing. If we but revert to the loss of income to our citizens and to the loss of revenues to our Government as a result of strikes, which in 1 year exacted a toll estimated by the Department of Labor at a figure of more than $420,000,000 of lost production values in but five States, we will agree that the relatively small contribution by Government in the way of interest subsidy will bear but an insignificant cost ratio to the good which will result if the number and intensity of our labor disorders will be abated by the adoption of profit-sharing plans.

WILL TAX REWARDS STIMULATE ADOPTION OF PROFIT-SHARING PLANS?

Oral testimony at the hearings and written testimony to the staff is somewhat divided as to whether or not the granting by government of tax rewards additional to those now permitted employers who share profits with their employees, will stimulate the adoption of profit-sharing plans.

The following are more or less the high lights of the oral views of the officers of corporations with experience in profit sharing.

FAVORABLE TO TAX REWARDS

Mr. Deupree, president Procter & Gamble Co., Cincinnati, Ohio:

As a tax relief, I have mixed feelings on that, gentlemen, I do not know. It is going to be the most difficult law to write and administer for the reasons that were brought out. If you can do something to get an employer to think, to concentrate on this problem, probably offering some inducement to get him started, then let it peter out after 5 years or so, I think it would be a tremendous thing.

Gen. Robert E. Wood, president, Sears, Roebuck & Co., Chicago, Ill.:

We think, in the long run, it is not only good ethics but good business, and while this plan was adopted 22 years ago, because the people in charge of the company felt it was right, and we will go ahead with it regardless of what happens, we think it would be a fair thing, and we believe it would promote it possibly with other employers, if some incentive were given. It might have to be only a mild incentive, but I believe more employers might do it with an incentive.

Mr. George T. Trundle, Jr., president the Trundle Engineering Co., Cleveland, Ohio:

I am very much in favor of incentive taxation. However, I believe we do get that benefit now because in profit sharing we throw it back into compensation on our books. However, that does not induce other people to follow the same principle. If you have your incentive from a tax standpoint, I am quite confident that most manufacturers and businessmen will go to profit sharing and wisely so.

Mr. J. R. Ramsey, general manager, S. C. Johnson & Son, Inc., Racine, Wis.:

I think a tax incentive toward two things would be excellent, toward continuity of employment, and toward profit sharing. I realize that there are some practical details in the way of it, but I think a reasonably simple formula could be propounded and could be tried for a year. You would run into some bugs in it, but no more than in the undistributed-profits or any other tax law.

Mr. Frank Gannett, publisher, Gannett Newspapers, Rochester, N. Y.:

My general idea is that there should be provided further tax relief than is now possible for those concerns that share their profits with their employees. Of course, I realize that under the existing laws wage dividends or profit-sharing allocations can be put in as an operating expense and thus be deductible from income-tax levies. In my opinion, it would be a simple matter to provide that there be a further reduction of some percentage of the amount so allocated in wage dividends. Instead of taxing companies for not distributing all their profits to stockholders, I would give additional tax relief, that is still more deduction for the wage dividend, to those companies that distributed profits to their employees—thus increasing their purchasing power.

I know you have had opposition to it, and arguments against it. The tax relief a profit-sharing corporation would get would not be a burden on any other corporation. When you take the full budget of the expense of government this little relief would be an infinitesimal percentage of the taxation on corporations.

The testimony that follows lends a preponderance to the favorable aspects of tax rewards in connection with profit-sharing systems, particularly when the reader considers the source and the experience of that source in sampling of public opinion.

Mr. Leo M. Cherne, Executive Secretary, Tax Research Institute, New York, N. Y., collaborated to a marvelous degree with the staff by soliciting approximately 28,000 members of the institute for their opinions as to certain specific phases of profit-sharing and incentive taxation.

The questionnaire used by the institute was drafted by the staff engaged for the survey under Senate Resolution 215 and therefore can be accepted as authentic insofar as the intent thereof is concerned.

According to Mr. Cherne, the subscribing members to the services of the institute include Wall Street bankers, powerful labor unions, industrial concerns in all sections of the United States, newspapers of every political adherence in every State of the Union, and thousands of corporate executives and social workers as well as more than 200 members of the United States Congress and officials in almost every State government.

Of the 28,000 questionnaires mailed only 3,200 replies had been received as of the date upon which Mr. Cherne appeared before the committee. Mr. Cherne testified that on the basis of the tabulation of the first 3,200 questionnaires returned he and his coworkers, including therein 40 tax specialists, had been able to ascertain what can be accurately recorded as the desire of employers throughout the country. Such employers, all members of Tax Research Institute, have approximately 6,000,000 employees.

While 3,200 returns out of 28,000 questionnaires represent only 11.42 percent coverage, Mr. Cherne further averred, on the basis of the institute's previous experiences in connection with gaging public opinion, that from the time that 2,000 questionnaires are tabulated to the time that any greater number are collated the deviation from measured results is less than 1 percent.

The twenty-sixth question in the institute's survey is as follows:

> If you were permitted a credit against the corporate tax, similar to the credit now provided for dividend distribution, would you establish an employee profit-sharing plan? Consider in answering the question the tax benefits plus the employee stabilization and other advantages, against the cost of the plan and the profits distributed.

Mr. Cherne stated substantially the following:

> We find that if there were a compensatory tax credit, 226 firms with 34,405 employees *would* definitely establish a profit-sharing plan, 546 firms with 125,300 employees *would not* establish a profit-sharing plan, and 1,072 firms with 387,775 employees would seriously consider establishing a profit-sharing plan.

It might be noted that of 3,200 questionnaires received only 1,844 are represented in the above tabulation. The difference is accounted for by the institute bringing to light through their questionnaire that more than a thousand firms are now sharing profits with their employees, in conformity with the broad definition of profit sharing as included in chapter VI.

Question 28 of the institute gives us a slightly different result than the foregoing, to wit:

Tax rewards would encourage me to adopt profit-sharing:

Yes	1, 012
No	377

The employees which might be benefited through the adoption of profit sharing by the 1,012 firms number 96,370 workers. Assuming no duplication between answers to questions 26 and 28 approximately 130,775 workers would be favorably affected.

UNFAVORABLE TO TAX REWARDS

Mr. M. B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.:

> We do not favor establishment of tax exemptions or the granting of tax rewards in order to encourage profit-sharing plans. We believe it unsound to impose or withhold taxes as a means to influence or direct action of this type.

Mr. George M. Verity, chairman of the board, American Rolling Mills Co., Middletown, Ohio.

> I feel that legislation that would reward this sort of thing, or legislation that would penalize not doing it, would be almost equally harmful. In other words, if we had to do any of these things by compulsion because it was the law to do them, we would get no credit for doing it, and we would get no benefit (pyschological) from something that we were doing because we were living within the law.

One of the committee interjected by asking:

Your whole theory in your whole plant apparently is based on the proposition that incentives produce results. Why does that philosophy stop short when we reach the tax laws?

To which Mr. Verity replied:

Now, if our men felt that these things which we do, we had no choice about doing, about half of the joy and effect would be lost. It is the fact that we do them out of a spirit of mutual interest, and we do them because we want to do them, that gives them their value. The things that a man does, to live within the law, or to live within the customs of his community, he has to do that to be decent at all. He gets no credit for that. But you show me the things that a man or a group or a company does that they don't have to do and you get the measure.

Mr. H. Boardman Spalding, chairman, Government finance committee, National Association of Manufacturers, New York, N. Y.:

I am very skeptical of anything that would be within the practical limitations of what you may allow, as to whether it would accomplish very much, even to promote a profit-sharing plan.

Mr. William Green, president, American Federation of Labor, Washington, D. C.:

The American Federation of Labor is unalterably opposed to using the tax power of the Government to promote profit-sharing plans.

Mr. Walter Goodspeed, vice president and treasurer, American Box Board Co., Grand Rapids, Mich.:

It sounds to me as though incentive taxation is a threat to those companies who do not accept a voluntary course of action, that they must carry the tax load of those that do. We feel that we are sharing profits as much as it is possible to do so, and still keep our company going, but in our own manner and in our own way, and it may not be called profit sharing according to your later definition. You may have a group of industries and, let us say, it is 50 percent that have a wage-payment method; that is, within the definition of profit sharing, and you have 50 percent that have not. Now all that industry together must bear a tax burden, let us call it, an artificial figure of $2,000,000,000. Now, as you give tax rewards and relief to the one group, is it not true that that tax must be raised, must fall over on the other group? So, it becomes a punitive tax not to follow the voluntary course of action that is offered, because this later group of industries and companies must carry the tax load of these people or these industries that have been relieved.

As a matter of fact, it may be so burdensome that this group of companies will be forced to fall into a profit-sharing system and that result will be accomplished.

Mr. John L. Lewis, president, Congress of Industrial Organizations, Washington, D. C.:

I think we would find too many subterfuges on the part of certain corporations if we got into the realm of giving preferred consideration to companies, which, voluntarily or otherwise, institute profit-sharing plans.

The following transcript of questions and answers sheds legal light on the subject of incentive taxation as harnessed to profit sharing.

Mr. T. S. Chapman, Chapman & Cutler, attorneys, Chicago, Ill.:

Question: "You would not favor compensatory tax benefits, then, to assist companies in installing profit sharing?"

Answer: "To the extent that it can encourage it, it already dces because there are deductions from gross in order to determine net today."

Question: "You do not think any additional tax benefits, or incentive taxes would be of value in the encouragement of profit sharing and benefits that might come from profit sharing?"

Answer: "I think it would be a little, but I think it would be overbalanced by the preference or exceptional position that one taxpayer would occupy as against another. It would create more discontent."

Mr. Willard H. Dow, the Dow Chemical Co., Midland, Mich.:

Although incentive taxation is bound to be beneficial in certain instances, we would hate to see that the beginning of a trend of government getting into telling an industry how to develop a profit-sharing or bonus system.

Mr. Lloyd S. Riford, president, The Beacon Milling Co., Cayuga, N. Y.:

In my opinion compensatory tax exemption or some form of tax reward on the part of the Federal Government would encourage the voluntary establishment of profit sharing. However, I see no reason why such a tax incentive should be a controlling factor with any individual business. It would seem unlikely that a tax-exemption plan could be sufficiently attractive to induce any company, for purely selfish reasons, to install a profit-sharing plan in order to secure such a tax reward.

A tax incentive for companies having in effect a profit-sharing system becomes a punitive plan for companies not sharing profits. The principle may be a dangerous one.

Mr. M. L. Joslyn, president, Joslyn Manufacturing & Supply Co., Chicago, Ill.:

As a corporation we have no ax to grind. We need no incentives. Our profit sharing pays its own way. It is not an infant industry with us and needs no protective tariff. But on behalf of the workers themselves we do need some just and fair measures.

Mr. Alfred P. Sloan, Jr., chairman, General Motors Corporation, New York, N. Y.:

I think that the true profit sharing might better be left to the initiative of individual management, based upon the merits of each individual case, and determined without any particular application to the incentive-tax principle.

If you recommend and the Congress adopts some form of special incentive to encourage profit sharing it seems to me it might well raise the question as to whether that did not give labor a proprietary right in the enterprise, due to the fact that Government has taken that position.

If you do it on a broad scale and it amounts to anything as a real effect on workers' income, then the question arises whether the profits of industry justify or make possible that type of thing and at the same time leave enough profits to retain the profit urge, which we must have to develop and expand industry's productivity.

In answer to a specific question put to him by one of the committee in the following language:

Mr. Sloan, in your opinion, incentive taxation or compensatory tax benefits could be applied to plant expansion and to provide for obsolescence, but you doubt whether it would be beneficial as applied to profit sharing?

Mr. Sloan replied:

Yes; that is my position.

Mr. Lovell H. Parker for 12 years the expert tax adviser to the Joint Congressional Committee on Taxation, when queried about incentive taxation in connection with profit sharing, voiced the conclusion:

What little study I have given to that subject caused me to only arrive at one preliminary conclusion, that it was hard to make any one system that would fit all kinds of industry. One system would be more applicable to one industry than another. But I know nothing about that, and I think my advice on that matter would not be useful.

Mr. John A. Brown, chairman of the board, Socony-Vacuum Oil Co., New York, N. Y.:

On that [incentive taxation in connection with profit sharing] my mind naturally went to the thought that they might better be left to the different employers and industries to work out according to their own disposition and wishes of the stockholders and the character of their business and its varied success.

The foregoing and other considerations, such as the difficulty of writing and administering the law; the evident danger of freezing the wage structure (except to the extent that labor difficulties might at a future date be accentuated through such freezing) and the actuarial problems involved in connection therewith prompts the decision that the staff will not submit to Congress a recommendation which would advocate credits for profit sharing additional to those now granted. The chapter "Legislative recommendations" with respect to profit sharing does contain some suggestions with respect to taxation in connection with several problems raised and considered in this survey.

CONTINUOUS EMPLOYMENT AND SEVERANCE PAYMENTS

One of the recent tendencies of business has been to recognize the wisdom of continuous employment. Whether such recognition is actuated by the credits applicable to industry under the "merit rating" laws of several States, or by the desirability of leveling out peaks and valleys of employment, thus imparting to wage earners a greater constancy of purchasing power, has not been determined, in that this study was not broadened to cover these particular phases.

There are, however, unfortunately but few companies which have adopted in whole or in part "guaranteed-wages plans"—a form of continuous employment. Outstanding among these corporations are Procter & Gamble Co., Nunn-Bush Shoe Co., and Hormel Packing Co.

Impetus is beginning to be evident with respect to severance payments or lay-off payments, because of economic conditions and to the development of a demand for taxes on machines, with such taxes to be used for the benefit of workers displaced as a result of technological improvements.

Apart from the financial handicaps to many concerns as a result of the lack of profits during the past 9 years, industry in general unquestionably has mixed feelings regarding the establishment of unemployment reserves, thus permitting it to carry employees during periods of recession. The two outstanding reasons, apart from the profits status, why employers do not appropriate funds for employee-severance payments and for continuity of employment are—

(*a*) Because of paying social-security taxes for unemployment, they believe no further liability accrues to them; and

(*b*) Because Government does not grant them an income-tax exemption for funds appropriated in profitable years to care for employees in periods of depression. Management concludes that it must care for its financial and operating position and reduce expenditures to the bone. With unemployment reserves management might assume the expense of keeping plant and equipment to the highest standard of efficiency and might also expand plants during recessions, when costs usually are lower than when the country is prosperous.

There is a limit beyond which industry can go and survive, and no doubt it is cheaper for industry in good times to pay a 1-, 2-, or 3-percent pay-roll tax, and in poor times to cut the number of employees.

During the past few years government has realized in part the alleged inability of our private economy to cope with the unemployment situation, and it has exercised much effort in designing methods for caring for many of our unfortunate citizens.

One of the Government's contributions respecting unemployment has been the social-security law, but for some unapparent reason Congress did not carry through to the income-tax laws some important factors in connection therewith.

Among the deficiencies in our income-tax laws are the lack of recognition of "merit rating," "unemployment reserves," and "severance-payment reserves."

Employers having adopted plans of the foregoing type are either penalized in whole or in part or are subjected to inequitable consideration under our present income-tax regulations, as for example: (1) The inability to carry over losses, and (2) the inability to deduct for tax purposes amounts reserved for the aforesaid purposes.

Neither the revenue nor the social-security laws should contravene the protection of the worker by social-minded employers, who, from recognition of past services by employees, contribute to the preservation of the family life of our citizens and to the morale of our workers.

In commenting on "unemployment reserves," Mr. Walter Schwartz, president, Proctor & Schwartz, Philadelphia, at the hearings stated:

> We placed a fund in trust—an irrevocable trust, so the company had no control over the fund whatsoever to protect our men during the interval before they could come under the Unemployment Act. There is a 3 weeks' interval before the men commence to receive compensation under the Unemployment Act. This fund was put up to cover that period, and after, I think it is 13 weeks that they are covered in this manner, they would then receive from this fund again. That fund is really handled by a shop committee, elected by the men from among the workingmen in which the company has no voice whatsoever.
>
> I am leading up to the question of taxation to cover unemployment, the fund that we paid out irrevocably, we have no control over it, and yet there is a very serious question whether we are not going to be taxed on the fund just as though we had not paid it out, in fact I am almost certain that we are going to be taxed on it. Now that was a distribution to the employees, which they appreciated as much as anything we have ever done in our lives. It was something to help them if they became unemployed. Likewise, that fund undoubtedly reduced, to some extent, the expenses of the Government in relief rolls and the like.
>
> The one definite suggestion that I would like to make would be that it be completely clarified in the tax law, as to distributions made, when an employer has had a prosperous year and feels optimistic, that they shall be regarded as part of the expense of operating the business, even though the employees might in subsequent years get the benefit of it. I believe it is wise to safeguard it. It would have to be safeguarded so the people did not utilize that means of escaping taxation, but certainly when you have had a mighty good year and everybody has cooperated, you are inclined to do things you would not feel otherwise you might be able to do, and that is what I would like to see made perfectly clear in the tax law.

Mr. Herbert Daniel Brown, ex-Director of Bureau of Efficiency of the United States Government, suggested at the public hearings:

> I would suggest that, whatever exemption you recommend to be given employers for other forms of sharing profits with employees, you also recommend be given employers who set aside a part of their profits as a reserve to stabilize employment.

Another phase of the deficiency was referred to by Mr. Miles E. Robertson, general manager, Oneida, Ltd., Oneida, N. Y., when at the hearings he voiced the following:

> In the social-security taxes now which are paid on pay roll, if we keep 300 or 400 people on our pay roll, that means we are paying an unemployment tax on that pay roll. The other manufacturer who might eliminate those 300 or 400 people would have no pay roll, and therefore no tax. Those people would go on relief. It seems to me that there is a fertile field for incentive taxation.

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The desirability for recognition through tax exemptions of "continuous-employment reserves" and for "severance-payments reserves" is expressed by the following witnesses at the hearings as well as by correspondence directed to the staff.

Testimony of Mr. J. R. Ramsey, general manager, S. C. Johnson & Co., Racine, Wis.:

Question: "Have you any thoughts as to incentive taxation, Mr. Ramsey, as to whether it would be helpful or not?"

Answer: "I have very definite opinions; yes. I might call them prejudices, but they are definite opinions. I think a tax incentive toward two things would be excellent, toward continuity of employment and toward profit sharing."

Testimony of Prof. Willford I. King, professor of economics, New York University, New York, N. Y.:

So I would suggest that anything that could be done in the way of incentive taxation to produce stability by getting employers to adopt a plan for stabilizing employment and making wages and the share of capital operate together would be highly beneficial and would greatly increase the income of both capital and labor. We should not adopt any kind of scheme that takes away from capital and gives to labor or that takes away from labor and gives to capital. I do not think we want to take away from either one; we want to keep them producing, turning out the goods and increasing the shares of each.

Somewhat different tinges of the same general reasoning is evidenced by the following remarks from the Alton Mill & Lumber Co. of Texarkana, Tex.

It would help corporations if the undistributed profits tax was relieved, which would permit companies to build up a surplus without paying dearly for it, in order that companies would be able to give employment to employees during depressed years. Of course, you cannot do that without a surplus. You can easily see what might have happened to our company during the years 1930, 1931, 1932, and 1933 if we would have been caught without a surplus. Either the employees would have been cut off or the company's doors would have been closed.

As well as by the following testimony of Mr. Walter D. Fuller, president, Curtis Publishing Co., Philadelphia, Pa.

Question. "Would it not be advisable to provide a surplus reserve through setting aside profits for employees in good years to augment the unemployment-insurance laws?"

Answer. "It would be very desirable. Whether it is economically practical or not, I do not know."

Question: "In other words, you are not at war with the objectives?"

Answer. "Not at all."

Question. "You simply question the practicability?"

Answer. "I haven't any quarrel with any of your objectives in this thing, but I think we have got to keep ourselves on the basis of practicability, if we can do it."

It would seem desirable to permit an employer, financially able to carry superfluous employees, to establish a tax-exempt "unemployment reserve" or "severance-payment reserve" funds.

The Social Security Board could continue to collect the tax on pay rolls met from such reserves, and the employer would receive as a tax reward the difference between the income tax rate applicable in the year in which the "reserves" were established and the amount of the pay-roll tax. Theoretically in this case the savings in relief expenditures would offset the loss in tax collections.

If Congress in its desire to protect to a limited extent its revenue position, and at the same time be inclined to experiment with the principle of exempting from taxation "unemployment reserves" and "severance-payment reserves" it could broaden section 23 (p) of existing income-tax regulations to the extent that such reserves could for tax deduction purposes be prorated over a 5- or 10-year period. To obtain the right to deduct from net taxable income such amounts as are reserved said reserves should be in fact irrevocable.

To be entirely equitable to the employer establishing such reserves he should be granted the right to make the pro rata deductions only in those years in which there are taxable profits, unless the principle of carry-over of losses is reestablished in our tax laws.

The foregoing suggestions eliminate to a great extent, if not entirely questions of administrative difficulties in connection with the establishment of specific reserves of the type described. In any event it is believed that impetus would be given to the creation of such reserves by socially-minded employers if one or the other of the above privileges sought would be incorporated into our income-tax laws.

One of the extremely interesting phases of the study on incentive taxation in connection with the stabilizing of employment is taken from the testimony of Mr. Leo M. Cherne:

> We find in answer to the eleventh question that 1,169 of the organizations tabulated in this survey at present shut down or reduce employment during certain periods of the year, as against 1,748 whose employment during seasonal operations remain relatively stable; if they were allowed tax rewards to give some compensation for plant and equipment operating expenditures during such slack season, 415 of the firms representing 124,660 employees would still close down, while 549 of the firms who now close down, depriving 110,690 employees of earnings during that period, would remain open.
>
> We find, secondly, that 511 of the firms representing 179,515 employees would still reduce employment while 483 employing 60,025 people would not reduce employment. And we find that 660 of the unstable organizations believe that they would, to some degree, stabilize their employment and affect thereby 126,355 employees, as against only 238 organizations employing 74,015 people who would not stabilize their employment.
>
> If there were such tax rewards for remaining open in slack seasons, we next asked business whether they would be able to sell their products made in such periods profitably. Only 445 of the organizations believe they could sell such products at a profit, while 536 do not.
>
> If, therefore, this question is to be credited, we must assume on the basis of these answers that businessmen would be content to remain open or not reduce employment while selling the products manufactured during such periods without profits.
>
> Tax rewards for operating during slack season. On the entire problem of tax rewards for plant and equipment operating expenditures during slack seasons, 838 of the business organizations are in favor of the plan, as against 480 who are opposed.
>
> This question is probably the only question or one of the few questions in the entire survey which many organizations who have sought to speak for large group of employers have apparently been speaking accurately. To some extent, though, the statistics included under this question are perhaps even more dramatic than those which have thus far been assumed by political or economic commentators.

While there is no lack of appreciation upon the part of this editor that the requirements for revenues by Government are exceptionally large, Congress is requested to give serious consideration to the reduction thereof, if thereby there will be corresponding or greater reductions in Federal expenditures, with no hardship being imposed upon the citizenry.

Although no pledge has been given by employers that they would stabilize employment to a greater degree than is their present practice, Congress could consistently recognize the probity of the replies received by the Tax Research Institute and allow as deductions from taxable income funds irrevocably reserved by employers for continuous employment and severance payments in the year in which such reserves are actually established.

By so doing it is not improbable that relief expenditures would decline to at least the same extent as the decline in the tax collections occasioned by permitting deductions for such reserves either in their entirety or prorated against future profits.

LEGISLATIVE RECOMMENDATIONS WITH RESPECT TO PROFIT SHARING

Competent and farsighted business leaders have recognized the tremendous benefits inuring from soundly designed and efficiently operated profit-sharing plans. They enjoy not only the natural satisfaction attendant upon recognizing the mutual effort put forth by employers and employees in attaining satisfactory business results, but realize as well that the factor of loyalty of employees is not created or accomplished by a fiat motive supplied by law.

Congress cannot be unmindful of the beneficial results of profit sharing as evidenced by an overwhelming consensus of oral testimony and by tabulations prepared from written documents in possession of the staff that profit sharing is good business.

Congress cannot be unmindful of the fact that something above and in addition to legalistic persuasion must be employed by industry to encourage the worker to evince a greater interest in the mutuality of the profit motive in his or her application of effort and of thrift.

Congress cannot be unmindful of the fact that too many of our existing laws are too complex to attain the desired results, and that a law granting tax credits additional to those now recognized for profit-sharing payments would be difficult to write and also would be inequitable in part, at least.

It is not inconceivable that such a law, if limited to profit sharing, would result either in endless controversy or would occasion a new and distinct treatment of certain types of business expenditures.

As an example of the foregoing, let us consider any increase in employees salaries, which is neither anticipated nor requested by the employee. Such increases are but one way of sharing profits. Such payment would more than likely not be recognized as susceptible to the additional credit to be granted those who share profits. To avoid possible future conflicts with taxing authorities, employers would resort to bonus payments in lieu of voluntarily granting pay increases, particularly if bonus payments were eligible for the supplemental profit-sharing tax credit. The possibility of freezing the wage structure and causing the organization into employees' unions of the "white collar" group now unorganized for the most part, is thus evident.

Refinements in our basic tax laws with respect to certain items includible in the broad definition of profit-sharing as laid down in chapter VI merit serious study by Congress. For the purpose of this chapter basic tax laws include the Social Security Act insofar as it applies to the imposition of an assessment on pay rolls.

The following are the most important of the items which in interest of equity and general welfare should be studied by the Joint Congressional Committee on Taxation and by the appropriate officials of the Treasury Department.

(*a*) Recognition of the principle of merit rating.

(*b*) Full deductibility of irrevocable pension trust reserves in the taxable year during which the fund is established.

(*c*) Exemption from Social Security taxes of amounts paid by employers and received by employees from operation of profit-sharing plans.

(*d*) Exemption from application of the Social Security laws, employers who operate pension plans more beneficial to the employee than is the social-security scheme of benefit payments.

(*e*) Clarification of income-tax laws re amounts received by employees through operation of profit-sharing plans, specifically as they refer to lump-sum retirement payments.

(*f*) Exemption from all taxation of Federal Government bonds purchased by trustees for benefit of employee trusts.

(A) RECOGNITION OF THE PRINCIPLE OF MERIT RATING

Numerous witnesses at the hearings gave evidence as to the application of incentive taxation to unemployment-insurance payments. The application of incentive taxation to unemployment insurance payments is but another manner of stating the desirability of recognizing the principle of merit rating.

Mr. Gerard Swope, president, General Electric Co. as a recognized authority on unemployment insurance, by letter dated November 9, 1938, advised as follows:

In connection with this general subject, it seems to me that there is an opportunity to apply incentive taxation to unemployment insurance payments. I have spoken and written on this subject many times. I was on the Advisory Council of the Committee on Economic Security, appointed by the President in 1934, and at that time I advocated merit ratings in connection with unemployment insurance, which would encourage the employer to give assurance of employment, or to reduce unemployment. This was done in a number of States, notably, the first State to adopt unemployment insurance, Wisconsin; and a number of other States followed this lead in varying degrees. On the other hand, some States, notably my own, New York, went to the other extreme, so that in these States the employer who has been able to overcome some of the difficulties of variable employment and made distinct contributions toward the relief of unemployment, pays the same rate of tax for unemployment insurance as an employer having a more difficult problem to maintain steady employment, that is with a more variable character of business that makes it almost impossible for him to regularize employment. Therefore, this tax is a vicarious one, and no incentive is given to the employer who is able to give assurance of employment to his employees, or to regularize employment, to do so. As an example, in the General Electric Co., for some years preceding the passage of the Social Security Act, upwards of 5,000 employees were guaranteed a minimum annual wage, and this worked satisfactorily from the standpoint of both the employees and the Company. This was discontinued, however, as under this plan the Company assumed all the risk and the Social Security Act offered no incentive or encouragement to assume the risks necessary to assure such an annual wage, which is so much in the public mind at the present time.

A merit rating should be established, just as it is in Workmen's Compensation, where in the hazardous industry the employer bears the full burden of these hazards in the amount he has to pay; in the industry where the hazards are less, or where by the employer's own foresight and attention to providing safety devices for the employees has reduced accidents and fatalities, the employer's cost is reduced.

Of course both directly affect society, as the costs are reflected in the selling prices the community must pay, but in the case of Workmen's Compensation the costs of increased hazards, accidents, and fatalities inherent in an industry are rightfully included in the prices of the products of that industry, whereas the unemployment insurance tax is included in the costs of all industries, and reflected in the selling prices the community must pay.

It seems to me that here is an opportunity for incentive taxation, where employers can be encouraged to assure and stabilize employment, and the burden for unemployment placed on those products which should rightfully bear it.

Many of the States already recognize the soundness of the philosophy that the employer who occasions either no unemployment or small loss of employment should be rewarded by contributing to the unemployment fund less than the amount which should be contributed by the employers who occasion the greatest withdrawals from the reserve.

Most of the States do not as yet have merit rating, but it is generally understood that they will have enacted by 1942 statutes recognizing such principle. If the philosophy of merit rating is theoretically sound insofar as the several States are concerned, then the Federal Government should recognize that fundamental by granting employers a reduction in their unemployment-tax payments to an extent corresponding to the most equitable basis determinable.

Merit rating which is analagous to incentive taxation provides in effect that the cost of government should be borne by those who are benefited by government.

It does not appear unreasonable to request that Congress recognize by preferential treatment under the social-security law all employers, who reduce charges against the unemployment compensation fund by maintaining constant or relatively constant employment experiences.

(B) FULL DEDUCTIBILITY OF IRREVOCABLE PENSION TRUST RESERVES IN THE TAXABLE YEAR DURING WHICH THE RESERVE IS ESTABLISHED

Many companies are at the present time interested in establishing retirement plans for their employees to supplement the Federal old-age benefits under title II of the Social Security Act, since such benefits are designed to provide a bare minimum of retirement security. In view of the increased cost of purchasing retirement annuities from insurance companies in recent years, however, several large organizations wish to provide these benefits through an irrevocable trust. Under section 23 (p) of the Revenue Act of 1938 employers are allowed a tax reduction in the current year for only one-tenth of deposits made to a pension trust fund the soundness of which is determined by Treasury regulations. However, if a similar payment is made to an insurance company for a similar purpose, the Internal Revenue has ruled in all cases that have come to our attention that the payment is fully deductible for tax purposes from income in the current year in which the payment is actually made.

Reliance for the ruling is on the language in section 23 (a). On its face, this tax situation involves a discrimination against the establishment of pension funds for the retirement security of employees, the employer being either penalized from a tax standpoint or forced into a more costly retirement (reinsured) procedure. As an outcome it is probable that employees are not receiving security that might be available to them if section 23 (p) were amended to eliminate this discrimination. And it is also probable similarly that many employers who would otherwise establish retirement plans are deterred from so doing. In short, section 23 (p) as so worded has no present justification since it effectively prevents the establishment of formal retirement systems and tends to deprive employees of properly financed retirement security, in view of employer reluctance to make irrevocable trust deposits, one-tenth of which may be deductible in some future year when the employer may (1) have no net income, or (2) be out of business.

In fact Mr. Gannett recommends even greater tax exemptions, as witnessed by his testimony:

In addition, any corporation setting aside a portion of its earnings as a buffer for periods of low employment, pension funds, unemployment insurance, and similar sums for the benefit of its employees, should have all such sums exempted from taxation.

It is not unreasonable to believe that if such credits against future taxes were allowed, employers would be encouraged to establish funds of various kinds of employee benefits, including pensions.

(C) EXEMPTION FROM SOCIAL-SECURITY TAXES OF AMOUNTS PAID BY EMPLOYERS AND RECEIVED BY EMPLOYEES FROM OPERATIONS OF PROFIT-SHARING PLANS

Although it may be argued legally that dividend payments on stocks are in the form of a flexible rate of rent, and that donations and gifts are in nowise considered as compensation, they both come under a broad definition of "compensation." As such they are not subject to imposts fixed by the Social Security Act.

Profit-sharing payments, wage dividends, and bonuses, when declared from net profits and paid to employees, are gifts, are donations and not a part of a fixed wage or salary rate and as such should not be assessable for unemployment and old-age pension taxes and should not be amenable to the Social Security Board.

It is admitted that the analogy between the two distinct classes of expenditures as above described is somewhat far-fetched, yet if the Government concurrent with congressional denial of additional tax rewards for the operation of profit-sharing plans desires to aid in the further adoption of profit-sharing systems, it could without any theoretical loss of revenue subsidize profit-sharing payments to the extent of the present and future pay-roll taxes imposed by the Social Security Board upon such profit-sharing payments. Congress could rescind the regulations calling for tax assessments upon such profit-sharing payments.

(D) EXEMPTION FROM APPLICATION OF THE SOCIAL-SECURITY LAWS, EMPLOYERS WHO OPERATE PENSION PLANS MORE BENEFICIAL TO THE EMPLOYEE THAN IS THE SOCIAL-SECURITY SCHEME OF BENEFIT PAYMENTS

Benefit plans established by employers for their employees provide employees and their dependents with some purchasing power at times when they have no earnings. Since such payments provide purchasing power they tend to maintain the level of employment or to retard declines in employment, governmental benefit plans established for employees in many industries are likely to afford only a minimum provision and to be not as well adapted to the needs of particular employments. In short, the best private plans are more liberal than the governmental systems and are necessary adjuncts to them. Taxation policy should recognize that properly devised and administered company plans assist materially in promoting the several objectives of the governmental schemes. They also enhance the public revenues in that the benefits are used for many taxable purchases and on the other hand decrease governmental expenditures for relief and social security.

In order to avoid restrictions on the free movement of workers, yet at the same time assuring him as to old-age security in the event that he voluntarily or involuntarily leaves his employment, protection could be afforded him by the method outlined by Mr. Marcellus L. Joslyn, president, Joslyn Manufacturing & Supply Co., Chicago, Ill.

When a plan is approved (by the Social Security Board as being more beneficial to employees than the plan of said Board) the employer to be exempt from the Federal security tax, so long as the payments to the credit of a member equal or exceed payments required under the Social Security Act in the case of such member, and on the further condition that if such member leaves his employ under the plan or is discharged, there shall be first paid to the Social Security authorities out of his credit, an amount equal to that which would have accumulated with the Government, if no plan had existed.

In other words, as Mr. Joslyn said:

> We will take this employee into our plan and we hope he is going to stay here until 65. If so, we have taken care of him all his life. If he doesn't, we recognize that the Federal security plans are much wider than ours and we say: "All right; we will put you right where you would have been had you never been in our plan."
>
> The adoption of such a procedure would relieve the Government of considerable work, would give tens of thousands of employees, particularly those who had attained an age of 45, concurrent with the adoption of the Federal plan of social security, greater benefit payments, and would in no case harm the interests of such employees, if Congress would make mandatory the investment in Government bonds of that part of the employer's payment to the employee credit equaling the amount which the Social Security Board would have collected for each employee, had there been no exemption under this suggested procedure.

Provision should be made for exemption of employers, whose pension plans or old-age-retirement plans for employees are greater than those provided under the Federal Social Security Act. The burden of carrying the cost of two plans will be too great and the tendency will be to discontinue private plans for old-age pensions to the detriment of the employees, particularly those of the more advanced ages.

(E) CLARIFICATION OF INCOME-TAX LAWS RE AMOUNTS RECEIVED BY EMPLOYEES THROUGH OPERATION OF PROFIT-SHARING PLANS SPECIFICALLY AS THEY REFER TO LUMP-SUM RETIREMENT PAYMENTS

At the present time, the Federal Government lays an income tax on all accumulations, except the part contributed by the employee at the time the employee retires from the profit-sharing fund.

Let us take as a hypothetical case, the operation of a profit-sharing plan wherein an employee after 45 years of service, reaches the age of retirement and coincident with retirement receives a lump sum payment of $65,000, of which amount he has actually contributed $15,000. His net taxable income in the year of receipt is $50,000, assuming that his salary during his 64th year of life is equal to his total deductions allowable in figuring taxable income.

By application of the present rate of taxation, in lieu of the employee having $50,000 for his old age he will have less than $35,000 because of a 31 percent rate of taxation.

Fifty thousand dollars and thirty-five thousand dollars are both large sums of money to men unaccustomed to having such an amount at any one time, but if the employee is prudent, and certainly after 45 years spent in accumulating the amount (to mention nothing of the human engineering essential to the protection of the worker by the employer) he should be, the $50,000 or $35,000 would be invested in highest grade securities.

If such an amount were invested in long-term United States Government bonds of 3 percent interest, in lieu of having a monthly income of $125 (3 percent on $50,000 divided by 12) he would receive a montly income of $85.41 (3 percent on $35,000 divided by 12) or a reduction of about $40 per month.

During these days when Congress is so socially minded, it is difficult to believe that it would be desirous of nullifying all the admitted advantages of profit-sharing. Certainly in this instance, and assuming that there would be no basic change in benefit payments under our present social security law, the man of 20 with potentially 45 years of service ahead would have no sound reason to reduce a low salary by further voluntary contributions to a profit-sharing retirement plan. It is recognized, of course, that were he to do so he would receive maximum benefits of approximately $85 under Social Security old-age pension and $85 under the profit-sharing plan above cited. The conclusion respecting the soundness and desirability of profit-sharing is obvious.

It, however, is not for the young man that this appeal is made, but rather for the employee who will receive but inconsequential old-age benefits under the Social Security Act.

Should Congress believe it inequitable to exempt all amounts received by a beneficiary, in excess of his contributions, then it is strongly urged that Congress clarify the income-tax law to the extent that each employee will include in the current year in his taxable income the amount of the accumulations credited to his account in that particular year.

By so doing the Government may collect even a greater amount of revenue than would otherwise be the case, especially from those now enjoying incomes sufficient in amounts to justify the payment of income taxes. The pain of paying will be considerably lessened and in those instances where no current income tax is collectible because of paucity of income, such employee will require for his old age every possible dollar he can obtain.

(F) EXEMPTION FROM ALL TAXATION OF FEDERAL GOVERNMENT BONDS PURCHASED BY TRUSTEES FOR BENEFIT OF EMPLOYEE TRUSTS

As an additional subsidy on the part of the Federal Government seeking the promotion of all forms of employee-welfare plans, Congress could consider exempting from all forms of taxation now or hereinafter imposed the income from United States Government bonds and notes purchased by trustees for the benefit of employee trusts.

There is no doubt but that employee-welfare plans have a definite and constructive place in our society. Testimony throughout the hearings proves conclusively that profit-sharing and employee-benefit expenditures foster more amicable management-employee relationship.

It is felt that if Congress will give additional recognition to the fact that by a small subsidy, additional employers may embark upon programs similar in intent.

Congress is specifically asked to grant tax relief to both employers and employees through adopting in our tax and social-security laws items (a) to (f) inclusive, as above shown.

SHOULD GOVERNMENT USE THE TAX POWER FOR OTHER THAN REVENUE PURPOSES?

There are but three references to taxation in the Constitution of the United States; to wit:

Article I, section VIII:

The Congress shall have power—

1. To lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States, but all duties, imposts, and excises shall be uniform throughout the United States.

Article I, section IX:

4. No capitation or other direct tax shall be laid, unless in proportion to the census or enumeration hereinbefore directed to be taken.

Amendment XVI:

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

It will be noted that the purposes for which taxes are to be laid are: (1) To pay the debts; (2) to provide for the common defense, and (3) to provide for the general welfare of the United States.

From the foregoing there appears to be limitations as to the ends to which tax collections may be used. There are, however, no specific instructions as to the methods of laying the types or rates of taxes, duties, imposts, and excises. Congress apparently has been given discretionary power as to the defining of regulations, which specify sources from which the Federal Government may collect funds for the common defense and general welfare of the United States.

No specific inhibition is evident as to the use of the tax power for revenue purposes only, notwithstanding the oft-repeated desire that Government should refrain from using the tax power for social reform purposes. In the determination of tax policies effects of taxes on economic activity has always been regarded as a valid objective.

Should the Government use the tax power for other than revenue purposes?

Congress and the courts have answered that question in the affirmative. Reference to taxes levied in connection with the sale of narcotics, to mention only one of many items is sufficient precedent for the legal use of tax power for social purposes. Two outstanding cases treated with this matter and are cases recorded as United States versus Doremus (249 U. S. 86) and McCray versus United States (195 U. S. 27).

Let us, however, not be content to rest upon legal precedents only, but to determine if compensatory tax exemptions have any economic value.

Who can say that the public interest will be better served by applying punitive taxation measures against the "haves" for the purpose of Government supporting the "have-nots," than it would be by exacting less from the "haves" for their direct support of the unfortunates. The main objective is to support our unfortunate brethren, if for no reason other than the common defense.

Under the general welfare clause of the Constitution, Congress is charged with protecting the interests of all Americans, whether they be individual or a collection of individuals known as a corporation, or be they rich or poor. Certainly Congress cannot protect the poor by impoverishing the rich.

Many recognized authorities from all walks of life have repeatedly stated that the tendency by Government in recent years has been to apply punitive tax rates and to dictate punitive regulations which have not adequately protected its revenue, but more importantly have resulted in the discouragement of capital.

As evidence thereof, your attention is directed to extracts of testimony oral and written as submitted to the committee and its staff or brought to their attention.

Before a special committee of the United States Senate, Mr. Lammot du Pont, president, E. I. du Pont de Nemours & Co., stated—

The capital-gains tax undoubtedly has the effect of deterring capital investment. If an investment proves successful, most of the profit goes to the Government. If unsuccessful, the individual bears all the loss; the investor hesitates to wager several to one on a venture attached with such risk.

The undistributed profits tax inhibits the reinvestment of earnings of a corporation. If it turns in its need for capital to the investor public, it encounters today a lack of venture capital.

Letter of December 9, 1938, from Hon. M. S. Tremaine, State Comptroller, State of New York:

For the record, however, may I say that in principle, I believe in incentive taxation as compared to punitive taxation.

It is my opinion that a great many of our present tax laws are punitive in nature and tend to reduce the net money received by the Government.

There is only one real virtue and that is moderation, and tax bills that go to extremes or tax bills that retard business become dangerous and undoubtedly add to depression.

The capital gains and loss tax, because of its extreme provisions, and because of the time of holding, unquestionably has done a great deal to retard trade. I do not believe this tax has ever produced any net revenue, but the harm it has done has more than counterbalanced the money collected. To phrase it another way, it has retarded a great deal of business that would have paid revenues to the Government in far greater amount than the revenues actually collected under this tax. Therefore I call it a punitive tax.

The extreme upper brackets of the income tax have tended to retard business and trading so that the net result of these high taxes is undoubtedly a draw-back and hindrance to business and employment.

I feel sure this tax would produce more revenue if it were sharply modified.

Testimony of Mr. Bernard Baruch, before a special committee of the United States Senate, in February 1938, stated:

If it became clear tomorrow that America has definitely chosen her traditional profits system, forces would be released that would rapidly hasten recovery and reemployment.

There is a limit in laying burdens on an economy beyond which you get a less rather than greater return by reason of the multiplicity of drains. It is called the law of diminishing return.

At what point does a tax rate on business activity become so high that it retards activity and so diminishes revenue?

For example, take the man that received an income of $1,000,000 per year from dividends, apart from other income which is tax-free because of allowable exemptions.

His initial tax is	$679,000
Balance to net estate of taxpayer	321,000

Upon the death of the individual he leaves a net estate of $5,000,000, all of such amount having been accumulated from the dividends above referred to. The Federal Government again steps in and levies against his estate a tax of—

(Estate tax rate, 75 percent on $5,000,000) 75 percent on each year's dividends of $321,000 provides for a tax of	$240, 750
Net in estate	80, 250

In other words, Government obtains almost 92 percent of the taxpayer's income, to say nothing of State exactions, of taxes at source, interest, etc. Thus assuming no tax other than the Federal tax above referred to, the taxpayer's estate has but 8.0250 percent—also the entire risk of capital.

Is it any wonder that the law of diminishing return is operating to the detriment of the American profits system?

Further evidence of American opinion as to the general dissatisfaction with certain phases of our tax laws is included in the testimony of Mr. Cherne. This testimony reflects the opinion of some 3,200 taxpayers, and is covered to considerable length in the record of the public hearings in Senate Resolution 215.

The following opinions are also of a substantive nature:

Extracts from letter of September 24, 1938, from Mr. H. W. Prentis, Jr., president, Armstrong Cork Co., Lancaster, Pa.:

At this point I am tempted to depart from the subject of profit-sharing plans, and, taking courage from the preamble to Senate Resolution No. 215, give some brief consideration to changes possible in Federal tax legislation that might be expected to promote a larger measure of national economic welfare. Naturally we must determine first whether existing tax laws act as deterrent rather than an incentive to the improvement of our standard of living. If we agree that profit is the major incentive of men in our capitalistic state, then it follows that taxation that substantially reduces the expectation of profit from business activity is certain to reduce the production of wealth. Also it is clear to every student of economics that we must have a constant and substantial flow of new capital into business if we are to perfect to a higher degree the organization of our business system and increase our productive facilities. If we are to enjoy a material increase in our national well-being, we must produce more wealth. This statement is trite but true. We do not have and never had enough of even the necessities of life in this country.

To increase our common wealth, it is vital that those individuals who own or direct the flow of capital funds should have confidence that investment in new or expanding enterprises will bring profits worth the risk assumed. Only the relatively wealthy can afford to finance new enterprises or take the risks of investments not yet of proven worth. Furthermore, because our population is not increasing as rapidly as in the past and since we have arrived at an early stage of economic maturity, it is more difficult now to advance the perfection of our productive organization and to find new products and services for which there is a current economic demand.

Even the expansion of productive activity in well-established business organizations now calls for much more study—and frequently more capital—than was formerly the case. These conditions tend to make the investment of capital in new or expanding enterprise a less profitable procedure. It is commonly believed that the financial sponsorship of a new business, that adds to the total of employment and wealth in the Nation, often returns spectacular profits to the investor. Yet the record of bankruptcies and organizations earning practically nothing on their capital reminds the thoughtful man that his investment in an untried business may result in a total loss. Ours is not simply a "profit system"; it is a "profit and loss system."

When one considers that to the natural hazards involved in the investment of new capital is added the burden of a tax on capital gains, it can be seen that an individual today has scant encouragement to invest his money in a business enterprise of an untried nature. It is more sensible for a person of more than average wealth to invest his money in high-grade bonds and well-seasoned common stocks than to sponsor a new or expanding business enterprise, because, if his investment in a new business should be successful, he is faced with the loss of most of his profits through taxation.

In any society there are relatively few leaders; in any economic organization there will always be a numerically small group that will make decisions affecting the entire body. In this country it is desirable for us to keep open the gates of opportunity for that group of our population entrusted with the management of business enterprise. It should be possible for a man who is gifted with the facilities for managing economic enterprise to become a potent force for increasing employment and production by means of the capital which he is able to accumulate through wise investment. From a governmental standpoint, the most capable managers for the national economy might well be selected from those individuals who have actually demonstrated their ability in competitive practice. Needless to say, a tax system that penalizes success in investment tends to perpetuate in power the group which has been successful in the past, by driving the capital controlled by those individuals into the safest forms of securities and by preventing the astute individuals of the rising generation from acquiring economic influence. The result, of course, is a distinct loss to the Nation as a whole due to the fact that individuals are artificially perpetuated in controlling positions and because the flow of new capital to industry is choked off at its source.

This is exactly the position in which we find ourselves today. We have placed a penalty upon the correct judgment of a man who employs capital in new and expanding useful enterprise. Thus we prevent him from becoming a more important factor in our civilization. The very action of the capital markets themselves tends to support this line of thought. The extremely small amount of new capital financing during even the most prosperous of recent years has been a warning that something is wrong with our economy. This is a matter of vital national concern if we wish to preserve the American system of free, private enterprise. Undoubtedly there have been other factors that have also tended to lower the rate at which new capital has entered business, but it is certain that the policy of taxing capital gains has been a major factor in reducing the flow of funds into new business enterprises.

So great is the menace of our national welfare from the capital-gains tax—which is not a tax on income but a levy on capital—that the repeal of this damaging legislation should be sought by all those who desire the perpetuation of the advantages of the profit system in our national life. Therefore it is logical, when changes in Federal tax legislation are being considered, that the pernicious effects of the capital-gains tax be emphasized. Great Britain has always recognized the dangers here outlined and consequently has no capital-gains tax whatever. Never has the need for the reform of tax policies been greater than right now. Substantial modification of the capital-gains tax would be far more effective in renewing business confidence than would be the institution of incentive taxation to encourage profit sharing.

Excerpt from letter of November 13, 1938:

The principle of granting tax rewards to business firms that contribute materially to our general economic welfare has much to recommend it. Such rewards in my opinion should be based not only on profit sharing but on other beneficial industrial policies, and I am glad to see from your letter that your committee has that idea in mind.

Letter, September 10, 1938, from Mr. F. W. Denio, president, Massachusetts Bankers Association, Boston, Mass.:

I have thought a good deal about the problems of unemployment which has been the major problem of our society since 1930 and which became acute in 1932 and on which no progress has been made.

In my humble opinion no plan, however desirable, of incentive taxation, profit sharing, or harmonious labor relations would have been significant during this period in attacking the problems relating to unemployment and the related problem of the heavy-goods industries.

If society is to operate under a profit system, or even if the machinery of production and distribution is to be socialized, there must be operation at a real profit as distinguished from a real loss. As a practical matter it can never come out exactly even.

We have to choose between a system of private profit or one of socialized industry without private profit because if the continual tendency is to move toward socialized industry, that in and of itself tends to strangle the constructive use of available capital which would otherwise be put to work.

Capital is in much the same situation as the labor group which wants to work and is satisfied with the wages and working conditions and a strike is pulled by a minority group in the plant for what they believe is a worthy cause. The employees who want to work will not do so and face the daily jibes and attacks of pickets who may get out of hand at any time, accompanied by the social pressure as well as physical threats to their families at home and the little acts of attrition to their automobiles and other property. A rock through the living-room window in the night from an unknown hand goes a long way to prevent the willing worker from doing his job. I will not stop to develop the analogy.

When to this is added the confiscation of the profits, if and when made by punitive rates of 75 to 80 percent of any increase in the income or estates of the owners of available capital, no amount of surface incentive will make much of an mpression.

If limits could be fixed or were even visible to the spreading socialization of industries as soon as they show profits, and if the top rates of Federal taxation were not above 25 percent or even 40 percent for income taxes and inheritance taxes, one could reasonably expect the strangulation of the private profit system would cease.

We all know and can have no criticism of men who today are feverishly converting their large holdings in industry and in real estate into cash because the tendency toward socialization of industry by first wrecking it through Government competition threatens the value of what they have and the inheritance taxes brought about on their early decease are for an amount impossible to realize.

Summing up my thoughts, I believe it would be more useful to appraise the desirability and the effectiveness of the type of incentive taxation your committee is discussing if the causes of the present stagnation were first clearly seen and appropriate steps were taken to restore or at least revise the fundamental incentives. The necessarily complicated incentives which your committee is considering might then seem unnecessary, but would certainly be more effective.

Letter, November 7, 1938, from National Distillers Products Corporation, New York, N. Y., Mr. Seton Porter, president:

As an individual, much of whose business experience has related to the development of new business and industries, it is my personal opinion that the trend of recent tax legislation has resulted in discouraging capital from entering new enterprise. Those of us who have had much to do with development work and the creation of new enterprises know to our sorrow that a great many of them prove unprofitable. The mere fact that the recent tax laws have given those who back such unprofitable enterprises no tax relief has been a sharp deterrent to their again entering what might be termed a speculative enterprise.

How much this has had to do with the almost dearth of new enterprise during the past 5 years no one can say, but it is my opinion that the tax angle has had much to do with it. One of the results thereof is that a great deal of research and exploratory work carried on in the past by individuals or small groups of individuals must now be left to be done by the very large corporations or the Government itself.

This discouragement of capital has set in motion the law of diminishing return, which in turn has accentuated the unemployment situation and added enormously to the expenditures of Government.

So long as there remains more than 10,000,000 or 12,000,000 unemployed, expenditures of the Government can be reduced but slightly, that is if we are to avoid public disorders. So long as there is no change in the thinking of Congress as to the manner of combating our present economic ills, our system of taxation will not be perfected. Rather the punitive aspects thereof will probably be increased.

That our system of taxation is considered by many as essentially one of punishing success (oftentimes referred to as the ability to pay, but applied in such a manner as to connote that the greater the success the greater the penalty) is voluminously attested to in Report of Hearings Before the United States Senate Committee on Finance re Tax Laws of 1935, 1936 and 1938. Further evidence with respect thereto is included in Report of Hearings in Connection With Senate Resolution 36 (3d sess., 75th Cong.), Unemployment and Relief, and

Senate Resolution 215 (3d sess., 75th Cong.), Survey of Profit Sharing and Possibilities of Incentive Taxation.

Proceeding from the basis that our country is suffering from subnormal activities in connection with our capital or durable-goods industries and an unemployment situation of unprecedented proportions, let us examine the business world to determine whether there exists an analogy by which Congress can take effective steps in (*a*) increasing the flow of revenues to the United States Treasury, (*b*) reducing expenditures of the United States Government, (*c*) stimulating reemployment of millions of workers, (*d*) fostering increased production, particularly in the capital or durable-goods industries, (*e*) providing a more sound basis for the "common defense," and (*f*) "promoting the general welfare of the United States."

Analogies do exist.

One of the cardinal precepts of successful business, particularly in the merchandising field, and used effectively for counteracting the disinclination of the buying public to spend, is the offering of incentives to buy.

Incentives to buy, although as a rule confined to periods of depression, are extended in times of prosperity, when they are offered for the purpose of disposing of slow-moving articles.

The inducements or incentives are designed to stimulate the flow of receipts to the coffers of business and to accelerate business of all types.

The fact that they had been used for so many years with such effective results by the business world prompts the question as to whether further offering of inducements by government will attain equally favorable results.

Is there any reason to believe that our Federal Government, the largest business enterprise in America, should be conducted along lines other than those which have proven so successful over long reaches of times in private endeavor?

Certainly if incentives are worth while in private business, they should be utilized to the fullest by government. Incentives are neither new nor novel insofar as government is concerned. The more common incentives recognized by Congress and by the American people include—

(1) The protective tariff which was invoked for the protection of the American workman, among other things;

Mr. Lammot du Pont, but one of many authorities for such a conclusion, stated:

The first requirement, in my estimation, is the protection of our American labor. I do not see how you can do that without a tariff.

(2) The recognition of deductions from gross income for charitable, religious, and scientific contributions under our income-tax laws. The philosophy actuating this exemption is that if private entities assume one of the functions of government, namely, that of caring for the unfortunates, government recognizes such activities to the extent that it relieves the taxpayer of at least part, if not all, of the burden assumed by the taxpayer. If there is a limitation percentagewise on the amount that can be exempted from taxation it does not alter the fundamental theory upon which the exemption is based;

(3) The exemption from taxation of the receipts of charitable, religious, and scientific organizations;

(4) The exemption from taxation of amounts irrevocably appropriated and reserved by business enterprise for insured pensions of its employees;

(5) The partial or complete exemption from taxation of income derived from governmental securities;

(6) The reducing of tax rates in connection with dividend declarations under the undistributed-profits tax. Incentive taxation as used herein would not connote similar restrictive force on the financial policies of corporations; and

(7) The inclusion in our tax laws of the principle of discovery depletion, and its successor percentage depletion.

Businessmen, economists, and legislators, when asserting that the tax power of the Government should be used for revenue purposes only, overlook the foregoing examples of incentives, and further ignore that theories and actual forms of taxation vary with changes in economic conditions. Neither economic conditions nor taxation are static. All people should recognize that economic conditions affect not only our national fiscal policies but also our political concepts, and among the national fiscal policies the most potent in affecting our economic and political concepts is taxes. Whether such a result is desirable or not might be open to question, but history records the truth of the assertion.

The foregoing references to merchandisers and incentives will bring to mind, first, price reductions or discounts; and, second, gifts, premiums, etc.

Price reductions as incentives have been effective in speeding up the flow of receipts to the cash drawers of the merchants, and the question may be properly raised, "Would not reduction in tax rates by Government provide sufficient incentive to our economy and thus promote increased revenue and promote objectives necessarily sought in times of depression or recession?"

It might be logical to assume so, but you will agree that much wishful thinking would be connected therewith, more particularly in view of the following testimony of the former agent of the Joint Congressional Committee on Taxation of the House and Senate, Mr. Lovell H. Parker:

> I believe it has been suggested that the better way to speed up business is to reduce tax rates. That may be true, and in the long run tax revenues might be considerably increased by that method, but I do not think that would take place immediately.

Argument may be advanced that in prior periods, notably after the World War, business improved greatly concurrent with or partially as a result of the reduction in Federal tax rates.

The United States then enjoyed a very substantial export trade and business was operating under a political system, which opponents of the present dispensation assert did not—

(*a*) Resort to intimidation, restraints, and forfeits.

(*b*) Establish public agencies to compete with private enterprise and, in so doing, establish through civil-service ratings, wages lower in amount than industry is required to pay for like work.

(*c*) Impose heavier burdens of taxation when our economy could least afford it. High taxes retard business expansion and prevent absorption by industry of our unemployed.

(*d*) Apply unorthodox fiscal policies, such as (1) devaluation of gold, (2) engendering fear of inflation or its converse, repudiation, and (3) appropriation for current expenditures purposes of sacrosanct reserves, established for old-age pensions, etc.

(*e*) Believe in restricting production through subsidies.

(*f*) Levy processing taxes on items of prime necessity at a time when unemployment was rife and buying power reduced.

(*g*) Pit class versus class.

(*h*) Believe it should reduce tariffs and still benefit the American workman who was being encouraged to strive for higher hourly wages. Such higher hourly wages all too frequently resulted in lower annual income and frequently in unemployment because of the additional impetus accorded technological improvements.

(*i*) Confuse the fact that "theory" and "practice" are not identical, or that "economics" is affected by the unmeasurable factor "human nature."

(*j*) Fail to recognize that a large part of the American prosperity depends on (1) foreign trade, and (2) the capital or durable-goods industry.

The foregoing items, apart from the allegedly repressing effect of enormously heavy surtaxes on incomes; of double taxation to investors receiving corporate dividends; of inequitable principles of capital gains and capital losses taxes; of the denial to carry forward, for a reasonable period, operating losses, especially of new business enterprises; of an undifferentiating application of undistributed-profits tax; and of unfortunate theorizing in connection with excess-profit taxes, all contribute to a support of the belief that a reduction in tax rates only will revitalize American economy as a whole, especially when considering our present total of national income.

An enlightening comment is contained in the following excerpt from letter of November 17, 1938, signed Mr. T. L. Moise, of Moise & Burgess, certified public accountants, of Elyria, Ohio:

> Until recent years the resulting slack in employment has been fully cared for by the development of new industries which, in the course of time, employed great numbers of our people. Unfortunately, new developments involve extreme risks and the early histories of the great industries of today show a very large percentage of heavy losses. For this reason the inherently greater risk in the development of new products should be taken by those able to lose without serious hardship. Unfortunately the participation of such people has been made almost impossible by legislation of recent years.
>
> To me it seems clear our present unemployment problem goes back to the adoption of the sixteenth amendment. Morally, I like most people believe that a proportion of the cost of government should be borne upon the basis of ability to pay, but the effect upon our citizenry of such a theory, carried to its logical political conclusion, must also be considered. If democracy is to live it must be through acceptance of the duties as well as the privileges of citizenship. Independence is not a gift of the gods, but a hard-won privilege and each should bear his share of the cost of government through which it is maintained. When one man pays an undue proportion of the cost of benefits to all, those partially exempt are placed in the position of the charity patients of a hospital. We must have this free service for the unfortunate or deficient, but no man should accept a limitation upon his independence if by effort and sacrifice he can avoid it.
>
> The inevitable result of the sixteenth amendment, in spite of the high moral idea back of it, might well have been foreseen. It has placed in politics the raising of governmental revenue. It has brought about a condition under which

measures are passed upon the basis of the votes which such measures will insure and has given demagogues an opportunity to destroy the independence of the people through "soaking the rich" theories.

As a result, surtaxes in the higher brackets have reached a point where they absolutely destroy the ability of wealth to embark on the risky development of new industry because there is no possible hope of net return when due consideration is given to the risk. Thus a wealthy man is forced to limit his investments largely to tax-exempt securities, which in turn gives the greater possible incentive to useless and extravagant expenditures. Wealth thus shifted from industry provides neither employment for labor nor revenue for government.

Similarly, the taxes levied on corporations have grown until they are out of all proportion to those on business enterprises in other forms. In the beginning dividends were exempt from normal taxes upon the theory that the tax upon corporation profits offset the normal tax which the same earnings through other forms of enterprise would have had to bear, and in the earlier stages there was no great difference between the corporation-tax rate and the normal rate for individuals. At the present time, however, corporation taxes are far in excess of normal individual rates and dividends have lost their exemption. The result is that nearly all of the corporation taxes today are, in fact, duplicate levies, because when the amount remaining after taxes is distributed to individuals it is subject to the same tax as earnings from any other form of business.

I hold no brief for the very wealthy man and he is not the one for whom I am trying to secure relief. I do feel, however, that our tax laws should be such that his wealth can be used in the development of new products, and thus work toward the goal of greater employment by private industry. This can only be made possible by reduction of the upper surtax brackets to a point where the wealthy man can afford to take a chance with the possible hope of a net profit after the Government takes its cut. Therefore, for the sake not of the wealthy but of the country as a whole, I believe that the most important thing which can be done is to greatly reduce such tax rates.

The next most important thing, in my judgment, is to spread the basis of taxes. Even though the revenue from small incomes might be relatively low, the effect of such legislation would be to give the average man a definite stake in government. It would make him accept responsibility as well as taking advantage of privileges and would make him realize that the billions of dollars now being spent are his dollars. Because the taxes are now hidden in the cost of goods, it is impossible to make the average man realize that he is paying the shot.

In line with these basic changes in tax principles I believe that the Government might well consider taxable credits, applicable to both corporation and individual incomes, against investments for plant expansion, for the establishment of new industries, and for the practical use of the tremendous amount of research which has, through the last decade or two, developed so many new ideas for the production of new things and which, if carried out through the use of capital, would again start our standard of living upward, employ large numbers now out of work, and reduce the enormous expenditures by Government which, if continued, will inevitably lead to debt repudiation, national bankruptcy, or both.

A workable and chisel-proof plan for extension of such credits to individuals is admittedly difficult, but not, in my judgment, impossible. If fairly worked out it would have the same effect as a reduction of the upper surtax brackets without producing the latter's unfavorable political repercussion.

A further bar to long-time investment is the lack of any evidence of permanent policy in legislation affecting capital gain or loss. Taxing such profits while refusing to recognize losses, excepting within narrow limits, is fundamentally unsound and unfair and prevents many transactions which might prove beneficial. The present 15-percent provision is an improvement over the previous laws, but may be changed for 1939 or for any succeeding year. Long-time investment in the face of uncertainty as to what will happen to possible profits is a gamble, pure and simple, and the odds against the investor are prohibitive.

I realize that sound economic legislation calls for courage and farsightedness upon the part of Congress; that laws that will work for the common good may be temporarily unpopular and give to the demagogue the opportunity to distort facts and motives which he is ever seeking. But I also believe there are many men in the House and Senate willing to risk themselves for the national welfare.

Possibly this is not a very definite answer to specific queries regarding specific proposals, but I cannot help feeling that a very large proportion of the legislation of recent years has been passed without sufficient consideration of either its possible conflict with basic principles, or its effect upon the reasonable right to and pride in individual action and achievement which has always been the birthright of our people.

At the present rate of national income many claim that private enterprise cannot pay taxes in sufficient quantities to care for all needs of government. Also it is unable to give employment to all workers, when governmental regulations are considered oppressive or when it is competing with governmental competition of a destructive character. Much truth is evident in those assertions and Congress, if it wills, can relieve capital of many of its pressing handicaps. Certainly wealthy individuals confronted with almost confiscatory income-tax rates find it preferable to live on principal or to save principal and eke out an income through investing in tax-exempt securities.

Without bankers, merchants, and industrialists giving numerous specific pledges regarding employment to Government, Congress cannot logically reduce tax rates. Banking, commerce, and industry, in view of the foregoing, cannot be reasonably expected to give unlimited pledges. Therefore we suggest that Government cooperate with business and business with Government in seeking through enlightened and more equitable tax policies a solution to our national dilemma.

We believe such cooperation can be attained through the application of compensatory tax exemptions, rather than by continued application of onerous taxes which temporarily, great as they are, do not cover the enormous expenditures of the present era.

During the past 6 years much legislation of both experimental and permanent character has been enacted over the protest of honest business. Unfortunately the stream of laws was either so swift in character that business could not adjust itself quickly enough to the multitudinous changes or the new enactments were considered so punitive in character that too many businessmen and investors became possessed of an inordinate fear. That fear must be eliminated as quickly as is consistent with national solidarity.

It would be unthinkable to propose the repeal of all the laws of the past 6 years. Each and every one of them contain features fundamental to the improvement of human relations, yet to refine each of them to perfection would require so much time that it is more than doubtful that the American economy could withstand the delay.

To superimpose upon our laws the theory of rewards for contributing to the correction of our national ills would undoubtedly do much to attract capital from its haven of temporary safety.

The first duty and responsibility of government and industry is to provide employment for American citizenship. To provide employment requires joint contributions, but not in the manner to which we have been accustomed, namely, that of—

> Government exacting every possible dollar from taxpayers, and borrowing increasingly heavier amounts for nonproductive enterprise on one hand, and for competitive productive facilities upon the other, and by—
>
> Private capital constantly retreating from normal activities because of unaccustomed governmental policies, which are thought by many to savor too much of the "isms" adopted by European nations. Such "isms" are as an anathema to the American people and have no place in our land.

If after 6 years of unsuccessful efforts to manage our economy we are still confronted with the same serious problems as were existent in 1932 and 1937 and, especially, as it refers to the unemployment situation, let us ease the governors somewhat and give American business the opportunity to reassert its intelligence and leadership. History records that no other people have ever been able to apply their intelligence as effectively as did the American people who attained the largest measure of general economic welfare enjoyed by any nation in the world—all under a highly competitive capitalistic system, policed but not overregulated by government.

Another factor of paramount gravity affecting the passivity of capital is that of a balanced budget. To balance the budget by orthodox means requires decreased expenditures by Government and a stability of income at higher levels than now prevail. Such increases in tax collections can be realized through progressively greater employment and more profitable business endeavor.

If the foregoing be true, then the Government should recognize the imperative need for preserving and encouraging business activity along profitable lines—and the more profitable the better. Government should also foster the establishment of new enterprises as well as the expansion of present facilities.

The question can and should be raised as to whether the adoption of the principle of compensatory tax exemptions would permanently or temporarily decrease the revenues of the Government, or whether revenues of the Government would be increased, after the experience of a temporary let-down or lag. Any answer of a positive nature to the foregoing question would be foolhardy. It is not unreasonable to presuppose however that the temporary loss in taxes through the allowing of income-tax credits envisaged by this survey would be more than offset by the revenue from the enhanced productivity occasioned by the less punitive exactions.

Mr. Walter D. Fuller, president, Curtis Publishing Co., in testifying to the effect that the United States Government is in business in the same fashion that a private corporation is in business, stated:

> The Government of the United States is in business just as we individually are in our companies. The Government of the United States has got to build up the United States, just as we have got to build up our individual companies. It is the duty of the Government of the United States to treat the United States in the same degree as you would any other going concern. Now, that means that they have got to build up the country, have got to build up as well as to take out. It seems to me at times we have got to plow back. We have got to plow back in business. That is why during a depression unquestionably there would be some temporary slight falling off of revenues which would probably have to be made up from some other source. That is very minor compared to the long range view. I think possibly one of our difficulties has been our view at times has been a little too short. We ought to look further into the future.

Mr. F. Eberstadt testified with respect to the revenue collections under a system of tax rewards, in the following language, viz:

> I have no doubt that if Congress will adopt the suggestion outlined above (speaking of compensatory-tax exemptions) an important step will have been taken to stimulate business, to reduce unemployment, to cut down the Federal expenditures, and to increase Federal revenue without indulging in anything unduly experimental or which could by any possibility have any retarding or harmful effects on the economy.

Mr. Frank Gannett, publisher, Gannett Newspapers, at the formal hearings unqualifiedly stated his opinion when answering the following questions, viz:

> Question: "Well, don't you think that incentive taxation can be developed far beyond the point of mere relief?"

Answer: "Oh, yes; more than relief—it would make a real incentive."
Question: "Yes; and the result of that operation might well be to so stimulate commerce and the buying power in America through reemployment and expansion, and that the net tax effect to the Government would be a far greater tax revenue?"
Answer: "Exactly."
Question: "We would not lose money by it; we would make money by it?"
Answer: "Exactly; you would have more income taxes as the result of the increased business all along the line. Oh, yes; that is the direction to go in, instead of the opposite direction."

Mr. Alfred P. Sloan, Jr., chairman, General Motors Corporation, added his studied opinion to those of the foregoing by stating, viz:

I think, if we had enterprise taxation, and capitalized the laws of increasing returns, as we went down it would be a real help to business. I feel that the revenues of the Government would probably be increased and not decreased, and employment and the productivity of industry would be stimulated as well.

Thus far testimony adduced has been with respect to the longer range view of revenues. Reduction in governmental expenditures would also contribute much to the encouragement of capital, particularly if it came about through restoration of employment of our people by private enterprise.

Mr. Lovell H. Parker at the formal hearings testified as to at least four ways by which governmental expenditures could be reduced by experimenting with the principle of compensatory tax exemptions, viz:

First, I have been reliably informed that there are about 1,000,000 domestic servants and chauffeurs unemployed. One incentive deduction which might well be considered is for the wages and salaries paid which are not now allowed in computing net income. This deduction would be allowed, of course, only for the purpose of computing the supertax net income.

Now, suppose a man did save $5,000 in tax by spending $20,000 more for domestic servants. Certainly what the Government would lose in tax would be more than made up by a decrease in the relief rolls.

Second, since unemployment is probably the main factor in our present troubles, it might be well to consider the effect of a deduction for supertax purposes in an amount equal to the excess of the wages and salaries paid in the current year, whether or not deductible in computing income, over the wages and salaries paid in the prior taxable year.

Third, in order to increase expenditures for the construction of homes, factories, and buildings, and for the acquisition of machinery, the effect of a deduction which would allow these expenditures to reduce the supertax net income should be considered. If such a deduction stimulated these expenditures, it would tend to reduce the necessity for huge governmental building projects. In connection with such a deduction it is possible that the taxpayer should be given the option of taking one-half of the expenditures as a deduction in the current year and one-half in the succeeding year, or one-third, the principle being, instead of allowing on depreciation for supertax purposes, you allow costs to be amortized over 2 or 3 years.

Fourth, a deduction in computing supertax net income equal to the amount of contributions to charitable, educational, scientific, and similar institutions, which is in excess of the 15-percent net income now allowed, and possibly even a deduction for direct gifts for the relief of individuals. It is probable that such a deduction would increase these charitable gifts and reduce the amount of the relief expenditures of the Government.

Mr. Parker admits that minor phases of the foregoing are debatable, but he justifies their consideration on the solid ground of "we certainly need more employment." Mr. Parker, however, takes a more positive stand, as is evidenced by the following testimony, to wit:

Question. "Now, you have suggested that there might be some original loss in revenue to the Treasury as the result of these deductions, but that you would expect a logical result to be an increase in this national income which would more than take up the slack; is that right?"

Answer. "That would be what I would expect."

Question. "Well, why isn't it just as logical to proceed in that direction as it is to proceed by direct expenditures for the purpose of taking care of unemployment. It seems to me that this thing which, let us say, we loosely call "pump-priming" takes money out of the Treasury for the purpose of encouraging employment. I am not speaking of it critically, I am just speaking of it analytically. It takes money out of the Treasury for the purpose of encouraging employment.

"Incentive taxation, of the sort you discuss, merely stops in the first instance, a certain portion of the money going into the Treasury. The net result to the Treasury is precisely the same. So that the final question solely is, do you create more employment in the American way by pump-priming than by incentive taxation, and the justification for it seems quite obvious if the result of the incentive taxation is to increase the national income, because, as I understand you, you feel that the only possible hope of balancing the Budget is through an increase in the national income—is that right?"

Answer. "That is right."

The more frequently expressed criticisms to the principle of compensatory tax exemptions, are

(*a*) Undue advantage accorded taxpayers with comfortable financial status, and/or satisfactory operating results;

(*b*) Possible granting of competitive advantages;

(*c*) Inequalities between distinctive types of business activities;

(*d*) Inapplicability to decadent industries;

(*e*) Necessity of collecting taxes from other sources so as to make good the loss in revenues occasioned by tax rewards; and

(*f*) That such tax rewards as may be granted by Congress will not be sufficiently attractive to capital to occasion it doing the things envisioned by the protagonists of the theory of compensatory tax exemptions.

Each of the foregoing bears analysis because of the gravity of the charges.

(A) UNDUE ADVANTAGE ACCORDED TAXPAYERS WITH COMFORTABLE FINANCIAL STATUS AND/OR SATISFACTORY OPERATING RESULTS

For years small business has complained of the undue advantage accorded its more powerful competitors, and only recently has Congress partially recognized their contentions by authorizing in the 1938 income-tax law different rates of taxation when net taxable income is greater or lesser in amount than $25,000. This distinction ignores the number of stockholders interested in corporations, regardless of the amount of their annual taxable income.

The figure of $25,000, while thoroughly understandable, is arbitrary. It might have been $20,000 or $30,000 or any other amount agreeable to the majority in each branch of Congress. The theory of distinguishing because of size of income insofar as corporations are concerned appears more inequitable than permitting a taxpayer of any size, measurable by taxable income, to deduct for tax purposes all or any portion of profits expended by it for the purposes for which exemptions may be granted by Congress.

Application of a rate of taxation, whether it be the normal rate of tax, surtax or excess profits tax, on profits utilized for the economic benefit of the Nation, imposes a penalty on that taxpayer who desires to expand production and employment by either adding to his production facilities or by carrying out heavy maintenance programs.

The denial of a credit, under the undistributed profits section of the 1938 act, on funds used for specific constructive purposes likewise imposes a burden of the same category.

It is to the small business that exemptions of the above type would be most advantageous, in that all too frequently small businesses do not have equal degrees of bank credit as enjoyed by their larger competitors, and because of heavy expenses in connection with security flotations frequently do not have, in comparison with larger corporations, equal accessibility to the stock and bond markets. Costs of heavy maintenance programs and expansion, additions, and betterments projects must then be defrayed out of profits. Such costs are in effect increased by the tax rate at which the profits used therefore are assessable.

Because of heavy costs of modern machinery to which must be added that tax burden, small business is often denied the advantage of many of the technological improvements available to large corporations with comfortable surplus positions.

Although the exemptions would be uniformly applied, small business would be injured to a lesser extent than now obtains under our present tax system, especially when additional expenditures would be required to assist in maintaining its competitive position with larger and more affluent corporations.

Complete dependence on public capital in lieu of venture capital has placed arbitrary limitations on small industry, thus precluding their development into larger units. In the past, when small organizations desired to attain greater size, they were impelled by the desire for increased profits, but such desires have now been destroyed to a considerable extent by our present tax structure.

This tax structure has all too frequently resulted in workmen not being hired and living standards lowered with the Government collecting less taxes because of lower business profits.

[B] POSSIBLE GRANTING OF COMPETITIVE ADVANTAGES

The following are pertinent extracts from a letter received during the course of the survey, which indicate clearly the types of competitive advantages to which this paragraph is devoted.

> It just so happens that we are completing the erection of a new plant involving an expenditure of about $12,000,000. We expect to employ about 700 people at this new plant, mostly men.
>
> May I say that this expenditure was not motivated by any anticipated advantages either in the form of tax exemptions or rewards by Government. The motive was purely a selfish one. The erection of a modern plant equipped with the latest devices of our own development, to enable us to produce a superior product with greater efficiency, at no greater cost, was the real objective which prompted the expansion as a means for profit.
>
> Business and capital, so to speak, are not given to eleemosynary objectives. Corporations or individuals will not invest large sums of money in order to create jobs for those who might need them.
>
> I seriously question the merit or logic of a compensatory tax reward as a prime motive, or even incidental, that would in the slightest degree accelerate capital investment for the erection of new plants, or even the modernization of old, with the sole purpose of increasing employment.
>
> Should we succeed in our venture, we will want no reward from the Government for our effort; we will consider ourselves amply repaid with the legitimate profits from the business itself which we expect to make out of the venture, and we will be only too glad to pay the tax due the Government. If on the other hand we do not succeed in the fulfillment of our plans and expectations it would be us

too bad for our management, our stockholders, and all concerned. Furthermore, there will be no profits, and no employment, and in that case certainly no need for tax rewards.

I regard the modernization of plants even more important than that of expansion. The ability to produce goods with greater efficiency and at lower costs because of better methods means a wider market and more employment. In this respect I am with Mr. Henry Ford 100 percent because I too believe that there are more people in our country, potential buyers who have single dollar bills than who have $5 bills, more people who have dimes than who have quarters, and if goods can be produced at lower prices to reach the masses, volume sales are possible, and this in turn means greater employment. The building of new plants or the expansion of old plants does not in itself necessarily mean more employment. It may mean just the opposite over a period of time unless the motivating influence is to effect greater economies in production, and thus lower prices to the public to open up new channels of distribution and larger consumption, which in the end means more employment.

I regard the expansion and the modernization of plants a hazard which capital and business must take if they expect to reap the benefit of reward in the way of profits (nothing ventured, nothing gained). Good management will see to it that plants are maintained on an efficient basis, expansion programs developed, and new methods adopted to meet competition, as a matter of self-preservation and survival. Self-interest will dictate that kind of a program when everything else fails; and by the same token *I would not like to see our competitors given a tax reward or any kind of discriminating advantage* [italics ours] because of the investment of additional capital in an enterprise from which he expects to reap a profit commensurate with the hazard, for the same reason that I would not like to see a good housewife given a reward for bearing a child to her husband on the theory that the motive was to bring up her child to increase the population, and if a boy, to supplement the ranks of the Army of our country. The motive in each case is self-interest.

The thing that makes the wheels go round in industry and provides employment for our people is capital investment, and in order to secure capital for the erection and expansion of plants one must have the ability to make profits to show a return on the investment.

The author of the foregoing letter has provided the staff not only with some interesting challenges to the philosophy of compensatory tax exemptions, but also, and perhaps more importantly, the material with which to answer his and other objections. The elaboration of his viewpoint, or the adoption of his disapproval to ends other than intended by him, has not been actuated by a belittling criticism or an attitude of other than genuine respect. The fact that he gave the committee his time and thoughts merits more than just a word of appreciation for his efforts.

Perhaps one of the saddest commentaries upon the profit system is that "corporations or individuals will not invest large sums of money in order to create jobs for those who might need them." To anyone trained to the capitalistic system it is perfectly understandable, yet how difficult it is to understand that corporations and individuals will suffer taxation, almost to the point of extinction, for the purpose of caring for those who need jobs. It is also difficult to reconcile the action of those who benefit by the profit system donating part or all of their income or estate for the avowed purpose of caring for those who cannot obtain jobs. Yet the donors expect government to give them a tax advantage for their charitable impulses.

Other quotations from the foregoing letter and rebuttal thereto will be incorporated in chapters devoted to certain detailed application of compensatory-tax exemptions. The main reference in this section of the report is that "*I would not like to see our competitors given a tax reward or any other kind of discriminating advantage.*"

The foregoing contention opens up the subject of patents, their interchangeability, competition, and monopoly, and the limited nature of this report does not permit encroaching upon those fields now being canvassed so thoroughly by the so-called "Antimonopoly" Committee. It also opens up the analogy of whether tariffs did give and still give, although to a lesser extent than formerly, a competitive advantage to the domestic manufacturer.

Under a well-defined system of compensatory tax rewards—one that will recognize to the fullest the necessity for preserving the competitive equilibrium and which at the same time will accomplish the prime purposes for which intended—namely, that of promoting a healthy increase in industrial tempo, the reemployment of millions of our workers and the resurgence of profits in our system of private economy, due consideration will be given to the detailed method by which undue or discriminatory advantages thought to exist will be leveled out. Although the detailed calculations are somewhat complex, they are susceptible to formularizing by either the agent and staff of the Joint Congressional Committee on Taxation of the United States House of Representatives and the Senate, or by actuaries of the Treasury Department.

(C) INEQUALITIES BETWEEN DISTINCTIVE TYPES OF BUSINESS ACTIVITIES

Herein lies one of the most difficult problems confronting those theorists who believe in the practicality of tax rewards, yet who defend the principle as defined in the Constitution of the United States that "all duties, imposts, and excises shall be uniform throughout the United States."

The benefits to the capital or durable goods industries are more or less obvious, but what are the yardsticks that in relation to the credits to the heavy industries would be equitable to the consumers goods, lines, and to service organizations?

We generally recognize that any increase in the tempo of our industrial activity should have the duofold results of putting more men to work and increasing profits throughout our entire economic system in the same fashion that increased money (check or currency) turn-over will assist our financial institutions.

Reversion to the stock reference to the intangible rewards that we all received as a result of tariffs or land grants or exemption from local property taxation, while appearing to favor unduly one particular group or groups, will not suffice.

Will there be no reward to the consumers goods industry or will it eventually be received because of decreased rates of taxation resulting from lower governmental expenditures, particularly in the fields of relief and construction activities? Such a reward, plus the twin contingency of greater profits, might suffice for those who are public spirited and magnanimous, but to those who weigh each consideration to its logical conclusion it might be necessary to deny the right of compensatory tax exemptions to all class of expenditures except those which cover the actual addition to the pay rolls of more workers, regardless of the class of business in which engaged.

Further treatment of these unconcluded rewards will be incorporated in subsequent sections of this report, particularly with reference to detailed calculations and to legislative recommendations.

(D) INAPPLICABILITY TO DECADENT INDUSTRIES

This charge is justifiable not only in connection with decadent industries, but also as it applies to those concerns which wish to reduce their activities, even at a time when a competitor is being granted compensatory tax exemptions for promoting the general economic welfare.

It is an inexorable law that progress carries in its wake injury to those who cannot keep pace. It, however, is not the function of government to impede progress, if it is intent upon its own survival, and unfortunate though it may be, government becomes unscientific when it attempts to controvert the laws of nature and economics.

One must however not confuse decadent industries with those that have periods of sporadic usefulness in our economy, such as manufactories of instruments of national defense. Credits to that type of industry, incorporated principally for military needs, but which incidentally compete in commercial markets should be through the medium of governmental subsidies, which are not to be confused with compensatory tax exemptions.

(E) NECESSITY OF COLLECTING TAXES FROM OTHER SOURCES SO AS TO MAKE GOOD THE LOSS IN REVENUES OCCASIONED BY TAX REWARDS

The contention that it will be necessary for government to lay other taxes or to increase existing tax rates because of allowing tax credits under this plan is somewhat fallacious.

There should be no shifting of the tax burden, because, basically the plan strives for the reemployment of our unemployed, which if accomplished in substantial part will—

(*a*) Increase demand for goods and services;

(*b*) Increase production of goods and services;

(*c*) Reduce Government relief expenditures in an amount theoretically greater than the reduction in revenue collections;

(*d*) Stimulate taxable profits;

(*e*) Reduce production costs through modernizing plant and equipment;

(*f*) Encourage capital to take risks in private industry, and

(*g*) Avoid unfair tax distribution by granting credits to the employer who seeks to aid our economy.

(F) THAT SUCH TAX REWARDS AS MAY BE GRANTED BY CONGRESS WILL NOT BE SUFFICIENTLY ATTRACTIVE TO CAPITAL TO OCCASION IT DOING THE THINGS ENVISIONED BY THE PROTAGONISTS OF THE THEORY OF COMPENSATORY TAX EXEMPTIONS

May it be pertinent to ask whether business concerns which take advantage of 1 percent or 2 percent cash discounts, would decline to take advantage of compensatory tax exemptions which may total as high as 30 percent?

It may be that the psychological reaction by capital to the fact that Congress, through incorporation of the principle of compensatory tax exemptions in our tax schedules, has changed its philosophy toward business, will be of more advantage than the dollars of reduction in costs.

Businessmen are constantly soliciting Congress to ameliorate the burdens now imposed on them and tax rewards, if granted, could provide a new hope and stimulus to our entire economy.

There is no way known to the staff for proving or disproving the assertion contained in this criticism, other than that tariffs, land grants, and exemption from local property taxes exerted a powerful influence upon the building of our industrial economy.

Careful consideration to the weighty evidence submitted to the staff justifies the conclusion that the Government should extend the use of the tax power for other than revenue purposes, and that the uses to which the principle of compensatory tax exemptions may be applied, will serve a useful purpose. Further, that compensatory tax exemptions may well prove to be a medium by which total revenue collections of government may be increased.

Congress can contribute to the solution to our economic problems by levying taxes, which invades no right of persons or of property, and which at the same time will encourage the constructive use of capital.

After a careful consideration of all factors, there appears to be a very reasonable probability that the advantages to be gained by the prudent adoption of compensatory tax exemptions will outweigh the possible disadvantages thereof.

Let, therefore, the Congress sponsor tax reforms in the hope that both our economic and political future along the lines to which we have been accustomed will be assured

WOULD INCENTIVE TAXATION OCCASION MORE GOVERNMENTAL INTERVENTION IN BUSINESS?

Would tax rewards for new enterprises, for added employment, for building construction or rehabilitation and for money spent in the purchase of durable goods lead to more or less "government in business" and in the "affairs of the private citizen"?

The staff believes it would not occasion more interference in business, since tax rewards given in exchange for dollars "spent now" for the purchase of durable goods would seriatim (*a*) stimulate private spending, (*b*) create jobs for the unemployed, (*c*) allay political unrest, (*d*) remove the excuse for government in business, (*e*) improve the morale of our people.

Would a solution of the unemployment problem change to a marked degree the pressure on the part of government to control economic factors and to try to substitute a new philosophy for that of our capitalistic profits economy?

Would a recovery of the durable-goods industry allay the urge for the substitution of our democratic form of government by some other political philosophy and economic system, which is foreign to that under which we attained so great a material success?

Is it not the deferment of spending, whether it be for building and machinery, labor or materials, automobiles, furniture, and other myriad necessities of modern civilization that accelerates the downward spiral of business activity in what might well be but a temporary recession, but which is aggravated by punitive taxation and theoretical controls which occasion the development of major depression with its attendant unemployment and unrest?

It would appear reasonable to anticipate that an earned income in the pocket of our unemployed would solve many problems—would retard if not entirely stop the trend away from our traditional American system which does not with pleasure condone the inroads of Government into business and into the private lives of its citizens.

Consequently it would seem reasonable to anticipate that anything which would contribute toward the solution of our unemployment problem would be a step toward less "Government in business" and less agitation for change.

Although it may be argued that by reason of the fact that the Federal Government directly or indirectly has intervened in the affairs of airplane companies, the merchant marine, and in the administration of States, counties, cities, and towns because of subsidies, it would impose regulations which would minimize if not nullify the beneficial effects of tax rewards. We have precedents that the Government has satisfied itself by accounting inspections that maintenance expenditures, gifts, and other deductions authorized by law have actually been made or duly accounted for on the books of the taxpayer in accordance with income tax regulations.

There is no valid reason to believe that Government should ignore such precedents, nor that it should refuse to extend that same system of policing to the determination of whether or not capital expenditures were made or employees added. Congress by explicit legislation could provide for the cataloging of the types of expenditures that should be exempted from taxation, regardless of whether such expenditures would be prudent or otherwise.

Mr. C. William Hazelett, author of the book "Incentive Taxation," has pioneered a trail through a virgin forest. His contribution has been of great assistance and inspiration.

Mr. Hazelett by stressing increased production and an incentive tax on plant or money not utilized for production purposes follows to a great extent the German experiment under Von Papen. The real incentive to industry is not to increase production per se, but rather to experience an increase in demand. Entrepreneurs are anxious to augment their production schedules, and would do so, if markets were thought to be imminent and not actually existent.

Incentive taxation would not be restrictive in its effects as is regulatory taxation. Rather it may be defined as offering an inducement for individuals and corporations to do something they otherwise might not do. Concretely, it is designed to stimulate private initiative, a large part of which has been dormant too long for the future welfare of our country.

A broad-gaged policy of compensatory tax exemptions with prudent safeguards should not occasion additional intervention by Government in business. The great majority of authorities on this subject recognize the need for a genuine observance on the part of Government of the inalienable rights of business and on the part of business of governmental prerequisites.

EXPERIENCES OF INCENTIVE TAXATION ABROAD

Perhaps the closest approach to that form of compensatory tax exemptions proposed by this survey is the so-called "Papen Plan" for economic recovery inaugurated in Germany in September 1932.

In the February 1934 issue of Social Research is an interesting review of "Why The 'Papen Plan' For Economic Recovery Failed" by Dr. Gerhard Colm:

"On September 4, 1932, the government of Chancellor von Papen issued an emergency decree embodying a plan for economic recovery. The chancellor expected, as he explained in an important speech, that the plan would in a short time stimulate recovery and provide work for great numbers of the unemployed. He declared the plan to be the last chance for the existing economic system to overcome the crisis by means of private economy. For weeks the news services and radio broadcasts and all other forms of publicity were used to propagandize in favor of the plan. But instead of the expected recovery, unemployment again increased after being stationary for 2 months.

"There was, compared with 1931, a smaller seasonal decline in employment. But the people expected, from the official declarations, not a slower recession but real recovery and the reemployment of about 2,000,000 workers. These expectations were not fulfilled, and the resulting disappointments were not the least factor in the early collapse of the Papen government.

"The failure of the plan was attributed mainly to political causes. We find scarcely any economic criticism of it. The actions of the Papen government were distrusted both by the National Socialists and by the workers. But the entrepreneurs generally accepted the plan with enthusiasm.

"In the fall of 1932, economic conditions were not unfavorable for such government action. The question of reparations had been provisionally settled (Lausanne Agreement, July 1932). In the preceding period of deflation an economic house cleaning had been accomplished, while Chancellor Bruening had made efforts to adjust prices and costs by reductions of prices, wages, and interest which culminated in the emergency decree of December 1931. In the summer of 1932 both the capital market and production had somewhat improved. There was, to be sure, political opposition to the Papen government; but the political-psychological obstacles were to be overcome, according to the main idea of the plan, by the mechanism of the market. Nor did the plan work any better when the Schleicher cabinet came into power under much better political-psychological conditions. The economist, therefore, must ask whether or not, aside from the political factors, some defect in the economics of the plan itself was not responsible for its failure. Such a study is important, not only for the analysis of German economic developments in 1932, but also for the light it throws on the general problem of government intervention to fight depression and restore prosperity.

"For a thorough understanding of the plan's principal ideas, it is necessary to mention that another method of recovery had been tried and still another discussed during the preceding months.

"The Reichsbank had for months pursued a policy of easy money. Ample credit had been extended to large corporations in danger of bankruptcy, and the bank was prepared in general to grant credit to any one offering some sort of adequate security. The interest rate was lowered as much as possible, considering the international currency situation. But in spite of this policy there was a shrinkage in the amount of credit actually used. 'Credit was not missing, but the man who sought credit,' declared Dr. Hans Luther, then president of the Reichsbank. 'In this is the essence of what has always, throughout history, constituted a crisis.'

"This policy of easy money failed as a method of recovery because the Reichsbank could increase only short-term credit directly. Capital investment did not increase because there was no adjustment of the relations between short-term credit and long-term credit.

"The results of this experience strengthened the advocates of increased governmental activity as a means of stimulating recovery. Most of the trade unions and some economists suggested additional public works, by which the State might improve the relations between the supply of and demand for credit. Many new proposals to absorb the unemployed were also discussed. One plan (Lederer) suggested putting the unemployed to work in unused plants, with payment not in money but in scrip for which they could secure commodities produced by other unemployed in unused plants. But all such proposals were rejected by the entrepreneurs and some members of the cabinet as experiments in planned economy and socialism which endangered capitalism.

"The Papen plan tried to avoid the dilemma of an unsuccessful credit policy and "socialist" proposals. It also sought a method of credit expansion for purposes of private economy, in which the use of credit would be stimulated by the automatic working of the market mechanism. This amounted to 'cranking up' the initiative of private enterprise.

"The decrees of September 4 and 5, 1932, granted privileges to entrepreneurs who employed additional workers. Among them was the privilege of paying these workers less than the legal wage rates fixed by collective agreements. The percentage of underpayment was to be calculated in a manner which would not only result in greater employment but also in shorter hours. According to the decree total working time had to increase more than the wage rate was decreased, and the entire pay roll had to increase. Another privilege consisted in the payment of a premium of 100 marks quarterly for each new employee to an entrepreneur who increased the number of his employees. These premiums were paid in the form of tax certificates (Steuergutscheine), which would be accepted by the Treasury in 1934–38 for the payment of certain taxes. These certificates could be discounted to secure immediately needed cash. As a result of these privileges, Government experts estimated that 1,750,000 workers would be reemployed and that this would require issuance of certificates to the value of 700,000,000 marks. As the plan included a concession to the public in the form of a minor increase in public works, the expected total of workers to be reemployed was raised to at least 2,000,000.

"In every recovery production and demand must increase proportionately. The impetus to recovery can arise either from production or from demand. The Papen plan tried to increase production at first. But the growing production would effect an increase in both the wage bill and the demand for machinery. In this way the balance between production and consumption was to be reestablished on a higher level. But no entrepreneur would dare increase production solely in the hope that his sales would rise in a proportionate ratio because of the expected growing general purchasing power to the workers and the growing general demand for machines. There was a catch in the plan. Its proponents believed that each entrepreneur would be in constant fear that his competitors might use the premium before him, cut costs and prices, and snatch all the new business. It was expected, therefore, that the entrepreneurs would try to get ahead of one another in accepting and applying the premium. Moreover, the plan's proponents maintained that competition would compel the entrepreneurs all to increase production generally. Thus, whatever the political doubts might be, the political factors could not have prevented the successful working of the plan if its assumptions and propositions had been valid.

"A second aim of the plan was to help finance the entrepreneur's expenditures by means of the tax certificates, which could be used as security for bank loans. The Government believed that an expansion of credit, previously tried unsuccessfully, could be accomplished in connection with the stimulation of production. For this purpose, another 1,500,000,000 marks of tax certificates were to be issued. These were different from the 700,000,000 marks of certificates previously mentioned, which were to be granted only for reemployment of workers. These certificates were to be granted to anyone who paid certain business taxes during the past year. They differed from the employment premiums, moreover, in that they were intended not only to lower costs but to finance orders for machinery, etc.

"Only a part of the increased production could be sold to employees as the wage bill would not rise at the same rate as production because of the simultaneous fall of the wage rate. Through increased purchasing power of the consumers and improved exporting activity, because of the lowering of prices, a balance between production and sales was anticipated. Furthermore, the proponents of the Papen plan believed that greater production activity would force more expenditures on plant and materials, to make repairs which had been postponed in recent years. To finance this demand was the aim of the second issue of tax certificates. Both kinds of certificates could be discounted by banks and rediscounted by the Reichsbank. But according to law they could be taken only in limited amounts by the Reichsbank. Therefore a special syndicate of bankers was formed to rediscount the certificates. The Reichsbank issued bank notes with which to reimburse the syndicate. Thus the plan was to stimulate production through the premiums and the sale of the additional production through additional means of credit. However, all these plans, according to the opinion of the government, would not have involved any great financial burden for the State, despite the expected subsidy of over 2,000,000,000 marks. The financial burden would be felt only when the tax certificates would be used, instead of cash, to pay taxes in 1934–38. But during these years, the Government hoped that the general upward trend of economic activity would decrease expenditures on the unemployed and that revenues would increase, thus offsetting the effects of tax payments in certificates.

"It is undeniable that this plan, on the surface, was ingeniously constructed and seemed to justify confidence in its working. It was even approved by many persons who disapproved of von Papen's political attitude. But, as I shall explain, this seemingly ingenious plan contained, in reality, a number of startingly gross economic defects. And the wrecking of the plan permits conclusions to be drawn concerning the general economics of recovery.

"Even if we assume that a stimulus to production had followed, I think that certain of the plan's defects would quickly have become manifest. Among them two may be mentioned:

"1. The assumption that the budgets of the years 1934–38 would be balanced through lower expenditures and higher receipts was altogether too optimistic. There would still be a deficit even if the tax certificates were redeemed under favorable conditions. The plan did not consider that current governmental expenditures had been cut so much in the depression that a later increase would be inevitable. New and higher taxes, or more probably new loans, would have become necessary, forcing the State to adopt a financial policy not suited to a period of recovery. In the fiscal sense the certificates were nothing but short-term debts, whose prolongation was not anticipated. A good financial policy should, on the contrary, find means of covering subventions in a crisis, through long-term or at least easily prolonged forms of public-debt claims. Payment can then be made after recovery in accordance with the extent of the State's financial surplus during the period of prosperity.

"2. More important is another defect. The fundamental economic assumption of the plan was that an increase in production itself creates an increase in demand, especially if there is a simultaneous expansion of credit. We doubt whether this theory (J. B. Say) could be put into practice without considering the possibility of disturbances being created. On what was the hope based that production would rise precisely in those commodities, which increasing consumption would demand? The division of the increase in production between consumption goods and production goods would have nothing to do with the relation of the increase in wages to the additional orders for production goods. Within these branches of industry also disturbances would presumably have occurred.

"According to the plan the increase in production would be in proportion to the effect of the employment premium on the output of individual products. This would depend upon various factors, but has no organic connection with the probable development of demand. If the plan had worked it would have quickly produced a renewed market crisis.

"But these dangers involved did not develop in Germany because the plan failed to work as expected. Why was the plan ineffective?

"By the end of 1933, about 1,000,000,000 marks of tax certificates were in circulation (instead of the expected 2,200,000,000). They consisted mainly of certificates issued to industrial taxpayers regardless of any increase in employment. Only a small fraction of the certificates represented employment premiums. The law of April 7, 1933, liquidated the employment premium, except in a very few cases.

"The extent to which the premiums and wage reductions lowered costs differed widely from one branch of industry to another, from one enterprise to another. According to one calculation, which will not be discussed here in detail, an entrepreneur would have had to pay additional workers, on the average, only half of the existing wage rates. The fact that so little use was made of the opportunity to reduce wages ought to impress the theoreticians who believe that wage reductions in every business situation result in reemployment of idle workers. To judge the effect of the measures on the lowering of prices, we must consider what the reduction in costs would amount to in relation to the entire costs of an enterprise. As a general thing an enterprise cannot sell the output of newly employed workers more cheaply than the balance of its output. An increase of 20 percent in the employees would, for an enterprise in the heavy industries, result in a price reduction of 1 to 2 percent. The corresponding reduction might, under the most favorable conditions, average about 5 percent in the light industries, where labor costs are relatively more important. Thus the direct effect on possible reductions in the prices is not so great as it seemed to be according to the law. It is, nevertheless, extraordinary that even the chance to make these not altogether insignificant cost reductions was so little used. Why was so little use made of the employment premium and its accompanying reduction of wages? The plan was based on the postulates of free competition. In an economy of free competition the plan would have worked, despite the strength of the political objections. The plan failed because the economy of free competition, as it was implicitly assumed, actually does not exist.

"Free competition, as presupposed in the working of the plan, has a twofold meaning:

"1. In a "free" economy the entrepreneur produces, not for any particular customers, but for an impersonal general market, and the customer does not always buy from any particular producers, but from those offering the goods at the cheapest price. Under the conditions of free economy if a factory offers a commodity for sale cheaper than other factories, it can capture the market at once. There is no relation between customers and particular producers which is only broken unwillingly. There is no selling organization which buys only the products of particular factories. Every buyer gives his preference to the lowest seller. In the reality of today, these conditions are most nearly realized in the case of fully standardized products. If, for example, a screw factory, for whatever reason, can lower its costs by means of increased production, it would probably take the risk involved in a larger output. It offers its products for sale at reduced prices in the hope of thus beating down its competitors. Take as an example of the other extreme, a custom tailor. He also should be able to lower prices by increasing his output. But his is a desperate dilemma. He cannot risk more output before he secures more orders. Neither can he offer his product at a reduced price because this depends upon an increase in sales, and he cannot know beforehand if larger sales will materialize. He cannot make any striking use of the possibility of lowering costs and prices, but will probably have to await the gradual success of intensive efforts to increase sales.

"In the modern market production on orders of consumers and tradesmen is more important than theory generally recognizes. Many products, of course, are simply thrown upon the market in the hope that buyers will be found. This is true in the main of newly introduced products, such as radio. In the case of consumption goods the department stores are very effective in facilitating relations between producers and consumers. But their role is not important in Germany. In most cases, however, production grows gradually, step by step, in harmony with the growth of actual demand. A complete analysis of this problem would also have to consider in this con-

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nection the speculative function of wholesale trade. It can bridge to some degree the gap between supply and demand in economic development. But its effects are limited by the fact that the speculation of wholesale trade does not to a sufficient degree affect the finished products which are decisive for our problem. One has only to study concretely the growth of the market, for example, of a chocolate factory or a machine factory to realize how unrealistic it is to apply the theoretical concept of a free market. These conditions are realized only to some degree in the case of standardized products. But as these products are mainly produced by heavily capitalized concerns, the employment premium was too small in relation to total costs to have any appreciable effect. In other industries it could not be expected that production would simply rise 10 or 20 percent, without any previous or simultaneous increase in orders. This consideration, at any rate, applies to the conditions of German industry. In English industry as well the traditional relations of consumers or tradesmen to particular producers play an important role. It is in American industry, perhaps, that the conditions of a free market are more developed.

"2. The economy of the free market is not only the antithesis of the economy of personal relationships between producers and consumers, but also of monopoly. A monopoly like any other enterprise would naturally have been able to avail itself of the employment premium (apart from the limitations discussed under point 1). But there was no compulsion of competition to do so. In the case of a monopoly, political considerations could play a role. Under conditions of free competition an entrepreneur would be forced to use the premium out of fear that competitors who did might beat him in the struggle for the market. This compulsion is absent in the case of monopolistic enterprises. In the theoretical sense no real private monopolies actually exist. Nevertheless, in the chief branches of industry there is a limited number of dominant enterprises which control the largest share of production. Even when these large enterprises do not agree on joint measures in an association, they observe each other's acts carefully.

"They are not compelled to accept the opportunity to reduce costs because each enterprise can afford to wait for the others to act. This limitation of free competition through the dominating influence of several large enterprises prevails in many of the most important branches of German industry.

"It is hard to decide which of the two forces limiting the economy of the free market was most responsible for the failure of the employment premium. It is also hard to say if higher premiums would have overcome the restraints upon free competition. The experience proves, however, that the mechanism of demand does not react to such delicate stimuli. This limitation of free competition prevails not only in Germany but also in other industrialized countries, which may be proved by the following points:

"In branches of industry where unit costs rise with a decrease in the utilization of existing capacity, a depression in an economy of free competition would result in one group of enterprises discontinuing production entirely, while another group would produce with an optimum use of its capacity. In reality we observe the same kind of products being produced by many enterprises, but with none of them completely utilizing their capacity. Why does not one of the enterprises expand its production by better utilization of capacity and through price reductions force its competitors out of the market? There could be no other result in a really free market and free competition. That this does not happen in any country, as well as that the employment premium proved ineffective in Germany, can be explained only by the fact that the conditions of the free market and free competition do not fully exist in reality.

"As the efforts to stimulate production failed, it was impossible to realize the purpose of the second issue of tax certificates, the financing of orders for repairs and expansion. It is true that private industry received about three-quarters of a billion in certificates. This did not, however, produce an expansion of orders. In the main the certificates were discounted and the proceeds used to pay debts. Thus they worked in the same manner as a policy of cheaper credits—in this case the cheapest form of credit; subsidy. Where the certificates were really used to finance orders, the resulting expansion of credit was more than offset by restriction of credit in other directions.

"In its actual working the Papen plan probably promoted the liquidation of private debts to some extent. These private debts were replaced by public debts. Such a process of liquidation might not be altogether unsuccessful as preparation for recovery. The question remains, however, whether there does not arise a too unfavorable relation between the fiscal expenditures and their cyclical political effect. At any rate, the issue of the certificates, to the extent they came into private hands, had no direct effect on economic recovery.

"A small portion of the certificates, about 180,000,000 marks, had a third purpose, which alone was fully realized. They were issued on the basis of the transportation tax (Beforderungssteuer). This portion of the certificates came almost wholly into the hands of the Reichsbahn, the State railways. The railways, under direct public control, had to use the certificates in accord with State policy; to finance new equipment and replacements. Thus the promotion of public works, by means of expansion of credit had a place, if on a modest scale, in the Papen plan. This policy was continued by the successors of von Papen, after the real purpose of the plan had failed. Thus the failure of other methods forced the adoption of a policy which had long been urged by economists and trade unions.

"Von Papen recommended his plan as being in accordance with the structure of the capitalistic system, while the other plans, e. g., the public works programs, were denounced by followers of von Papen as artificial measures, which could at the best have only a temporary effect. It has been asserted that the "natural" process of overcoming depression depends upon a revival of production, which then as a secondary effect leads to a revival of demand. This was the fundamental idea of the Papen plan. If, however, we analyze the revivals of production which formerly overcame crises, the conclusion becomes inevitable that there was much more in common with public works than with the general revival of production for the market envisaged in the Papen plan and similar projects.

"In previous depressions after the inescapable liquidation and cost adjustments had been carried out, the liquidity of the money market promoted capital investments. Because of the disturbed relationship between the money market and capital market under present conditions only the state can transform the vast resources of the money market into long-term investments. If the state does this it follows the course of a "natural" recovery. The investments by which previous depressions were overcome were building of homes, of railroads (at home or more frequently abroad), and an increase in exports, etc. Revival in all these lines of production had one thing in common—it did not for the time being increase the supply of goods offered immediately in the market. But the new investments were bound up with an expansion of credit, increased employment and an increase in the wage bill, accompanied by a rising demand for production and consumption goods. The rise in market demand was then followed by an increase in production for the market. But this was the last and not the first step in the revival. Only when new products are offered on the market, the sale of which is not doubtful, can recovery start with production. The increase in exports, even if financed by means of an export of capital, adds strength to recovery because it results in an expansion of credit and buying power without danger to the home market. This is also a peculiar characteristic of public works.

"The building of homes, roads, canals, and other forms of public works involves an increase in production financed by credit which is not accompanied by an oversupply of goods on the market. A general increase in production follows only when the increase in buying power has stimulated an increase in demand. The policy of public works is in accord with economic laws, except that the initiative of private enterprise for long-term investments, which is now lacking, is replaced by an act of the state. This process of cyclical recovery can only succeed, however, if there have already been the necessary liquidation and cost adjustments or if it is accompanied by these. Also the conditions for renewed confidence must be realized, at the latest, simultaneously with the recovery. Otherwise there is danger that the fiscal expansion of credit and buying power in one direction will be offset by a shrinkage of private capital. On the contrary, the public investments must first be supported and later replaced by private investments, or the recovery will not develop into prosperity. In Germany there was, besides the general premises necessary for recovery, this special problem: The danger of the equilibrium being disturbed by the balance of payments. This problem has been solved at least temporarily through a partial moratorium, the restriction of certain imports, and the stimulation of exports by different means, such as scrip, etc.

"From our analysis of the German cyclical policy of 1932 we can only draw the conclusions: It is impossible to overcome depression by means of banking policy only or by means of a general stimulus to production. Only recovery through a program of public works, the theory of which has been developed in recent years by English and German economists, has, at least, not failed, even if it has not yet proved its efficacy."

When weighing the results of the German experience, the reader should maintain in mind certain basic differences between the "Papen plan" and the "modus operandi" suggested herein. The reader should also bear in mind the extreme seriousness of the German economic and political situation then prevailing, and the forthcoming "Nazi" dictatorship, which by its early advent, precluded a sufficient period during which to prove the wisdom of the philosophy of government aiding private industry to correct economic ills by means of compensatory tax exemptions.

Fiscal conditions during 1932, in Germany, were distinct as compared with the conditions presently prevailing in the United States except that both countries experienced an increase in public credit which was greatly offset by a shrinkage in private capital. The plan herein suggested for experimentation in comparison with the "Papen plan" is limited in scope. The American version now under consideration attacks the problem of unemployment through increasing of demand as a precedent of increased production whereas the "Papen plan" emphasized the stepping up of production as an antecedent to augmented demand. The plan proposed herein will not permit paying workers less than the legal wage rates fixed by collective bargaining.

The American plan does not envision the issuance of discountable tax certificates as a form of short-term floating debt. This plan, if accepted by Congress, would not be tried without a full and ripe experience in connection with public-works programs. Our plan would also be tried at a period when the people of the United States believe in recovery despite the fact that it faces the problem of a permanently unemployed group, whereas at the time of the "Papen plan" a spirit of extreme hopelessness prevailed insofar as the German unemployed were concerned.

The reader must also retain in mind the heavy fate of permanent unemployment which had touched the German population whose nerves had been tormented for more than 18 years; whose youth had grown up in starvation and inflation, in revolution, and in insecurity.

The reader must also retain in mind that millions of our unemployed are still of the frame of mind that they would rather work than receive mere sustenance checks. The reader should also remember that a dole teaches people to soldier; and with our mass production system how much longer will it be before the recipients of such a dole are unfit for the production line? The reader should also retain in mind that our apprenticeship system is being neglected and that the youth of our country is not being trained for industrial problems. Also that because of the heavy hand of taxation new enterprises are not being developed by which our employables can be absorbed on private pay rolls.

Sundry other dissimilarities between the "Papen plan" and this theory of compensatory tax exemptions are all too evident to require further amplification.

Other countries with good results have experimented with so-called "use taxes." The specific applications have taken the form of encouraging new enterprise by giving a tax benefit. They have taken the form of reducing the cost of usage, with the view to promoting the manufacture and broadened use of the things that were being used to stimulate productivity.

Mr. Alfred P. Sloan, Jr., chairman, General Motors Corporation, in commenting on "use" taxes—in this instance a form of tax rewards—stated at the hearings—

> They have been employed—well, we will say in very many different ways, in relation to industry, and have been very helpful.

In concluding with the comparison of compensatory tax exemptions as applied in foreign countries, the German plan of Chancellor von Papen indicates the futility of combining into one measure too many and too complex forms of governmental regulations of business activities.

Germany, however, recognized the benefits resulting from certain phases of the incentive taxation particularly as it referred to stimulating demand for industrial products and necessitating increases in output to meet such demand.

Mr. Mark Jones in "Taxation and Enterprise" prepared for the National Tax Research Committee, writes:

The tax on motor vehicles was removed for all passenger cars registered after March 31, 1933, with the result that the demand for such cars increased greatly while unemployment and relief costs declined. Further provision that the cost of acquiring new equipment for industrial and agricultural undertakings, made between June 30, 1933, and January 1, 1934, would be deducted from taxable profits, stimulated expansion. The result according to reports, was an increase in the sale of machinery from 881,000,000 reichsmarks in 1932 to 2,014,000,000 reichsmarks in 1934. Also a 10-percent rebate in the corporation income tax was given in the cases where the money thereby saved was applied to new buildings and industrial undertakings and to repairs and improvements. The Minister of Finance, moreover, was empowered to grant similar rebates in other taxes, where such rebates would stimulate other forms of production important for national development. According to a law of April 30, 1934, the purchasing power of farmers was increased by a reduction of general sales taxes on agricultural produce with the provision that such savings be employed for improvements or additional employment. Other exemptions or reductions in taxes were granted in instances where the saving was applied to increase production and employment.

Due largely to these revisions in the basic German tax law, collections under the National Socialist regime rose to a peak of 13,958,000,000 reichsmarks for the fiscal year ended March 31, 1938, which is in striking contrast to collections of 6,646,000,000 reichsmarks in 1932. This gain has been obtained largely by stimulating taxable production and turn-over and by raising certain direct taxes.

Italy has proceeded along similar lines.

Great Britain, principally through nontaxation on capital gains, has consistently held that capital must be free to produce.

France, by means of decree issued by Premier Daladier, under date of May 2, 1938, ruled that companies investing part of their profits for additional and more modern equipment will be benefited through a reduction in their tax burden.

In view of the foregoing encouraging experiences of certain European nations, especially in their recognition that as world powers they must keep abreast in reducing costs of production, it is urgently recommended that Congress experiment for the next 5 years at least by trading tax credits against dollars actually invested by industry in modernizing, expanding, or developing production and for additional employment. By so doing we could perhaps experience a fillip in our foreign trade as well as relieve our unemployment situation and promote once again the American system of private-profit economy.

INCREASED EMPLOYMENT

As the percentage of taxes to total national income mounts, unemployment increases. The following figures taken from official Government sources are challenging, to say the least:

Year	Percent of National, State, and local taxes to National income	Number of unemployed
1929	12	1,864,000
1930	16	4,049,000
1931	18	7,300,000
1932	21	11,400,000
1935	17	10,652,000
1938	20	10,900,000

The most important problem facing the world today is that of putting men back to work, and preferably in privately owned and operated channels.

It might be reasonable from a study of the above figures, to conclude that a reduction in rates of taxation would solve the problem of unemployment. No thinking person in face of the foregoing figures would gainsay the expectation of a material improvement in our unemployment situation were taxes reduced.

The situation today, however, is somewhat different than it was in prior years, particularly so because of our facing a $4,000,000,000 deficit in the current fiscal year, and a public debt of $40,000,000,000 at the end of the year. If we include in the debt figures the contingent liabilities of the United States Treasury as a result of operations of Federally owned corporations the total debt may now exceed $50,000,000,000.

With the necessity for collecting every possible dollar of revenue, and being virtually compelled to care for the unemployed, can Congress at this time consistently reduce taxes or curtail unemployment and relief expenditures to a substantial extent without a quid pro quo?

Let us explore the dilemma at further length.

One of the most prolific fields for the reduction in governmental expenditures is in connection with unemployment and work relief. Any substantial reductions in such expenditures could be brought about only by private industry absorbing on its pay rolls the majority of the unemployed.

Presently it appears as though private industry may be waiting for Government to alter its tax and social-control policies before it will employ large numbers of additional workers. Government on the other hand expects industry to reassert itself and assume the initiative in combatting the depression.

Hope for our economic salvation does not lie in a static condition, but rather in mutual sacrifices for the preservation of our sovereign position.

Let us analyze the possibilities of management and Government cooperating for the common good. Let us assume that if Congress were inclined to reduce arbitrarily the rate of taxation in the hope that thereby sufficient incentive would be held out to business to initiate the curing of our economic difficulties, could Government protect the unemployed and its credit at the same time? Could Government reasonably expect private industry to solve forthwith the unemployment problem?

Much wishful thinking would be connected therewith and in view of the collateral problems involved Government can hardly come to a logical conclusion that it should arbitrarily reduce tax rates without a firm pledge from private industry that it would absorb the majority of the unemployed.

Let us also assume that Congress refuses to reduce the rate of taxation. Can we then reasonably expect management of private industry to absorb on its pay rolls the unemployed and continue paying the heavy tax burdens with which it is now confronted?

Under such a set-up it would be too much to expect, since corporate surpluses have been in many instances too greatly harmed as a result of 6 years of depression. Further, if such companies that could afford to absorb many unemployed on its pay roll did so, tax collections would probably be too seriously affected, thereby causing demand for the imposition of even higher tax rates. Increase in taxes, for additional workers, due to social security impositions are also a deterrent.

The only testimony we have with respect to the foregoing conclusion is that of Mr. Leo M. Cherne:

> Incentive taxation for reemployment. We now turn to the two questions which search for broadest possible uses for incentive taxation. The sixteenth states: "Suppose it were provided that the present tax rates remain until private business reemploys a stated percentage of workers from the national relief rolls, at which time the excess profits and undistributed profits would automatically expire?" Nine hundred and ninety-seven organizations favor this plan, as against 1,033 who do not.
>
> "Would they reemploy idle workers to hasten the lowering of the corporate taxes?" Five hundred and seven would, while 1,001 would not.
>
> Thus, the 587 who would reemploy idle workers to hasten tax alleviation, which is made contingent not on their individual efforts but on the employment record of the entire country, represent approximately 107,495 employees while those who would not take this voluntary step represent 305,265 employees. As to the percentage of the present personnel which these firms would voluntarily increase, if such were the law, 243 would increase up to 5 percent of their personnel; 245 up to 10 percent; 139 up to 20 percent; 42 up to 30 percent; 1 up to 40 percent; 3 up to 50 percent; and 14 over 50 percent.

Two sides of the equation have been considered, and it is felt from the foregoing that neither arbitrary reduction of taxes by Government without a pledge from industry as to giving immediate employment to the major portion of the unemployed nor the absorbing by industry on its pay rolls of the majority of the unemployed without offsetting credit by Government will solve quickly our economic difficulties.

Is there a middle approach—can Government make a contribution in the way of compensatory tax exemptions if management will cooperate with Government, and Government with management, in solving the unemployment problem?

The possibility sounds not only interesting but logical. The German plan also sounded logical at the time of its presentation to the public, but among its other faults, it attempted to stimulate production per se, believing that as workers were added to the pay roll, increased demand would automatically result forthwith.

In America, we realize that neither Government, private industrialists, nor workers can enjoy for long the mutual benefits thought to result from increased production per se. We further realize that without an almost concurrent increase in demand, price structures would be demoralized, working capital positions frozen, and employees would be discharged.

We further realize that every employer always has sufficient incentive to increase production if greater demand can only be generated. How then can we increase that demand?

By absorbing on the pay rolls of industry a portion of the unemployed primarily to bring up to date plant and equipment; by expanding plants; by building new homes; by remodeling homes; by increasing staffs of domestic servants; by stimulating a revival in the entire durable-goods industry.

The factor of deferred maintenance, as measured apart from obsolete plant that should be replaced, is enormous.

Separate chapters are hereinafter devoted to each of the foregoing methods for increasing employment. Before passing to them, however, let us examine the oral and written testimony; for example, a letter from Mr. Harold Smith, 150 Broadway, New York, N. Y.

> The matter of compensatory tax rewards is a subject to which I have given a great deal of thought, and I am convinced that this subject, which your committee has taken up for consideration, strikes at the root of the unemployment problem.
>
> If a reasonable proportion of income taxes, not only corporate but individual, can be diverted to the employment of those who are now unemployed, I am certain that every dollar thus applied will save several times over the amount otherwise necessary to be expended by the Government in connection with the employment of a like number of persons. In addition, the work accomplished through such private employment will directly increase individual assets and individual prosperity, and thereby reduce the likelihood of another depression, whereas, work performed for or through governmental agencies does not accomplish the same result.

and an excerpt from a letter addressed by Associated Employers, Inc.

> San Antonio, Tex.,
> *October 24, 1938.*
>
> The only tangible and possibly interesting comment which I have thus far been able to stir up comes from our business counselor, Mr. William Aikman. I do know that Mr. Aikman has given this question a great deal of thought. He is a competent analyst and student of taxation problems as they apply to productive industry, and for this reason I believe his ideas on the subject worthy of careful consideration. They are very briefly outlined herewith:
>
> "The plan which I have in mind as an aid in relieving unemployment is comprised in the very simple expedient of giving an added credit to employers of labor in computing net income for the purpose of arriving at the tax liability of employers. I have not worked out the satisfactory answer to the exact credit that should be allowed; but, for purposes of this suggestion, let us say that an added credit is to be given of 15 to 25 percent of the amount of the ordinary pay roll. In addition to the inducement to an employer to increase wages and increase the number of employees, I believe the income-tax revenues would be increased rather than decreased by virtue of the additional credits allowed, on the theory that the incentive to obtain this credit would tend to induce added business activity and finally result in more profits in the end upon which taxes would be paid."
>
> The only argument I can conceive of that could be urged against this proposal is that there are disparities between different businesses on the proportion or factor of labor in relation to the gross income. Still this could be worked out on the basis of a reserve ratio.
>
> Very truly yours,
>
> Tanner H. Freeman.

and an excerpt from a communication from H. J. Fell, Jr., vice president and comptroller of the Pennsylvania Railroad, at Philadelphia. In the section devoted to "Formulae," further consideration will be accorded to that phase of the letter which treats with credits being granted on basis of hours worked.

THE PENNSYLVANIA RAILROAD

ACCOUNTING DEPARTMENT

Philadelphia, Pa.

INCENTIVE TAXATION

The Pennsylvania Railroad Co. has, of course, like other concerns, given consideration to profit-sharing systems for its employees, but the financial condition of the railroads in the last few years has been such as to preclude the possibility of its being seriously considered. However, if the definition of "incentive taxation" is extended to include the employment situation, then from a railroad point of view it should receive very serious consideration.

The spirit of incentive taxation is recognized by a number of the State laws which have merit-rating provisions, such merit-rating provisions providing for a reduction in the amount to be paid under such compensation laws, dependent upon the stability of employment. Forty-one of the State laws (including Alaska, Hawaii, and District of Columbia) contain provisions for merit rating, laws of other States make provisions for its study, and only two of the States have no provision in regard to merit rating.

Proceeding upon the basis that employment would assist the Government by reducing the number of persons unemployed and on relief, then for those corporations which have provided employment beyond what might be considered normal or average, such corporations would receive some reward in the way of incentive taxation by a reduction in their Federal income, excess-profits, and capital-stock taxes, the amount to be expressed in a reduction of their taxable income for the three taxes mentioned above.

Although expressed somewhat negatively, the letter from Mr. Holmes of Mallow Suburban Motors offers a constructive thought:

MALLOW SUBURBAN MOTORS,
East Orange, N. J., November 18, 1938.

The Manufacturers Association of New Jersey states you are interested in suggestions on incentive taxation. Here's today's problem for us—and it can be helped by proper taxation methods.

We employ about 160 people in three stores and one large central used-car reconditioning plant. The last 12 months (up to October 1, 1938), were the worst months we ever experienced. We did not lay off any men, although we allowed the number employed to go down by about 5 to 10 percent through not replacing an employee when any left.

As a result of this procedure we lost a good deal of money and, of course, will have no tax on profits this year. It looks as though 1939 will be different, and we should show a profit with resultant tax.

After due study of the past months, we have decided that never again will we try and maintain employment, but will work on the opposite basis and endeavor to operate with little if any loss during any subsequent slow business period.

Now, if these losses of the past were deductible from the gains of a taxable year, we would have an incentive to maintain our organization, as by so doing we could more quickly get under way when business picks up.

The tax set-up now encourages the employer to increase or decrease his force with change in business volume, and that is wrong.

The difficulty confronting the Government in the placement of domestic servants is almost tragic. All too frequently many of them are too far advanced in years to take full advantage of the vocational instruction facilities provided for our Federal and State Governments. Lovell H. Parker, whose qualifications as an expert, have been previously referred to, contributed the following valuable suggestion with respect to domestic help:

Now, about these incentive deductions, what might be suggested for these in the case of individuals? First, I have been reliably informed that there are about 1,000,000 domestic servants and chauffeurs unemployed. One incentive deduction which might well be considered is for the wages and salaries paid which are not allowed in computing net income. This deduction would be allowed, of course, only for the purpose of computing the supertax net income.

Now, suppose a man did save $5,000 in tax by spending $20,000 more for domestic servants. Certainly what the Government would lose in tax would be more than made up by a decrease in the relief rolls.

Very enlightening testimony, as evidenced by the following, was contributed by Walter D. Fuller, president, Curtis Publishing Co., Philadelphia, Pa.

Senator VANDENBERG (reading). Is it not logical that if "the power to tax is the power to destroy," that likewise, if properly applied, the power to tax might be the power to construct?

Mr. FULLER. Very definitely.

Senator VANDENBERG. Then in your statement this morning you carried the possibilities of the application of that theory even to the extent of meeting the direct unemployment problem through incentive taxation.

Mr. FULLER. Yes.

Senator VANDENBERG. In other words, you are thinking, are you, of the possibility of absorbing unemployment through regular channels of industry, encouraged to do so by favorable and compensating Government taxation rather than through a supplemented dole system?

Mr. FULLER. That is very definitely what I have in mind, Senator. You notice that I have very carefully surrounded that with cautions against the reefs and bars and sand spits that we would likely run into. I think there is a channel we can go through, but I think it is a channel through which we must navigate very cautiously so we do not wreck our somewhat fragile new ideas on the way. Do I make myself clear in that regard?

Senator VANDENBERG. You are a practical businessman of long experience, you are no casual theorist. Would you be hopeful that it might be possible——

Mr. FULLER (interposing). I would go beyond that.

Senator VANDENBERG. That it would even be probable?

Mr. FULLER. Yes.

Senator VANDENBERG. That through incentive taxation adequately and properly framed to absorb a major portion of unemployment through regular industrial channels rather than through direct Government expenditures?

Mr. FULLER. I agree with you in every one of the words you used. I would not agree if you said all unemployment, because I think that is too far, but if you said a major portion, or a very large portion—I do not know what the word "major" exactly means—if you say a very large portion I agree with you entirely.

Proceeding to the results of the questionnaire submitted by a private organization, we find the following data among the testimony of Mr. Leo M. Cherne:

Incentives for increases in employment deductions for reemployment: The problem of increasing employment and liquidating relief rolls is the most important problem which challenges the business and legislative resources of the Nation. Increased employment is an objective which should be considered in fashioning every piece of legislation. Talk of business and Government cooperation has been widespread; action in that direction has been notably scant. Here is a concrete proposal for Government-business cooperation to further reemployment. It is specifically proposed that the Government make available to industry tax deductions which shall be conditioned upon reemployment by industry—a merit-rating system applied to taxation.

The Government gives tax benefits only if, as, and when business absorbs idle men and liquidates relief rolls, thereby curtailing Government expenditures and reducing the need for Federal revenue. If Government gives business tax advantages, business can afford to reemploy idle men. If business reemploys idle men, the Government can afford to reduce tax rates. Again, if business absorbs idle men, a lower tax rate will bring an equal or an increased amount of revenue as taxable income is increased. If industry does not absorb idle men, the tax rates are not changed and the Government loses no revenue.

These prefatory remarks are made to demonstrate that one objection to the plan—the loss of Government revenue—cannot be proposed in this connection.

Here, then, is a sound practical program offering business cooperation, encouraging business to go forward with expanding industrial pay rolls, and rewarding the employer who is able to plan for men now unemployed. This is plain good business for both Government and industry.

The number of organizations who would favor an incentive taxation plan of this kind is 1,438, employing 373,440; those opposed are 546 firms, employing 154,620.

and those companies, Mr. Cherne further stated:

We find 1,269 firms would be encouraged to employ additional help. The present personnel of the 1,269 is 99,475. Only 357 firms would not be encouraged to employ additional workers.

Nine hundred and ninety-eight of the companies state that tax rewards would encourage them to market new products, as against 395 who would not find this the effect of tax rewards.

One thousand and twenty-nine firms representing 162,545 employees would be encouraged to increase production, against only 359 who would not increase production.

The staff earnestly recommends that Congress incorporate in the forthcoming income-tax law provision for income-tax credits to employers who hire additional workers. For convenience, the chapter titled "Formulae" offers several methods for determining both elegibility to credit and rate of credit which Congress might consider.

ESTABLISHMENT OF NEW ENTERPRISES

At the public hearings, Mr. John L. Lewis, president of Congress of Industrial Organizations, testified that—

In the Pittsburgh industrial area, which is one of our great workshops, there has not been a new industry started in 15 years.

A casual review of the tax laws of the Commonwealth of Pennsylvania insofar as property taxes are concerned, and of the Federal Government with respect to surtaxes, to capital gains and losses and to the non-carry-over of losses, will indicate clearly the extremely heavy burdens and handicaps which face managers of new enterprises during the early stages of development.

This report will not include material respecting State and local taxes, although it is interesting to note the satisfying result obtained by Louisiana in attracting to it new enterprise. Whether the capital was migratory, or resulted in the establishment of new industries has little bearing on the result. The important thing is that Louisiana, as a result of an enlightened policy, attracted to itself industries which promoted the economy of the State. Louisiana had granted substantial tax exemptions (incentive taxation) for a period of 3 years to new industries locating within its boundaries. Arkansas also permits new industries substantial tax reductions for a period of 10 years.

Louisiana has attracted new industrial plants at a construction cost of $47,000,000 which have given new jobs to from 15,000 to 20,000 workers.

Another example of what can be accomplished through incentives is the benefits which have come to the State of New Jersey, which in contrast with adjoining States has offered encouragement and incentives to industries to locate there.

New Jersey has gained 2,250 new industries since 1935, which expended $10,000,000 in new plants and provided jobs for 17,000 workers.

It is more than interesting to note the studied opinion of men most respected for their business acumen.

Before a special committee of the United States Senate, Mr. Bernard Baruch, in February 1938, stated:

The capital-goods industries are where our greatest pool of unemployment resides.

The combined influence of high and unreasonable capital gains and unwise undistributed profits taxes has almost stopped the development of new enterprises.

Financing of new developments is a very risky business. It usually takes a long time and a period of consecutive losses before there are any profits. Under the capital-gains tax the Government in effect is saying, "If you lose, you lose it all. If you succeed, we take most of it." Nobody wants to take such risks.

Another way to build a new industry is by plowing back its profits. Under the undistributed-profits tax that way is also almost completely closed.

The third and last way is to build by borrowing, but that avenue is also barred if the borrowing must be paid from profits.

Our prime necessity right now—the development of new industries—is slowed tremendously by these twin taxes. I think we should exempt small industries and new industries during development and also exempt all expenditures of any corporation for expansion of capital facilities or development of new products or for payment of debt incurred for the same.

Mr. Allen W. Rucker, president, The Eddy-Rucker-Nickels Co., Cambridge, Mass., testified at the hearings held under Senate Resolution 215, that—

Briefly, our studies show that total job opportunity in manufacturing year by year rises and falls with the number of going concerns, and these, in turn, with the number of profitable concerns; that is, with the chance to earn a profit. That fact appearsto show that any further prospect of a drain upon net profits directly might well make many operations so unattractive to capital as to result in a severe shrinkage in the number of going concerns. The importance of the number of going concerns to the relative plenty or scarcity of employment opportunity has never been appreciated. I think your committee should be apprised to the fact that the greater part of the loss of factory-employment opportunity between 1929 and 1933, and the failure of employment to recover, has been accompanied, if not caused by, the enormous shrinkage in the number of going concerns, and the failure of the subsequent recovery to restore the losses.

If I may do so, I should like to emphasize that there has been virtually no change in the average number of jobs per going factory throughout the period 1923 to 1935, inclusive. The official records of the Bureau of the Census, Census of Manufacturers, shows the following average jobs given per going firm for pivotal years: 1923, 44.8; 1929, 42.0; 1933, 42.5; 1935, 43.7.

Of course, these figures must not be confused with total work per going business. Total work given is best measured by total man-hours of labor prov ded. In that there has, of course, been an enormous change. I can give the committee our data in this subject, if desired. But there is virtually no change in the average employment opportunity or jobs per going firm. Hence, the number of persons getting some work is seemingly closely related to the number of going businesses. That is why I think it is important that nothing be done to reduce the percentage probability of earning a profit in manufacturing; to do so may result in a shrinkage in the number of going concerns and total employment opportunity, or, as apparently occurred in the 1933–37 period, a failure of the number of going concerns to expand any faster than the chances of earning a profit, thereby limiting employment opportunity quite seriously.

Under Secretary of the Treasury Mr. John W. Hanes recently informed a special Senate committee it was the considered opinion of experts in the Treasury Department that—

It is highly important that capital should have an adequate incentive to enter venturesome enterprises.

We are confronted today with a great surplus of capital which does not desire to take a chance, and a distinct shortage of that which does.

Venturesome capital is needed to induce the investment of cautious capital. New enterprises can be started and old ones that are subject to rapid technological and stylistic change can be continued only with capital willing to take a chance.

The current superabundance of cautious capital and shortage of enterprise capital is one of the major problems confronting our economy. One of its most important underlying causes has been developing for several generations.

I have reference to the growing institutionalization of investment. Savings which are committed to the care of institutions such as banks or insurance companies tend to be removed from the enterprise capital market.

Although Mr. Hanes was arguing for the repeal of tax-exempt privileges on governmental bonds, it would be difficult for anyone to present a more forceful argument for either the discontinuance of present punitive tax levies or for the incorporation in our income-tax laws of the principles of compensatory tax exemptions.

Evidence of the truth of the timidity of venture capital is offered through the following persons, to wit:

Excerpt of letter from Mr. L. C. Reynolds, secretary, California Manufacturers' Association, San Francisco, Calif.

> I was talking to a manufacturer of a large jobbing firm, a firm which deals in capital goods, machinery and that kind of equipment. He is a man past 50, has been in this business all of his life, and he told me that for the first time in all of his experience he did not know of a single new industry that was under consideration. He said that heretofore there were always half a dozen or so who were going into the manufacturing business to manufacture something new or develop something new, and were figuring on equipment. The situation is such now that no one is figuring on going into new business or enlarging his present business, or starting something new. This is an unhealthy situation, because the mortality of business runs right along the same as people die, and new business must be born the same as people are born, if employment is to be maintained on a level; so I think it is about time that some attention should be given toward reducing the complication and the burden of industry if for no other purpose than the furnishing of employment, to say nothing of the necessity for increasing the wealth of the country.

Mr. H. Boardman Spalding, chairman, Government Finance Committee, National Association of Manufacturers, New York, N. Y., concurred in the testimony of Mr. Hanes by stating at the hearings:

> I should say when you get above 40 percent or 50 percent of the business profit you have a very strong discouragement to the taking of business risks.

Venture capital is seldom borrowed capital, especially when it has reference to the establishment of new enterprises. In setting up new corporations, funds are usually obtained by means of stock issues particularly if venture capital is required. A review of new financing by capital stock issues during the past 6 years shows it to have been pitiably small and undoubtedly the lowest total for any consecutive 6-year period since the turn of the century.

Many are the reasons for such a deplorable situation. (Numerous reasons have hereinbefore and will hereinafter be given and do not require repetition at this juncture.) At this point we are concerned particularly with the inequitable advantage under our present tax law that the existing successful and prosperous organization has over a newly formed competitor, particularly if individually owned. Very similar results ensue if the new unit is a corporation.

Let us assume two taxpayers, one corporate, the other an individual promoter, wish to develop a product such as electric resistance wire. Company A is a going corporation with many millions of capital and steady operating profits. The individual promoter has no operating record and limited capital.

In the case of operating losses of the early years, amounting, let us say, to $100,000 per year for the first 3 years, company A reduces its gross profits by the amount of the losses; whereas the individual writes off the loss against capital.

In the fourth year each taxpayer makes a profit of $100,000 from the electric resistance wire venture. Company A pays a tax of $19,000 thereon, assuming no excess profits and no increased capital-stock taxes; whereas the individual pays an income tax of $50,000 or more.

During the 4-year period, corporation A had a tax saving of $57,000 less $19,000, or a net loss of $162,000, as against a loss to the individual of $250,000 or more.

The foregoing perhaps is one of the reasons why many bankers and businessmen are in favor of either compensatory tax exemptions or the right to carry over losses.

Mr. Charles F. Zimmerman, secretary, Pennsylvania Bankers Association, expressed himself thereon as follows:

> I believe in the principle of incentive taxation, whereby men who expend money for business development and who sustain losses over a period of years in doing so, should be permitted to offset profits in the earlier years in the history of a given business.

If Congress desires to promote the establishment of new enterprises and thus permit greater availability of work opportunities for our unemployed, it is urgently recommended that taxpayers be encouraged. Such encouragement can be permitted either through compensatory tax exemptions, or through the medium of liberalizing capital-gains taxes, particularly as they apply to first sale of new stock issued for the establishment of new enterprises or the expansion of existing concerns, and the right to carry over losses incurred during the first 5 years of operation in connection with the development of new products.

To do otherwise is patently unfair to the taxpayer who by providing capital for a new enterprise through the purchase of stock promotes the general economy of the Nation in addition to taking a high risk.

If Congress will establish a maximum capital-gain tax of 10 percent on any gain derived by a purchaser from the first sale of a new issue of stock and if Congress will grant a taxpayer 50 percent of any loss sustained as a deduction from long-term capital gain, from short-term capital gains, or from ordinary income, it will encourage financing by means of stock issues rather than by bond issues.

Numerous economists of note are of the opinion that one of the difficulties confronting business today is the preponderance in the capital structure of fixed interest-bearing debt. Certainly encouragement of stock financing may provide a cushion against deflation in future depressions.

For a potential source of tax revenue over the longer term, financing by stock in lieu of bonds would appear preferable in that as a rule stocks appreciate more rapidly than do bonds, price changes of which are limited by rather narrow fluctuations in interest rates.

If we have any decided change in money rates which will be severe enough to affect Federal Government bonds, the solvency of our Nation will be definitely imperiled. Therefore, is it not preferable to encourage private capital to solve our unemployment problem, rather than attempt to do so by a dole which continually increases our welfare expenditures and debt to the extent that Government bonds will become a "drug" on the market?

PLANT EXPANSION

From a tax standpoint the greatest impediments to plant expansion, particularly insofar as they apply to the relatively small and relatively prosperous corporations, are the undistributed-profits tax and the inability to carry over losses. Insofar as individually owned businesses are concerned the restriction on the carry-over of losses and the heavy surtax rates impose the greatest restraints upon expanding of production and service facilities.

Many businessmen and economists state that a businessman will invest his money only when he feels fairly well assured that profits are a reasonable expectation. Many defenders of our present tax system contend that a 60-percent tax rate should be no deterrent because they contend that if a businessman can make 40 cents net out of each dollar of profit he can well afford to pay 60 cents of the same dollar to the tax collector. In other words, by investing money he enriches himself by the 40 cents that he would not receive were the capital not invested.

The assumption in the foregoing is that capital is available to every man with a soundly conceived idea. Nothing could be further from the truth, notwithstanding the enormous reservoir of credit available today.

It is far more difficult to obtain for business purposes amounts less than $1,000,000 than it is to raise funds in excess of $1,000,000. The net effect is the same whether the funds are sought through normal banking channels or by means of publicly offered securities, requiring registration with the Securities and Exchange Commission.

This survey is not intended to cover criticism or suggestions as to correctives to the Securities and Exchange Act or to the banking system of the country.

This survey is, however, intended to investigate the ways and means of preserving our capitalistic system.

Let us dwell for a moment on the possibility of private industry absorbing on its pay rolls 6,500,000 unemployed, or the majority of our unemployed, which Mr. Fuller testified could be absorbed through the medium of an enlightened and modern tax system.

Let us, for the purpose of discussion, assume that 3,500,000 of the unemployed could be absorbed by private industry in making good deferred maintenance and in a partial modernization of plant and equipment without appreciable amounts of new investment, and to care for increased demand resulting from an improved economy. Let us further assume for the remaining 3,000,000 to be absorbed that an average per man of $5,000 is required in capital investment. It will thus be seen that $15,000,000,000 will be required in the way of capital expenditures.

Big business, and by big business is meant the largest and most successful of our corporations, is not presently in a position to perform exclusively this task. Small business should also contribute to the result if for no other reason than to perpetuate our competitive system.

How can small business do its part when our present tax laws impose conditions which make it extremely difficult, if not impossible, to accumulate funds with which to finance expansion, also to accumulate funds with which to liquidate indebtedness incurred for expansion purposes?

The conclusion is that the Government cannot take too much risk insofar as its revenue position is concerned, yet it should contribute to the common weal and aid legitimate business by affording tax rewards where projects are initiated which will reduce governmental expenditures in amounts greater than revenues will be decreased as a result of such exemptions.

Considerable mature thought has been given to the subject of plant expansion, as is evidenced by the following extracts of opinion offered the staff, viz:

Excerpt from letter, September 1, 1938, signed by F. T. Bedford, president, Penick & Ford, Ltd., New York, N. Y.:

As regards the second paragraph of your letter, it suggests something in our present corporation tax structure which I have always felt was wrong; that was no credit for capital expenditures under the tax on undistributed profits. Surely manufacturers should be encouraged to increase the size of their factories, which must mean increased employment not only in the form of labor that goes into the material and construction of the building, but the greater employment that would naturally follow from the extension to plant. But the law today does not consider this as money distributed in dividends and taxes this, and in reality penalizes new constructions.

Excerpt from letter September 16, 1938, signed by A. A. Garthwaite, general manager, Lee Rubber & Tire Corporation, Conshohocken, Pa.:

We are heartily in favor of having tax rewards included in the new corporate taxation structure. Direct benefits would accrue to the heavy industries and their employees, for the reason that corporations would be more willing to expand and modernize their facilities as their business required.

In our own case, we have been thinking for years of several major installations, but felt we could not afford them as it would be putting too much money into "brick and mortar" and machinery based on the present tax policy of the Federal Government.

Tax exemptions on earnings or capital invested in buildings, machinery, and equipment would encourage us to make these extensions. One of the extensions which we have considered is a warehouse building. The benefits to employees would not only be in the erection of the buildings, but would also enable us to give more even employment to our labor by permitting us to store tires during the slow-selling winter months, and it would take some of the peaks and valleys out of our production schedules.

At the present time large amounts of taxes must be paid in cash, and we hesitate about placing any of our earnings in permanent improvements, for we must protect with a maximum of current assets our position in our industry and the 2,000 employees of this corporation.

We have written this letter with the thought in mind as to how a compensatory tax-exemption program would apply in our particular case, in order that it may be of some possible assistance to you in the formulation of your program.

Excerpt from letter October 11, 1938, signed by Willard H. Dow, president, the Dow Chemical Co., Midland, Mich.:

There isn't any question in our minds but what the desire for tax exemptions on many items could very distinctly benefit industry. Taxing undistributed profits may be quite a sound theory from the tax-analysis standpoint, but has been clearly demonstrated to be impracticable in operation, due to obvious reasons. In the same sense, many plant expansions that are in the marginal class will be delayed, if there is a question of the amount of capital that might be required to finance their operation. In the same way, unemployment is bound to be hit with each marginal plant that isn't built and instead of such great control over every advantage we all attempt to accomplish, if a greater latitude were given for expenditure, greater prosperity is bound to result.

Applying this same principle to the individual case, which would be an interesting speculation—assume a man paid a high income tax, and if by building a fine home as a capital investment he could have this as a deduction on his income, it would be tremendously beneficial to all concerned, for not only would the expenditure of money for the home supply a lot of labor but if the home were built, it would necessarily mean an expenditure of a great deal more capital to maintain and operate the unit. This, possibly being a very simple case, certainly applies in modified terms to every industrial activity.

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Comment respecting incentive taxation—excerpt from letter dated October 3, 1938, signed by Richard Dreschsler, vice president, Remington Rand, Inc., New York, N. Y.:

The Federal Government would be decidedly practical in granting tax credits against dollars actually expended for sound and prudent plant expansion, for new home construction, for more continuous employment, and other equally beneficent measures contributing to the general welfare of the Nation.

Excerpt from letter November 2, 1938, signed by L. A. Warren, president, Safeway Stores, Oakland, Calif.:

Suitable tax rewards would encourage us to expand productive facilities. Tax rewards could be equitably granted to those companies who spend abnormal amounts for capital expenditures, as follows:

(a) Credit to be based on a certain percent of the excess of net capital asset expenditures made during the taxable year over the depreciation charges allowable for the year.

(b) Definition of capital assets would be "land and property used in trade or business of a character which is subject to allowance for depreciation as provided in section 23 (1) of the Revenue Act of 1938."

Mr. William Green, president, American Federation of Labor, Washington, D. C., in testimony before a special United States Senate committee, stated:

I am convinced that if the home builder could be assured that he would be tax exempt for a period of 3 or 4 or 5 years, it would have a most stimulating effect on private construction.

Now, then, I know it would be almost impossible to prevail upon the local taxing authorities to grant tax exemptions. It occurred to me that some plan might be worked out by which the Federal Government could subsidize private home building, partially, at least to that extent.

Excerpt from letter October 11, 1938, from Mr. Doubleday, Ingersoll Rand Co., New York, N. Y.:

In offering for your consideration the scheme of tax rewards in connection with plant expansion and replacements, I have in mind two things to be accomplished.

1. The setting aside of an impressed fund for such purposes in a prosperous year when the tax reward would effect a worth-while saving to the industry without seriously affecting tax revenue.

2. The expenditure of an impressed fund in a year of slack business, thereby creating more employment, bringing up the business level, with a possible tax advantage to the Government.

Usually in a year of good business, industry feels the need of additions and replacements, but is too busy to make them. When this is followed by a period of depression the incentive is lost and the expenditures are not made, although that is the time when industry might plan and execute such extensions and improvements under a well-considered plan in preparation for the returning tide of prosperity. I would therefore suggest the following:

Plant expansion.—That industry be permitted to set aside in a prosperous year an impressed fund for expansion in the plant and purchase of major items of equipment, to be expanded over the following 2 years, and that as a tax reward such appropriations be subject to a tax credit of, say, 5 percent, either as a direct tax reduction or divided as a relief from the undistributed-profits tax, now 2½ percent, and an additional direct credit of 2½ percent, and that this tax reward have a carry-over provision of 2 years.

If expenditures in the following tax year for such expansion exceed the appropriation for the preceding year, an itemized sworn statement filed with that year's tax return would validate the tax allowance of the previous year. Otherwise, the statement would show the appropriation, with a list of expenditures made therefrom, and the balance unexpended.

With the tax return for the second year following an itemized sworn statement to be filed if there was an unexpended balance, such statement to show the original appropriation, the amount expended during the first year thereafter and also the expenditures for the second year. If during the 2 years the appropriation had been expended, the original tax allowance in the appropriation year would be validated and if there remained any unexpended balance at the end of the second year, it would be restored to the general cash fund and a tax of 5 percent paid on this balance, but without penalty for the overdeduction in the appropriation year.

Replacements.—The same course might be pursued in the case of replacements, with a further proviso that where there is a detailed property record kept any undepreciated value of assets replaced, less the proceeds of a sale thereof as scrap or otherwise or of a trade allowance toward the purchase of the replacing asset be allowed as a loss, which is now denied where a composite depreciation rate is used.

Home construction or rehabilitation.—Where industry builds houses for sale or rent to employees, a tax reward might be set up on a scheme similar to that proposed above.

Special maintenance.—An appropriation might be made during a prosperous year of funds to be expended during the next 2 years for special maintenance, such as thorough overhauling of equipment, replacement of defective parts and rearrangement, with a tax reward in the year of appropriation without reference to a deduction of such expenditures from taxable income as an expense in the years of expenditure, during which there might be no tax saving because of a lack of taxable income due to poor business. Tax on any unexpended balance to be paid in tax return of second year.

We do not believe that such expenditures should be out of a depreciation fund.

The formula suggested by Mr. Doubleday will be considered along with the many other formulae in the chapter designated "Formulae."

References to the desirablity of technological improvements are incorporated in the chapter "Plant and equipment replacement," notwithstanding the need for such improvements in connection with expansion of existing plants.

At a time when it is admitted that the productive facilities of America are so greatly in need of modernization, and at a time when the debt of the Nation is so large, it would appear to be economical for Congress to authorize a series of compensatory tax exemptions.

Confidence in the future is essential to the national well-being and advancement of our Nation, and Congress, by authorizing compensatory tax exemptions for expenditures devoted to plant expansion, can do much to promote once again the flow of venture capital.

Congress, therefore, is respectfully requested to approve the recommendation of the staff, that some of the barriers to the expansion of plant and equipment be removed, by establishing credits to those of our taxpayers who, for the welfare of the country, contribute as importantly by plant-expansion expenditures as by those taxpayers who contribute through maintenance-expenditure channels.

PLANT AND EQUIPMENT REPLACEMENT

Lord Stamp has estimated that in England roughly 20 percent of the national income must be reinvested in industry so as to maintain a healthy progress.

Capital investments in the United States during the period of 1923–29, both inclusive, averaged $16,700,000,000 annually. The average annual national income during that period was $72,180,000,000. Our percentage of investment of the national income averaged 23.1 percent for those 7 years.

The foregoing figure of $16,700,000,000 excludes investments in other than the business field.

If, however, we confine our comparison to net-business capital formation (gross capital formation less retirements and depreciation) and use figures prepared by the National Bureau of Economic Research, we will note that during the 7 years 1923–29, the total net business capital formation amounted to $31,539,000,000, whereas during the 5 years of 1931–35, both inclusive, and these are the latest years for which figures are available, show that business capital consumption exceeded total gross-business capital formation by $12,562,000,000. In other words, these figures indicate during the period of 1931–35, a deficiency of net-capital formation, as it relates to business only, of $33,000,000,000. Since 1935, this figure has indoubtedly increased, if figures of the Securities and Exchange Commission as to issues for other than refunding purpose are any criterion. Our average annual depreciation accrual deduction for tax purposes amount to about $4,000,000,000.

In the record of the hearings is an estimate of one of the leading economists of the country, who believes that the deficiency of durable-goods production is in excess of $60,000,000,000, and he makes the very interesting comment that if this country is not to go downhill in the economic sense, but is merely to hold its own in a modest way, there are probably jobs for at least 7,000,000 able-bodied workers.

What has been the chief inhibiting factor of keeping between 25 and 30 percent of our employables in the ranks of the unemployed, where they are languishing in penury and woe?

Has it been high costs, occasioned by high tax rates and fruitless economic palliatives dictated by governmental fiats, which have not only retarded our domestic development, but which have at the same time placed us at an increasingly competitive disadvantage with other nations in our quest for world trade?

In view of the voluminous testimony in practically every report of governmental investigations, there is no doubt but that high taxes and high wage rates foster technological improvements by concerns with comfortable financial positions. On the other hand and perhaps unwittingly, Government by almost confiscatory tax measures, has stifled the savings of small concerns. Such savings could have been used to finance the needed improvements.

There is almost a universal recognition of the fact that technological improvements reduce production costs and sales prices or permit offering to the consuming public improved articles of commerce at no increase in sale prices. These results have usually generated greater use of the existing purchasing power and concurrently increased demand and employment.

With the relatively static total of national income and increased tax collections we are facing the serious problem of a lower standard of living and progressively increasing number of unemployed.

As an economic diagnostician, Mr. Leonard Ayres, says:

> Financial anemia is the ailment from which American business is suffering. Anemia is a lack of blood. Financial anemia is a deficiency in the flow of new capital, and in our case the flow has become inadequate and business stagnation has resulted.

Congress, which has assumed the position of administering to the financial ills of the Nation, should prescribe medication so as to cure the ill, rather than try to prime our blood stream by ineffective shots in the arm to which has been applied a tax tourniquet.

With the enormous deficiency in net-business capital formation Government should give every possible encouragement to private investors who can be reasonably expected to revitalize our financial blood stream, if Congress will but pass intelligent and constructive tax policies and rates.

Of all the questions propounded to businessmen by the staff, perhaps the most replies received treated with the necessity for modernization of our plant and liberalization of our tax policies in connection with expenditures for such modernization.

Even a cursory examination of the following will convince the doubtful of the uniformity of opinion as to the pent-up purchasing demand in the United States.

Comments respecting incentive taxation by Charles B. Knox, of the Charles B. Knox Gelatine Co., Inc., Johnstown, N. Y.:

> It has been proven that taxes provided the greatest single contribution to the cost of living. It makes no difference who pays these taxes in the first instance, the ultimate consumer pays them in the end.
>
> Incentive taxation should include, we believe, tax exemption to those spending capital for business expansion, replacement of buildings, machinery and equipment or in any other way which provides additional employment of labor and be the means of increased profits all down the line.
>
> There is no doubt that billions of idle capital is lying in the banks of the country ready to be employed if given incentive.

Excerpt from letter October 13, 1938, signed by Mr. R. S. Reynolds, president, Reynolds Metal Co., Richmond, Va.:

> I should like to go on record as being definitely in favor of incentive taxation.
>
> In the narrow sense, the company which spends money for repairs and plant expansion is, under existing conditions, putting more men to work and reducing Government relief. However, the implications of this act are broader and more fundamental. I feel it would do much to reassure business and encourage the timid dollar to venture once more.
>
> If America is to continue to increase its living standards and mass availability of comforts, it must make safe and sure the rewards that lure men to super-efforts and to great achievements.
>
> In the fight against the capitalistic system, the governments of the world are destroying the merit system, based on immutable laws of creation. Whether it be baseball or boxing or business, the rewards always have and always will lure men to proportionately great achievements. Any economic system that destroys what I like to call the merit system, will destroy that incentive which attracted to our shores the eager, daring men of all nations and made America the envy of the world.
>
> As an American, I am ashamed that business has become so jittery that it now must be paid to act normally. Any act on the part of Government that will make sure and safe rewards of industry's diligence and daring, meets with my hearty approval.

The railroad problem, particularly as it refers to plant and equipment is indeed a serious one. There is no lack of appreciation on the part of the staff of the enormity of their problems which encompass situations which will not be covered herein, except in passing.

The general counsel of the Association of American Railroads, Judge R. V. Fletcher, at the hearings testified to the effect that today there exists the greatest need for the expenditure of very large amounts of money in the rehabilitation of the railway plant.

Although the following figures are only a partial estimate of necessitous spending by the railways, they total up to a very sizeable amount. It will be noted that no estimate has been included for passenger-train cars, repairs to and repainting of buildings and bridges, no estimates for automatic train-control systems and other signal equipment, and many other items too numerous to mention.

Estimated expenditures for rehabililation of class I railways only

Expenditures now necessary to repair but 50 percent of bad-order freight-train cars for service	$53, 416, 000
New freight-train cars (100,000 cars per year for next 5 to 6 years) cost of	300, 000, 000
Cost of repairing bad-order locomotives	25, 000, 000
New locomotives (2,000 per year for next 5 to 6 years), cost of	200, 000, 000
Cost per year of new rail in place (2,000,000 tons per year for next 5 or 6 years)	100, 000, 000
Cost per year of new ties in place (60,000,000 ties per year for next 5 or 6 years)	90, 000, 000
Cost per year of new ballast in place per year for next 5 or 6 years	10, 000, 000
Cost of rebuilding of shops to accomodate modern equipment (per year for next 10 years)	220, 000, 000

The foregoing totals approximately $1,000,000,000 per year by the class I railways only. To this figure should be added a minimum of another hundred million dollars for railways other than class I. Assuming that 60 percent of the class I estimated requirements, or $600,000,000, represents labor, and the average annual pay per laborer is $1,500, the satisfying of railway requirements for 1 year only would provide steady employment for 400,000 workers.

Mr. J. J. Pelley, president of the Association of American Railroads, is authority for the statement that for every employee taken on by the railways one additional employee would be required by outside industry. The total to be reemployed would be in the neighborhood of 800,000 workers, if the railroads were able to rehabilitate their properties.

PUBLIC UTILITIES

Varying estimates are given by diverse authorities as to the annual amounts necessary to be spent by the privately operated public utility companies for the replacement and expansion of their plants, over a period of the next 5 years. The annual average expenditure should be between $2,000,000,000 and $2,500,000,000.

MACHINE INDUSTRY

Mr. F. Eberstadt presented the following testimony at the public hearings, viz:

> It is obvious that in the long run under the capitalistic system no country can prosper unless there is a gradual increase in wages and other income, accompanied by a gradual reduction in prices of manufactured goods. This can only be accomplished through greater output per man-hour, what the economists call increasing productivity of labor. The route to this lies in putting in more efficient machinery; that is, better capital goods, at the disposal of management and labor. Plant must be constantly improved if this objective is to be attained. Unfortunately the picture in the country over the past years shows retrogression instead of advancement. A study made by the American Machinist, one of the McGraw-Hill Publishing Co.'s journals, took count of the metal-working equipment of this country rated according to age. The result showed that of 1,345,447 machine tools in use by American industry, 65 percent were over 10 years of age, thus unsuited to conditions existing today. I would like to file that study with the committee, together with certain other data and charts furnished me through the courtesy of McGraw-Hill Publishing Co., Inc., showing the volume of industrial-building construction, building permits, the estimated total value of all construction in the United States, and the Engineering News-Record construction volume chart (filed with the subcommittee). I present these figures to show the tremendous volume of business which lies at the threshold, provided private industry can be induced to go ahead.

Increased depreciation allowance appears as a profitable field for investigation in our search to determine the most effective manner by which we can speed up the industrial tempo of the country, especially in the building and heavy machinery industries.

Mr. Walter D. Fuller, president, Curtis Publishing Co., expressed his conviction that depreciation allowances should be more flexible, when at the hearings he stated:

> Progressive businessmen everywhere advocate reasonable and regular charges for depreciation—they also generally prefer to charge off their physical assets at a more rapid rate if their profits will warrant such action.
>
> There is a further advantage to such a process. The reserve would be largely accumulated in the profitable years when the withholding of such money would cause no trouble either to workers or to stockholders—in many cases it would be spent in depression years since costs would then be lower and the work would be badly needed. The accumulation of these reserve funds in advance of need might also at times ease a concern's expense situation during a depression and thus help them to weather the storm, or possibly continue dividend payments, where under the present system such payments must be eliminated.

Mr. Fuller failed to add that if a concern is to be allowed an exemption from taxable income for depreciation accrued, the taxpayer claiming the deduction should be obliged by income-tax regulations to reserve cash or cash equivalent in the actual amount deducted.

One of the outstanding bits of testimony at the public hearings was contributed by Mr. Alfred P. Sloan, Jr., chairman General Motors Corporation, when he discussed obsolescence, technological improvements and benefits resulting from recognition of their importance in our industrial life.

> The tax incentive principle as applied to industry's specific problems.
>
> There is one specific application which I would like to mention which I believe is illustrative of this general scheme of things, and perhaps the one, at least in my judgment, that offers the best opportunity. And I might express that by saying that it is encouraging the substitution of the new for the old. In other words, it is doing those things that will encourage scrapping old instruments of productivity of various kinds, and buying the new.
>
> Now in support of that idea, I think it can be well said that today America's producing plant is obsolete. As a broad statement, that can be made. For instance, there was a study made by a responsible authority in 1935. It showed at that time that 65 percent of the machinery in the metal working trades was at that time 10 years old.
>
> Well, during the past 10 years, we will say, 8 or 9 years anyway, or rather since the big depression set in, there has been an enormous acceleration in the development, the injection of advanced technology in the development of our instruments of production. It is really remarkable what has taken place.
>
> Anything that might be done to encourage obsolescence—for instance, if industry when it destroys something and buys something new could have certain privileges in the way of encouraging that type of thing, would really be a marvelous help, I believe because you probably know that about 50 percent of industry's workers are concerned, are involved, in the production of capital goods, both durable capital goods and other types, as well as in the attendant services, such as the railroads that have to carry the merchandise incidental to that type of thing.
>
> And you probably also know that we have never had sustained prosperity unless we have had liberal employment in our capital-goods industries. You often see it stated that the real measure of whether we are going to be prosperous is the status of our capital-goods industries.
>
> Of course, employment in the capital-goods industries means that industry is developing, it is expanding, new things are coming, and that naturally reflects general business confidence. In other words, it reflects confidence in the fact that the capital so employed can be profitably employed over a term of years.
>
> But, irrespective of that fact, I believe that if we could encourage industry to bring our producing plant up to date, that the economic result would be not only to create employment in our capital-goods industries—that is very important in itself—but the productivity goes to those who are producing consumer goods would

be increased, it would result in our ability to produce those consumer goods at lower cost and hence sell them at lower prices. And the great problem before the economy today is—and the only way we can maintain the wage scale, and increase wages—is to do those things that lower prices. It can't be done any other way because if we go to work and increase wages and it increases prices, nothing is gained. We can only gain by increased efficiency and greater productivity per man, by the employment of more capital so the man can earn more. That is the only way it can be done, and that is why anything that could be done in an administrative way or in adjusting the tax structure to stimulate the capital-goods industry would, in my judgment, be helpful.

Very eloquent figures were submitted by Mr. Leo M. Cherne, as is evidenced by the following transcript of testimony submitted at the hearings, viz:

Incentive taxation for business improvement: We now turn to the second phase of the institute's survey concerning incentive taxation for business improvement. The questions concern this committee's study of the feasibility of tax rewards for the voluntary expansion of business.

The ninth question asks: "If additional deductions or credits were allowed for prudent improvement or expansion in industry, would you make improvements?" One thousand eight hundred and four say they would, as against three hundred and eighty-three who say they would not.

May I emphasize that there was prepared specific proposals rather than asking whether they were in favor of incentive taxation, or the result might well very have been the contrary. Then later we present for the first time the question, "Are you in favor of incentive taxation?" having conditioned the replies to the specific proposals.

"Would you make replacements?" One thousand five hundred and ninety-six say they would, as against three hundred and sixty-eight who would not.

"Would you start plant expansion?" One thousand one hundred and eighteen say they would as against six hundred and forty-one who would not.

"Would you, as a result, employ more people?" We find here that 1,622 of the business organizations would employ more people, as against 571 who would not.

Thus, on the basis of this question, additional deductions or credits would have, or the businessmen believe it would have, its most important business effect in reemployment, rather than in the stimulation of the durable-goods industries through replacement of heavy machinery or expansion of plant.

The tenth question inquires whether the business organizations would be induced to make improvements if they were permitted to take increased depreciation deductions on any new-plant equipment or property. One thousand three hundred and seventy of the organizations would improve if given this additional tax inducement, as against one thousand one hundred and thirty-five who would not.

Thus, there is apparently the conviction that increased credits or deductions would stimulate improvement more than would increasing the depreciation allowance on such improvements themselves.

In answer to the twenty-eighth question, we find, in addition that tax rewards would encourage 1,533 firms representing 397,510 employees to increase expenditures for plant and equipment, as against only 338 with 101,200 employees who would not. .

Evidence as to the desirability of tax rewards for plant and equipment replacement expenditures is preponderantly favorable, and Congress is requested to accede to the recommendation of the staff that due recognition be given to business for modernizing its plant and for contributing to the solution of our unemployment problem.

NOTE.—The study prepared by the "American Machinist" and referred to herein by Messrs. Eberstadt and Sloan follows (data covers only metal-working machine tools):

	Percent of equipment 10 years old	Percent total equipment in each Federal Reserve district
Production equipment	65	
First district	70	13.9
Second	69	14.0
Third	71	10.1
Fourth	68	18.8
Fifth	74	3.6
Sixth	77	0.6
Seventh	59	32.3
Eighth	51	1.2
Ninth	70	1.2
Tenth	83	1.3
Eleventh	59	0.1
Twelfth	65	2.9
Plant service and miscellaneous equipment	52	
Foundry equipment	58	

FORMULAE

This chapter is devoted to the many types of formulae by which taxpayers may earn compensatory exemptions for assisting in the ameliorating of the depression in which we have been for so long a time.

In the establishing one or more formulae, Congress should bear in mind if it wishes to instill confidence in the minds of capital; if it wishes to aid in the modernization of our plants of productivity; if it wishes to reduce materially the number of the unemployed; if it wishes to cause a consequential decrease in the expenditures for relief; and if it wishes to increase total tax collections without the imposition of higher tax rates or by a broadening of the tax base, that the regulations providing for compensatory tax exemptions must be broad-gaged and be sufficiently worth while to attract venture capital into the industrial economy of the country. If Congress does not assume a relatively liberal attitude the experiment may be initiated under a handicap, which might predestine it to failure.

At the outset the staff has no way of determining to what extent either Federal revenues or Federal expenditures may be reduced because of the adoption of the principle of tax rewards. Such a conclusion is obvious because of the inability of business to determine upon a budget in advance of the fixation of the rates and the rules by which tax abatements may be earned. If the German experience of 1934–38 is any criterion then instead of there being a loss in revenues, tax collections will be increased.

Testimony at the hearings held under this and other congressional resolutions, treating with economic problems plus current business literature, indicate two premises upon which Congress may proceed to consider compensatory tax exemptions. Both premises contain more than a modicum of substantiative logic for the favorable consideration by Congress of these recommendations; they are—

(1) The reluctance of venture capital to establish new enterprises, to expand production or to modernize plant and equipment except under dire necessity; these determinations apparently having resulted because of the present restrictive tax structure, and

(2) The enormous pent-up purchasing demand estimated at from twenty-five to sixty billions of dollars, during a period when interest

rates are at the lowest figure in our history due to an almost unlimited credit reserve.

Specific formulae together with collateral remarks as to their efficacy follow. It is to be understood, however, that a number of the schedules submitted are designed to produce the same general result. It will be observed that one formula provides as a basis for credit "Hours worked," another "Average number of employees on the pay roll," a third "Dollars of pay roll" with no differentiation being made as to the class of work performed (by this is intended the lack of distinction between expenditures now classed on one hand as deductible and on the other hand as nondeductible under existing tax regulations); whereas other formulae stipulate exemptions from net taxable income for amounts reserved or expended for specific purposes and which are not presently considered as allowable deductions when figuring taxable income.

Congress is respectfully cautioned to avoid the authorization of duplicate deductions, as for instance granting a credit for additional employees engaged, concurrent with full or partial exemption from tax for expenditures for capital improvements on which work the same group of employees is engaged.

Congress is also respectfully cautioned to protect its revenues from tax evasions especially in connection with credits for the establishment of "reserves." To be allowed as deductions, all reserves should be in cash or cash equivalent, and should they be set up for employee-benefit purposes the reserves should be "irrevocable."

Plan submitted by Mr. George Doubleday, chairman, Ingersoll-Rand Co., New York, N. Y.:

Plant expansion.—That industry be permitted to set aside from earnings an impressed fund for expansion in the plant and purchase of major items of equipment, to be expended over the following 2 years, and that as a tax reward such appropriation be subject to a tax credit of, say 5 percent, either as a direct reduction or divided as a relief from the undistributed profits tax, now 2½ percent, and additional direct credit of 2½ percent, and that this tax reward have a carry-over provision of 2 years.

If expenditures in the following tax year for such expansion exceed the appropriation for the preceding year, an itemized sworn statement filed with that year's tax return would validate the tax allowance of the previous year. Otherwise the statement would show the appropriation, with a list of expenditures made therefrom and the balance unexpended.

With the tax return for the second year following an itemized sworn statement to be filed if there was an unexpended balance, such statement to show the original appropriation, the amount expended during the first year thereafter and also the expenditure for the second year. If, during the 2 years the appropriation had been expended, the original tax allowance in the appropriation year would be validated, and if there remained any unexpended balance at the end of the second year it would be restored to the general cash fund and a tax of 5 percent paid on this balance, but without penalty for the other deduction in the appropriation year.

Replacements.—The same course might be pursued in the case of replacements with a further proviso that where there is a detailed property record kept, any undepreciated value of the asset replaced, less the proceeds of a sale thereof as scrap or other wise or of a trade allowance toward the purchase of the replacing assets be allowed as a loss, which is now denied where a composite depreciation rate is used.

Home construction and rehabilitation.—Where industry builds houses for sale or rent to employees, a tax reward might be set up on a scheme similar to that proposed above (plant expansion).

Special maintenance.—An appropriation might be made during a prosperous year of funds to be expended during the next 2 years for special maintenance, such as thorough overhauling of equipment, replacement of defective parts and rearrangement, with a tax reward in the year of appropriation without reference to a deduction of such expenditures from taxable income as an expense in the year of expenditure, during which there might be no tax saving because of a lack of taxable income due to poor business. Tax on any unexpended balance to be paid in tax return of second year. We do not believe that such expenditure should be out of a depreciation fund.

The suggestion of an impressed fund for plant expansion purposes, particularly as it refers to those individuals and concerns, which have to save from current operations the funds with which to finance the improvement, merits serious consideration by Congress.

This is especially true because of the penalizing provisions of the undistributed profits tax as it applies to corporations, and to the high rate of surtaxes as they operate against partnerships, and individuals.

Suggestion made by Mr. Lovell H. Parker that capital expenditures be exempt from his supertax should have equal application to the appropriation of reserves, provided such reserves are utilized within the 2-year period for the purposes for which reserved.

In lieu of making appropriations during prosperous years for replacements and special maintenance programs it would appear preferable to permit larger depreciation allowances as well as deductions for obsolescence, as suggested respectively by Messrs. Fuller and Cherne.

Through the allowance of higher depreciation rates than now prevail the small-business man, who could not accumulate in 2 years sufficient funds for a substantial rehabilitation of his plant, would be given a longer period in which to accumulate cash reserves which could be used either for replacement or expansion purposes.

If Congress recognizes the validity of tax exemptions and wishes to protect its revenues, it may be that a moderate increase in depreciation deductions and recognition of the factor of obsolescence would prove less of a drain on Federal tax collections than allowing large lump sum deductions for a period of 2 years or more.

Plan submitted by L. A. Warren, president, Safeway Stores, Inc., Oakland, Calif.:

Tax rewards could be equitably granted to those companies who spend abnormal amounts for capital expenditures, as follows:

(*a*) Credit to be based on a certain percent of the excess of net capital asset expenditures made during the taxable year over the depreciation charges allowable for the year.

(*b*) Definition of capital assets would be "land and property used in trade or business of a character which is subject to allowance for depreciation as provided in section 23 (1) of the Revenue Act of 1938."

The observation of Mr. Warren with respect to credit for excess capital expenditures is treated with favorably in other sections of this report. Although the staff recognizes the desirability of simplifying and clarifying the income-tax regulations, it does not feel free to comment upon accounting or tax definitions as legislated by Congress or as promulgated by administrative officials.

Plan submitted by Mr. William Aikman, business counsel, Associated Employers, Inc., San Antonio, Tex.:

The plan which I had in mind as an aid in relieving unemployment is comprised in the very simple expedient of giving an added credit to employers of labor in computing net income for the purpose of arriving at the tax liability of employers. I have not worked out the satisfactory answer to the exact credit that should be allowed; but for the purpose of this suggestion let us say that an added credit is to be given of 15 to 25 percent of the amount of the ordinary pay roll. In addition to the inducement to an employer to increase wages and increase the number of employees, I believe the income-tax revenues would be increased rather than decreased by virtue of the additional credits allowed on the theory that the incentive to obtain this credit would tend to induce added business activity and finally result in more profits in the end upon which taxes would be paid.

During the early days of the survey, the staff had prepared the tentative schedule which follows. The tax credit for consideration would be predicated upon the annual rate of earnings of the person employed and the credit would be earned by the employer only by taking on his pay roll a person certified for relief, for Works Progress Administration, or for Civilian Conservation Corps. No credit would be allowed for the employment of an alien who had not exercised his prerogative toward citizenship. Credits hereunder would not apply for capital-expenditure purposes for the same reasons as outlined under comments on the Pennsylvania Railroad formula.

Pay rate by private employers	Tax credit by Government per employee taken on by industry	Savings to Government per employee, on basis of $900 per annum cost per person	Pay rate by private employers	Tax credit by Government per employee taken on by industry	Savings to Government per employee, on basis of $900 per annum cost per person
$500-$520	$200		$901-$925	$285	$615
$521-$540	205		$926-$950	290	610
$541-$560	210		$951-$975	295	605
$561-$580	215		$976-$1,001	300	600
$581-$600	220		$1,001-$1,100	310	590
$601-$625	225		$1,101-$1,200	320	580
$626-$650	230		$1,201-$1,300	330	570
$651-$675	235		$1,301-$1,400	340	560
$676-$700	240	(1)	$1,401-$1,500	350	550
$701-$725	245		$1,501-$1,750	365	535
$726-$750	250		$1,751-$2,000	380	520
$751-$775	255		$2,001-$2,250	400	500
$776-$800	260		$2,251-$2,500	425	475
$801-$825	265		$2,501-$3,000	450	450
$826-$850	270		$3,001-$4,000	500	400
$851-$875	275		$4,001-$5,000	550	350
$876-$900	280		$5,001 and over	600	300

[1] Assuming an average cost to the Government of $900 per annum for all on Works Progress Administration, Civilian Conservation Corps, and relief, saving to the Government per person would approximate figures shown hereunder. Savings in brackets of those who would be gainfully employed at pay rates between $500 and $900 would probably be inconsequential. Some credits to the Government would of course accrue from reduction in Civilian Conservation Corps expenditures, and increased general business turn-over.

The savings to Government would be augmented by additional income-tax collections in those instances where the pay rate would compel the paying of an income tax.

It should be obvious that every person engaged at a salary in excess of $720 would contribute additional purchasing power to our economic system, and would provide a stimulus not presently possible.

The figure of $720 is used on the assumption that such a figure represents the average cash payments by Government to those on W. P. A. and relief and the difference or $180 represents administrative overhead. For some time it may be presumed there would be no appreciable decrease in such overhead, although it would not be amiss were Congress to stipulate that administrative expenses should be increased or decreased in relation to the actual number of citizens on the various rolls, exclusive of administrative personnel.

By granting of employee credits, Government would assist not only marginal industries, but also every employer in his quest to reduce costs of operations; to reduce selling prices of articles of commerce; to increase demand for products; and to speed up generally our industrial tempo. At the same time such credits would not have an adverse influence upon the wage structures since the employer would be obliged to pay the wage rate prevailing in his community or as a result of collective-bargaining agreements.

Plan submitted by Mr. F. Eberstadt, Investment Securities, New York, N. Y.:

It is suggested that in the impending revision of the tax laws Congress grant credits on the normal and undistributed profits tax to business over a period, say of 5 years, to the extent of X percent of annual profits for the amounts spent on building or other permanent improvements, extensions, and betterments, including new and up-to-date equipment, and that like credits be given private individuals, whether such expenditures be for residential or business purposes.

In order to expedite resumption of the capital-goods industry and building, it would seem advisable to give the largest credit for work commenced in 1939, reducing the amount of credit by a fixed amount during the subsequent years.

Senator VANDENBERG. Now, Mr. Eberstadt, in your formula you suggested that X percent of annual profits be immunized by this incentive taxation. Have you any idea what percentage X would have to be in order to produce an adequate incentive?

Mr. EBERSTADT. There are two very important considerations in determining the figure, and I shouldn't care to suggest any definite figure without a much more careful study of the actuarial ends of the question from the point of view of revenue production, but I should think it might run as high as 50 percent, say, between 25 and 50 percent. A fairly good measure is the converse of the undistributed-profits tax. That ran as high as 30 percent on the burden side. Possibly the opposite experiment might be tried, trying it at 30 percent, dividing the credit over 5 years, say, 30 percent, 25 percent, 20 percent, 15 percent, and 10 percent, as each year goes along.

Senator VANDENBERG. Under your formula there would be no incentive except if the corporation was making a profit, would there?

Mr. EBERSTADT. No; because normal depreciation ought to take care of the regular building, but one could imagine that in the spring of the year, for example, the corporation would be justified in going ahead on an incentive basis without knowing that disaster was going to overtake it in November. Profits are calculated on the arbitrary 12 months' basis, and a certain incentive would exist there because of expectation, if you will, of profits through the year.

Senator VANDENBERG. Well, if the theory is sound—of course, I completely agree with you—it seems to me that the formula ought to offer some inducement to the corporation which is still in the red and which perhaps can only hope to survive through encouragement of the nature we are discussing.

Mr. EBERSTADT. I hadn't thought of it from that point of view and I can't answer at once. On the other hand, your employment and your building is coming from those companies that are making money. Whatever inducements you hold out to those that are more or less consistent losers or even temporary losers, one cannot expect from them any great contribution to plant expansion and building improvements. However you phrase the act, and whatever its scope may be, your real contributions are coming from those companies that are in the financial position to make the improvements, and have a fair reason for anticipating that they can use them profitably.

Senator VANDENBERG. I think you are probably justified in saying that that is the field in which to look for the improvements. I was thinking more of the equity which the Government owes to all of its citizens alike, and I am wondering whether it is justified in confining its incentives to the prosperous, and offering none to those who have got to struggle to be prosperous?

Mr. EBERSTADT. Well Senator, the opportunities, I asume, would be equal, and if incentive taxation were used as a basis to bolster up tottering enterprises, to take the extreme case, I am rather doubtful as to whether that would work out because, take the marginal situation that survives merely by virtue of the incentive taxation, that is a bonus to that particular company, and I hadn't thought of it in that connection. I had thought of it more as the exact reverse, if you will, to the undistributed-profits tax.

Senator VANDENBERG. Consider the United States Steel Corporation, which proceeds with a complete modernization of its plant out of its accumulated surplus in a year when it is actually operating at a deficit. Take the Pennsylvania Railroad, which electrifies itself at a time when it has no profits.

Don't you think that the same incentive by way of tax compensation would apply in that circumstance as it would if they were actually operating at a profit?

Mr. EBERSTADT. As you stated, Senator, it appears to be worthy of thought. I had not considered that phase of the question. It may be that that could be accomplished by a tax credit available over a number of years. Certainly the Steel Corporation hasn't revamped its plants on the expectation of continued bad business, nor has the Pennsylvania electrified its road on the expectation of a continuance of the present situation--and that might be met by an available credit to be taken any time over a certain number of years.

But that thought just occurs to me at the moment, I haven't considered that very important phase of the subject.

Senator VANDENBERG. Well, it is important, is it not?

Mr. EBERSTADT. Very.

Much merit attaches, particularly from the standpoint of Federal tax collections, to the suggestion of Mr. Eberstadt that compensatory tax exemptions be graduated over a number of years. To make a definite recommendation with respect to the varying percentage is impossible without a careful study of income-tax returns and other pertinent statistical data not available to the staff. By so doing Federal revenues could be protected to some extent.

As was so forcefully made evident by Senator Vandenberg in his questioning of Mr. Eberstadt, full consideration through carry-over of compensatory tax credits should be accorded those individuals and institutions which show their faith in the future of the Nation by expanding and/or rehabilitating their plants and facilities during a period of depression.

Considerable discussion could be centered upon the question of adequacy and inadequacy of depreciation and obsolescence during profitable periods of operation as a contributory factor to rehabilitation expenditures, also to whether a company taking advantage of material prices and labor rates (which usually are more advantageous during depression periods) reaps a sufficient reward thereby and should not be granted an additional reward through a tax credit.

The factor of equity should apply and it is the recommendation of the staff that should compensatory tax exemptions be made a part of our tax laws, authorization to carry over credits as well as to carry over losses should be included in the law.

Plan submitted by M. H. Karker, president, Jewel Tea Co., Barrington, Ill.:

Before proceeding to the specific suggestions in reply to your letter I should like to make two general observations:

(a) The present revenue act sufficiently penalizes the "feast or famine" industries—those in which there are wide fluctuations in employment and in earnings—but it penalizes such industries only if there are years of losses alternating with years of profit. From our point of view and as it affects our industry, I see no reason for a change in this principle although others may have a different point of view.

There are three fields in which it occurs to me, corporate and individual employers should properly be rewarded for increased efficiency. Employers with the best showing or with an improved performance over base, in these particulars, are contributing directly and measurably to the economic welfare of the country and would be further encouraged to do so by relatively small tax advantages. The tax concession need not be anything like enough to pay the cost of the employer, but it should be sufficient to impress the fact that the contribution has been recognized and is valued by the Federal Government. The three factors which I believe to be important are these:

1. The average weekly employment during the tax year of larger numbers of men and women over those employed by the same business in the "base" year, with adjustments upward in the base for businesses or activities purchased but no adjustments down for business sold.

2. For the maintenance or increase of full-time (52-week) employment.
3. For distributions to workers over and above established pay rates whether such distributions are by means of bonus payments, profit sharing, wage extras, or otherwise.

Purely as a suggestion as to the method by which such tax incentive might be made effective, it is suggested that the item (1), numbers employed, the base year be made 1929, and that for each increase of 10 percent in the number of full-time average employees per week one-half of 1 percent reduction be allowed in the income-tax rate on the profits of the employer with a maximum credit for 100-percent increase employment (i. e., a maximum reduction in the corporate tax rate from 19 to 14 percent, plus additional credits not allowed by law). This one suggestion of means is submitted with the realization that it is an encroachment on the field of the technical expert in the drafting and administration of the law, but I believe it to be entirely practical and to hold the promise of much good.

The tax incentive must be relatively substantial if it is to serve as incentive for further improvement in employment and not alone as reward for those few organizations which have already increased employment.

In commenting upon Mr. Karker's suggestions, each of the three will be separately referred to, viz:

(1) The staff is in full sympathy with his suggestion, and has elsewhere in this chapter offered for debate purposes a schedule of credits applicable for additional employment. This type of credit would seem particularly appropriate for the consumers-goods industries, with its peculiar limitations upon expansion of their physical plants—also for the durable and capital-goods industries with a sufficiency of productive facilities.

(2) Taxpayers now guaranteeing full-time employment are permitted to deduct from taxable income full amounts expended therefor, and thus have the benefit of tax credits, except in those instances where operations are conducted at a loss.

The establishment of carry-over of losses occasioned by guaranteed full employment should be specifically authorized, even though Congress were not to recognize the wisdom of reestablishing the principle of carrying forward of all operating losses.

(3) Inasmuch as the staff is not recommending the granting of additional tax rewards for profit-sharing payments, no further comments are deemed necessary in connection with this particular recommendation of Mr. Karker.

Plan submitted by Mr. F. J. Fell, Jr., vice president and comptroller, Pennsylvania Railroad, Philadelphia, Pa.:

Proceeding upon the basis that employment would assist the Government by reducing the number of unemployed and on relief then for those corporations which have provided employment beyond what might be considered normal or average, such corporation would receive some reward in the way of incentive taxation by a reduction in their Federal income, excess profits, and capital-stock taxes, the amount to be expressed in a reduction of their taxable income for the three taxes mentioned above.

In other words, any year in which employment, expressed in hours paid for, is in excess of the average for 10 years, or some constant-test period, then there should be some allowance made in taxable income for such excess. However, the basis might start from the year 1931, and be for such period less than 10 years until the 10 years is reached, and then 1 year could be dropped and a year added, etc. No penalties should be added when the hours paid for by an employer in the railroads goes below the average, for the reason that the taxable income drops very materially as a result of a depression. However, such an incentive as suggested would have a tendency to keep up employment rather than decrease it.

As an instance of what took place on the Pennsylvania Railroad: In the 7 years ending 1937, the average per annum of hours paid for was 258,000,000 and in 1937, it was 289,000,000—1937 being an increase of 12 percent over the average. For each 1-percent increase in the number of man-hours worked in any particular year over the average for the 10 years there could be allowed as a deduction against net taxable income an amount equivalent to one-half of 1 percent of the estimated increased compensation paid, which would be calculated by taking one-half of 1 percent of the increased man-hours and applying thereto the average rate of pay per hour. The following concretely illustrates the above statement:

Taking the year 1937: (*a*) Excess hours of employment 31,000,000 or 12 percent; (*b*) one-half of 1 percent for each 1 percent would be equivalent to 6 percent increase; (*c*) 6 percent of 31,000,000 hours would be 1,860,000 hours; (*d*) 1,860,000 hours at an average rate of 70 cents per hour; (*e*) reduction in taxable income equivalent to $1,302,000; (*f*) reduction in taxes (income) $247,380.

It should be noted that the reduction is not in taxes, but in the amount of taxable income.

The above specific illustration may not be the proper mathematical table to work out incentive taxation based on giving the employer a reward for the hours of labor he provides, but it contains the nucleus of an idea which could be worked out—perhaps it should be more, perhaps less.

In the formula offered by the Pennsylvania Railroad as a tentative basis for discussion as to employment credits, no contradistinction is made as to the type of activity in which such additional employees are engaged.

Assuming that Congress were to accede to the recommendation that the principle of compensatory tax exemptions be included in the basic tax laws, and the exemptions would be applicable both to capital expenditures and to additional employees, it would then be incumbent upon the framers of the proposed tax amendments to stipulate that a specific credit for additional employees would not apply when labor directly employed by the taxpayer was engaged in work of a capital nature, or when such work was performed by an outside contractor. Were such restriction not incorporated in the law, duplicate credits would be granted.

Plan submitted by Mr. Allen W. Rucker, president, the Eddy-Rucker Nickels Co., Cambridge, Mass.:

Dear Senator Vandenberg: May I supplement my testimony of yesterday with reference to tax incentives by these two suggestions?

First, it may prove feasible, and I believe it would prove most welcome to business, if under a new law corporations might set up a reserve account against which could be debited losses on inventories in the years in which they occur, with credit for inventory gains in the years in which such gains occur, the inventory gains to be free of taxation. It has been my experience over the past 15 years that the current level of profits is either unduly inflated by inventory gains due to rises in raw materials and the like and, conversely, in times of adversity unduly inflated by inventory losses. If a formula could be found for permitting corporations to throw such gains and losses into a special reserve account, which would be untaxed within a reasonable period of years; that is, the reserve account's net credit balance might rise to a certain proportion of total assets before a tax would apply on such additions to the account due to inventory gains, I think it would be constructive.

My second suggestion is that in allowances for depreciation it is now customary to deduct depreciation on plant equipment an equal percentage amount year by year. I believe that it would be useful to permit business to charge off depreciation at so much per unit of products. The effect of this would be to level off some of the peaks and valleys in the tax income of the Government and also to restrict the fluctuation of the profits of individual firms.

The second of these suggestions would be a definite incentive for corporations to increase the physical volume of output in each year, inasmuch as that would permit a larger deduction for depreciation. Many corporations, particularly in times of depression, might thus be encouraged to offer their products at lower prices than they otherwise might do simply because the larger volume would permit some price concession to be made up in depreciation deductions. Inasmuch as total man-hours of employment vary almost directly at any given level of efficiency with physical units of production rather than their dollar value, the move would be constructive from that viewpoint.

I offer these suggestions in the hope that they may prove useful to your committee.

Let me thank you for the courteous and friendly hearing yesterday and to say again that I feel privileged to have had an opportunity to take a part in the splendid effort which your committee is making.

Cordially yours,

A. W. RUCKER.

In considering the two concrete examples of incentive as submitted by Mr. Rucker, it is difficult to classify the establishment of a new formula for inventory pricing and accounting as coming within the purview of this survey, except to the possible effect that paper losses might be the excuse which business could use when it desires to retrench.

There is no lack of appreciation on the part of the staff of the effect on taxation of the more-or-less arbitrarily writing down of the stated value of unsold assets.

The taxable income resulting from increments over previous write-downs and the exemption from taxation for reductions in stated values is premised on a concept of value at a particular minute and not on an actual transaction basis. Such a basis for the collection of revenues, or exemption from tax payments thereby, is neither sound nor scientific, especially for the many commodities which are traded in on recognized exchanges.

Customarily the value to be assigned to millions of dollars of assets is predicated on the last sale or the last quotation on a given day with such sale or quotation having reference to but a minute fraction of the total amount of the specific commodity involved.

All too frequently prices are either nominal or in times of depression are perchance unduly low because of sacrifice sales, because of desires on the part of investors and speculators to establish capital losses, or are inordinately high in times of prosperity due to speculators believing there is no ceiling to profits.

In the redefinition of what constitutes profits and excess profits or in the refining of the Federal tax regulations, the adoption of a formula for inventory accounting could be considered, but the staff engaged upon this survey prefers not to complicate the issue of compensatory tax exemptions by considering incentives beyond a clearly defined field comprising added employment, capital expenditures, and long-term maintenance programs.

As to the allowance for depreciation, much merit attaches to his suggestion notwithstanding the difficulties with which each manufacturer would be confronted by the factor of obsolescence. The question immediately arises as to whether manufacturers in a profitable year would increase production so as to attain a lower tax and by so doing build up inventory, particularly of staple goods, to the extent that unemployment in the following year would be accentuated?

Would the offering of merchandise by the large producers at lower than regular prices have an unhealthy tendency of competitively stifling small competitors?

On the other hand would such a procedure stimulate technological improvements?

The subject is so broad that the staff prefers not to make a definite recommendation with respect thereto, other than that the suggestion be given detailed consideration when the next tax measure is being framed.

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Plan submitted by Mr. Leo M. Cherne, executive secretary, Tax Research Institute, New York, N. Y.:

Incentive taxation to promote capital expenditures and plant expansion; deductions for capital improvements: That the revival of the heavy-goods industries and the construction industry is a prerequisite to a sustained high level of business activity has almost become an economic axiom. In order to encourage expansion of plant facilities, construction of new industrial buildings, additions to existing industrial plant facilities, repair and restoration of the depreciated buildings and the purchase of new machinery and other equipment, it is proposed that special limited deductions against gross income be permitted on account of expenditures made for these purposes. The revenue act now specifically provides that amounts expended for capital improvements is restoring property and making good the exhaustion thereof may not be deducted from gross income.

If a limited deduction is permitted on account of such expenditures, an incentive to expand profits and earnings for these purposes in order to reduce liability will be presented. In order for this incentive to be effective, it is necessary that deductions from gross income, taken on account of these expenditures, shall not affect the basis of the property thus acquired, either for the purpose of computing gain or loss on subsequent disposition thereof, or for the purpose of computing annual depreciation allowances on such property.

It is specifically proposed that 50 percent of amounts expended for these purposes shall be made deductible from gross income in computing the taxable net income for the year in which paid or incurred with the limitation similar to the limitation for charitable institutions, that amounts deducted during a given taxable year for any and all of such purposes may not exceed 15 percent of the taxpayer's net income as computed without the benefit of this new deduction.

It is submitted that although these provisions would make available to business additional offsets against gross income, they would result in an actual increase rather than a decrease in revenue. The purchasing power and high level of business activity generated by construction encouraged by these provisions would ultimately result in increased income to the taxpayer making deduction, so that his net income would be at least equal to what his net income without the new deductions and without the new plant and equipment facilities would be. Further, new taxable compensation and business income would be created by increased employment and stimulated business activities, arising out of construction encouraged by this liberalization of the revenue laws.

Alternative plan for tax benefits where expenditures are made for new facilities, equipment, and so forth: The undistributed-profits tax and its counterpart in the 1938 act have compelled business corporations to distribute dividends and profits which they would prefer to have used in the purchase of new equipment and the expansion of plant facilities. The plowing back of corporate earnings and surplus into plant, equipment, and business expansion would result in the national industrial expansion necessary to liquidate relief rolls. Corporations using earnings and surplus for this power should receive tax credits at least equal to those received by corporations distributing dividends.

INCREASE IN EMPLOYMENT

The problem of increasing employment and liquidating relief rolls is the most important problem which challenges the business and legislative resources of the Nation. Increased employment is an objective which should be considered in fashioning every piece of legislation. Talk of business and Government cooperation has been widespread; action in that direction has been notably scant. Here is a concrete proposal for Government-business cooperation to further reemployment. It is specifically proposed that the Government make available to industry tax deductions which shall be conditioned upon reemployment by industry—a merit-rating system applied to taxation.

The Government would grant tax benefits only if, as, and when business absorbs idle men and liquidates relief rolls, thereby curtailing Government expenditures and reducing the need for Federal revenue. If Government gives business tax advantages, business can afford to reemploy idle men. If business reemploys idle men, the Government can afford to reduce tax rates. Again, if business absorbs idle men, a lower tax rate will bring an equal or an increased amount of revenue as taxable income is increased. If industry does not absorb idle men, the tax rates are not changed and the Government loses no revenues.

Here, then, is a sound practical program offering business cooperation, encouraging business to go forward with expanding industrial pay rolls and rewarding the employer who is able to plan work for men now unemployed.

This is plain good business for both Government and industry.

Mr. Cherne's detailed plan follows:

It is proposed that all taxpayers conducting business in which four or more are employed should be allowed a deduction from gross income in an amount which shall be based on the increase in the average employment of the taxpayer for the particular taxable year over the taxpayer's average employment index for the 3 taxable years beginning 3 years prior to the effective date of this enactment. This average employment index will be computed on the basis of an information return containing employment data for such years. The average employment index thus established will then form the basis for the employment deductions for the subsequent 3-year period. The deduction which will be allowed will be a fixed percent of the operating gross income of the business for a given percent of increased employment in the taxable year over the average employment index.

And as an alternative to the provisions, it could be provided that each employer's average employment index could be computed according to the rules and regulations to be promulgated by the Commissioner, rather than that 3-year period. There we were forced to take a specified period of time for a base index.

Taxpayers employing four or more employees in their business will be allowed a deduction from gross income as follows: On an increase of — percent in employment during the taxable year over the employer's average employment index, a deduction — percent of the gross income derived from such business; and for each additional increase in employment of — percent during the taxable year over the employer's average employment index, an additional — percent will be allowed. The average employment index will form a basis for this employment deduction for a period of 3 years. At the expiration of this 3-year period a new average employment index will be computed on the basis of employment records for the preceding 3 years.

Taxpayers commencing business during the 3-year period beginning with the taxable year commencing in 1939 are required to file an information return on or before the 30th day of the third month following the close of their first taxable year which comprises a full 12-month period. This information return must include data as to their average number of employees during each month of such taxable year. On the basis of this return the average number of employees for the period covered by the return will be computed. This computation will then constitute the employer's average index upon which deduction for the remainder of the 3-year period beginning with the taxable year commencing in 1939 will be based.

[NOTE.—As an alternative to the provisions of the last paragraph, it could be provided that such employer's average employment index could be computed according to rules and regulations to be promulgated by the Commissioner.]

BUSINESS EXPANSION

Proposed changes in law: It is proposed as an incentive to encourage business expansion that sections 23 (e) and (f) be amended to provide that taxpayers initiating an entirely new business enterprise, expanding plant facilities, or investing capital in the purchase of new equipment after December 31, 1938, may deduct from gross income any net operating losses by reason of such new business enterprise or expansion incurred during any taxable years beginning after December 31, 1938, and not prior to 3 years preceding that in which deduction is taken.

The result of this change in law: It is submitted that while these provisions will give business the benefit of additional offsets against gross income, their stimulating effect upon the national economy in encouraging new enterprises, expanded production, and the expansion of plants, and equipment—and necessarily employment—will actually result in (1) an increase in the net income of the taxpayer receiving benefits over a period of years, arising from expansion efforts, which otherwise would not have been undertaken, and (2) increase in taxable salaries and other income arising from increased employment and increased business resulting from new ventures encouraged by this liberalization of the revenue laws.

DEPRECIATION

Incentives for the purchase of new business property: Depreciation deductions: A common complaint of the businessman is that frequently he does not get the benefit of depreciation deductions for the full expenditure for his depreciable assets. He is restricted to the deduction of a relatively fixed proportion of the cost during each year of the useful life of the property. This deduction must be taken yearly, irrespective of whether or not the taxpayer has taxable income and thus irrespective of whether the deduction has the effect of causing any reduction in tax liability. Under this method, if newly purchased machinery has a useful life of 10 years, and during the 10-year period the business sustains losses without the benefit of deduction for depreciation during 4 years, the taxpayer has effectively been allowed a depreciation deduction to the extent of only 60 percent of the cost of the machinery. Further, if a taxpayer fails to make an adequate depreciation deduction in 1 year, he cannot add it to his depreciation in a later year. An amendment to the law in this respect, more favorable to the taxpayer will, it is believed, furnish an incentive to the purchase of new or additional property such as machinery used in the taxpayer's business.

Three alternative proposals are advanced to effectuate this purpose. The first is to permit taxpayers to take depreciation deductions on property acquired after December 31, 1938, in any amount in any year during the expected life of the property until the entire cost has been recovered. The second proposal would permit depreciation deductions in the same manner as at present, except that on depreciable property acquired after December 31, 1938, the taxpayer will be permitted to carry over the deductions or any part thereof which is not needed to show no net income for the year to the next taxable year, during the useful life of the property, in which a net profit is realized. The third proposal is to retain the provisions of the present law with respect to depreciation allowances intact, except that depreciation allowable on depreciable property should not reduce the costs basis of such property unless the depreciation has been or could have been utilized to reduce tax liability.

Plan submitted by Mr. Lovell H. Parker, former agent of the Joint Congressional Committee on Taxation, Washington, D. C.:

Now, in the interest of brevity, I wish to come directly to the point of suggesting what I consider a safe and practical method by which certain additional incentives might be incorporated in the tax laws. This method is based on the proposition of maintaining a present level of taxation unless certain expenditures are made tending to increase employment, in which case the tax will be reduced and approach a certain minimum.

The method I suggest for your consideration may be briefly stated as follows:

1. Impose a normal tax.
2. Impose a surtax.
3. Impose a supertax.
4. Reduce present surtax rates, but compute normal and surtax on the net income as defined in the existing law.
5. Allow certain incentive deductions from net income in arriving at what may be called a supertax net income subject to a graduated supertax.
6. Adjust supertax rates so that if there are no incentive deductions the tax will be as great as under existing laws.

For example, take the man that makes $1,000,000 a year. Under existing law his tax is $679,000, and he has $321,000 left. Now, suppose you fix a normal and surtax rate so that the sum of these taxes will amount to $400,000. At this point he has $600,000 left. Now fix the supertax rates on the $600,000 so that his supertax would be $279,000, if he has no incentive deductions. On the other hand, if his incentive deductions equal $600,000 or more, he will only pay the minimum tax of $400,000. Of course, if his incentive deductions are somewhere between zero and $600,000, his total tax will be somewhere between $679,000 and $400,000.

That is just to give you the idea that you have a minimum tax of $400,000. That is, of course, up to Congress: they might want to make it $300,000 or $500,000, but you would have a minimum that would reasonably protect your revenue.

One purpose of this system is to provide for a certain minimum tax on net income computed as at present, and thus protect the revenue. The other purpose is, of course, to provide for a reasonable system of trying out incentive taxation.

The principal advantage of this normal surtax and supertax plan would be to provide a fair minimum tax and yet give reasonable incentive to the expenditure of money, resulting in employment by giving deductions for supertax purposes only. In other words, the revenue of the Government would be protected and still a fair trial of a step toward incentive taxation could be made.

There would be another advantage to this supertax plan, which is not connected with incentive taxation. Certain equitable reliefs could be given which are now deemed too expensive. Under existing law a married man with a $10,000 salary, who pays $1,000 rent and $3,000 for food, clothing, and living expenses, pays a tax of $415, and he has $6,000 left with which to pay it. Another married man with a $10,000 salary, paying $1,000 rent the same as the first, $3,000 for food and clothing and other expenses as in the first case, $3,500 for college expenses of his 20-year old son and 19-year old daughter, and $2,500 in hospital and doctors' bills, also pays $415 in tax, although he had nothing left out of his salary with which to pay it.

This may be excusable in such a case now, the tax in the lower brackets being so small; but suppose the tax in those lower brackets is raised, as so often has been advocated. For example, suppose our tax on a $10,000 salary, instead of being $415, was $1,645, as it is in England. Then it might be very much in accord with the principle of ability to pay to allow, at least for supertax purposes, a deduction for doctors' and hospital bills and some allowance for children over 18 who are attending school or college. As you know, allowance is already given for children under 18, therefore under the existing law this allowance is taken away just when the actual expenses are the greatest in the case of children being sent to school or college.

As far as corporations are concerned, a similar system might be employed with a minimum rate on the net income computed as at present, and a supertax rate to be applied to the supertax net income arrived at by deducting the incentive-tax allowances from the net income.

In conclusion, I believe there is nothing more important than the speeding up up of all industry and the increase of the national income. It is possible that this can be done by direct legislation, lack of legislation, or repeal of legislation. If it can be done even by changes in tax laws, it might be that the ends would justify the means.

Senator VANDENBERG. The point at which your formula chiefly differs from the existing practice is in your creation of the so-called supertax bracket; is it not?

Mr. PARKER. That is correct. Of course, that may look complicated. It isn't complicated. You just make one more computation. But the trouble with most of these tax-reduction plans is that when you first look at them on paper they appear to make such a tremendous difference in the revenue that you don't dare make that trial. Now in connection with my plan you can limit the theoretical loss of revenue. But you should look at the proposition from a long-run viewpoint. Now, you might be able to figure that if we lose two or three hundred million the first year that would be all right, but if you were facing the loss of a billion that would be another matter. Under my plan you can adjust this proposition so as to give some incentive without taking very great chances. Your loss would be absolutely limited. Your gain would be more uncertain, but it might even make up the loss, and in the long run I am rather inclined to think it would substantially increase your revenue.

Take the rich man—I have no great brief for the millionaire—but here is a man that loses $1,000,000 this year. Now, he has got to make $1,000,000 in 3 successive years to get even—he doesn't even get even then, he is still out $34,000. So that the man with the capital that you want to employ in productive enterprises is being kept out of business. He just can't make money if he is investing in any business that has any chances or hazards to it, because he is bound to have losses, and therefore, he would have a much better chance at the race track—I mean if he didn't include his winnings in his income—he would have more chance to make money than he would in business.

Senator VANDENBERG. This is what I wanted to get at first. Mr. Parker, while you call this new category a supertax category, that might at first blush be misleading. It is merely a redivision of the existing tax collection; you are not proposing the assessment of a supertax which would be a tax on top of the existing tax?

Mr. PARKER. No; I am proposing to keep the tax at about the present level, but instead of dividing it into two parts, divide it into three.

Senator VANDENBERG. And the supertax is simply the third and final section of the tax as it now exists?

Mr. PARKER. That is right.

Senator VANDENBERG. And the purpose of the further division, as you indicate, is to leave a ceiling on the Federal revenue?

Mr. PARKER. That is right; it can't drop below a certain rate.

Senator VANDENBERG. You were very much more definite in analyzing your suggestions in respect to individual tax returns than you were in respect to the corporate tax returns. Would it be correct to say that your analogy in the corporate-tax field would mean that you would approve of the application of incentive taxation in the supertax bracket for plant expansion and plant replacements?

Mr. PARKER. I would have the same incentive deductions, and by the way, I may not have listed all that could be used. I have a few more that might be considered.

Only, in the case of the corporation, you wouldn't have to have this normal surtax and supertax, you would divide it into two parts in that case, because I don't think, in the case of a corporation, you have any need for graduation. With corporations the size of their net income isn't a good basis for a graduated tax because you can't tell how many stockholders are in it. A corporation may have a large net income but it may have a large number of stockholders, and graduated taxes on corporation's incomes become unfair unless they are based on some principle like excess profits or something like that.

So that this plan with respect to the corporation, what I had in mind, roughly, was to compute their net income as at present and pay a certain rate, 12½ percent, perhaps; on the supertax net income, after taking off these incentive deductions, perhaps 10 percent. Of course, that might be applied to zero, or it might be applied to part of their net income, according to the magnitude of deductions.

Senator VANDENBERG. In your suggested deductions for corporations, would you specifically include in your suggestions allowance for plant expansion and plant replacements?

Mr. PARKER. Yes; I would. In fact I think if you are going to apply this system you want to make it of general application. I think that is one trouble with the allowances you make to oil and mining businesses by way of percentage depletion. You stimulate that industry but you want to stimulate all industries at the same time.

Senator HERRING. It was suggested, Mr. Parker, that in connection with your general proposal we get your reaction as to whether or not you could obtain the same results as you hope to obtain by limiting the incentive deduction to a certain percentage of the net income.

Mr. PARKER. You mean abandon the surtax idea and limit this deduction to a certain percentage of the net income?

Senator HERRING. Yes; if you could obtain the same results.

Mr. PARKER. Well, it would be a very difficult thing. If you have a different percentage for each deduction you would have all these percentages operating; however, if you lumped all the deductions together and set a percentage limit that would be practical, I believe the results though would be different than under my plan.

Senator VANDENBERG. I would like to ask you one more question, Mr. Parker. When the Tax Research Institute of New York City testified the other day, they offered a specific proposed change in the revenue act, dealing with the particular thing you and I were discussing a few moments ago, namely, the importance of stimulating plant expansion and plant replacements. Evidently their suggestion also has in mind the necessity for protecting, to some degree, the existing Federal revenue. I would like to read to you—it is very brief—the proposed change which they suggest in section 23–A of the 1938 Revenue Act. They suggest it be amended to permit the deduction of—

"Fifty percent of any amount paid out for new buildings or for new machinery and equipment or for permanent improvements or betterments to be used in the taxpayer's trade or business, whether or not having the effect of increasing the value of any property or estate, and any amounts expended in restoring the property or making good the exhaustion thereof, whether or not the allowance is or has been made, provided that the total of such amounts permitted to be deducted during a given taxable year for any and all such purposes may not exceed 15 percent of the taxpayer's net income as computed without the benefit of this deduction."

Would that provide the essential revenue protection that you have in mind?

Mr. PARKER. That would provide protection. Of course, you have one little difficulty there. We already allow the corporation 5 percent as a deduction for charitable gifts—and it has got to be specified whether you are going to consider the net income after that charitable gifts deduction, because you have the two percentages. You can do it, but suppose you wanted to give three or four more deductions—they propose one deduction, then you have all these different percentages and you are in more trouble. I think, unless you provide that the total of all these deductions shall not be more than 15 percent—and you could work it out that way—you would not gain in simplicity. This is the essential difference between the two plans. Under the one proposed by the Tax Research Institute you get no relief for spending for employment and plant expansion more than 30 percent of your net income; under my plan the relief increased until you have used all the net income you have left after payment of the minimum tax. Let me illustrate in the case of an individual. Under the 50–15 percent proposition, an individual having a net income of $1,000,000 who spent $300,000 for plant expansion would have his tax reduced from $679,000 to about $565,000. If he spent more than $300,000, his tax would not be further reduced. Under my plan if he spent $300,000 he would have his tax reduced from $679,000 to about $540,000 (not a far different result), but if he spent $600,000 instead of $300,000 his tax would be reduced to $400,000.

My objection to the percentage limitation is that it will discourage instead of encourage expenditures beyond the point of that percentage. That is what happened in the case of the percentage limitation used in the allowance for charitable gifts.

Both Messrs. Lovell H. Parker and Leo M. Cherne have been so explicit in their respective formulae, and have been so lucid in their explanations of the details considered essential to the weighing of the principle of compensatory tax exemptions and the consequent effect on both Federal revenues and the national economy that no comments additional to those included elsewhere in this report are considered necessary.

Numerous certified public accountants, businessmen, and economists have suggested the desirability of exempting from income taxation expenditures by individuals, when such outlays take the form of home construction, purchase of new automobiles, radios, furniture, and other durable goods of a personal nature. Desirable as such a procedure would be the staff believes that such experimentation with compensatory tax exemptions at this particular time should, insofar as individuals are concerned, be limited to business expenditures, home construction and rehabilitation and hiring of an additional employee or employees. Also to the purchase of agricultural machinery by the agricultural population.

Rehabilitation expenditures as referred to in the foregoing should be limited to expenses in connection with the building proper and be understood not to include the furnishings therein.

Impetus could also be given to the building industry, if for example capital gains of all descriptions were exempted from taxation, when such capital gains were invested in new buildings, rehabilitation of existing buildings, or the expansion of going concerns. The President indirectly commented upon this suggestion in his Arthurdale, W. Va., speech when he explained his reasons for neither vetoing nor signing the 1938 revenue act.

The following figures afford an indication of the impetus to our general economy through exempting from taxable income capital gains used to erect a $20,000 home (exclusive of land), by an individual in the 10-percent tax-bracket class.

For purpose of comparison we will assume that labor constitutes 60 percent of the cost of the home:

60 percent of $20,000 equals spending power in hands of labor	$12,000
10 percent tax on $20,000 used for relief	2,000
Excess spending power in hands of labor	10,000

Through the elimination of the $2,000 of tax, Government under the following condition could save $3,400, provided we were to assume that the actual construction time would be 6 months and would require the services of 12 artisans (now on relief) at an average annual pay rate of $2,000 each.

Estimated cost to Government of 12 persons on relief at $900 per annum, for 6 months ($450 each)	$5,400
Reduction in tax	2,000
Estimated net saving	3,400

Increased turn-over of money, through additional spendable funds in the hands of workers ($10,000 minus $5,400, or $4,600) would also be a consequential factor in our economy since presently we do not commercially utilize our credit or our currency to the fullest advantage.

Ten thousand dollars as represented by this one transaction, is not a consequential sum but multiplied by the tens of thousands of cases, such an exemption would contribute materially to the restoration of our long range economy. It is realized of course that every individual will not have capital gains on which exemption could be claimed, but Congress to equalize the credit to the man who did not have such capital gains could exempt from current taxation, income devoted to amortization of principal payments on homes built during the effective life of the suggested experiment in compensatory tax exemptions.

Mr. Cherne stipulated that reemployment credits should apply only to those employers now having four or more employees. The staff cannot agree that the small-business man or the householder should be deprived of an equal opportunity to share in credits, when such assistance could be of so much value to the economy of our country. Therefore the staff recommends that credit be extended for every additional employee added to a pay roll.

As Senator Herring, chairman of the subcommittee, pointed out—

> To assist little business to prosper and grow is a primary obligation of all of us. The one, two, or three extra employees put back to work by the neighborhood grocer or tailor in every shopping center might swell the ranks of the employed more rapidly than by constant appeals to big business to put men back to work, although everyone should be appealed to to do his part.

The problem of administering tax exemptions should occasion no particular difficulty. Additional checking of returns would, of course, be necessary but such checking would be of a routine nature.

Factory and business pay rolls, vouchers, and journal entries are now available as are data respecting social security, W. P. A., C. C. C., and relief. For additional employee credits, the taxpayer should be required to attach to his return an attested copy of the certificate of the C. C. C., W. P. A., relief organization, or other Government body showing that the worker was an American citizen and in good standing. It should also be requisite that an affidavit by the employer be attached showing that other employees were neither discharged or would be discharged to make work for employees for whom tax credits would be allowed.

Only one schedule would have to be added to the present income-tax return and that would cover capital expenditures and reserves set-up, whether the credits to be allowed would apply against the scheme of supertaxes as suggested by Mr. Lovell H. Parker or against normal income or against the undistributed profits tax.

Inasmuch as the Internal Revenue Department has certain established procedure it would appear as though the creation of the supertax bracket as suggested by Mr. Parker could be adopted with good results and such adoption is so recommended.

The staff of the Joint Congressional Committee on Taxation and/or the actuaries of the Treasury Department are better equipped, for obvious reasons, than is this staff insofar as suggesting the rates of credit which should apply. The staff, however, stresses the advisability of the regulations being broad-gaged and the rates being relatively liberal for the next 3 to 5 years, or until such time as the over-all percentage of obsolescence in our physical plant facilities is materially reduced.

LEGISLATIVE RECOMMENDATIONS

In addition to the chapter "Legislative Recommendations With Respect to Profit-sharing," congressional approval is respectfully requested of this recommendation to grant specific tax credits and to extend the philosophy of compensatory tax exemption so as to include as allowable deductions in computing net taxable income certain expenditures and/or bookkeeping transactions of the classifications hereinafter outlined, and to exclude from consideration when computing net taxable income certain other transactions which are now subject to Federal income taxes.

SPECIFIC CREDITS

Specific tax credits for increased employment, when such employees are engaged in other than capital expenditure projects.

FOR CONSIDERATION IN COMPUTING NET TAXABLE INCOME

Reasonable exemption from taxation of expenditures and/or appropriations for capital purposes, such as establishment of new enterprises, plant expansion, plant and equipment replacements, additions and betterments to existing facilities.

Exemption from capital-gains tax and increase in deduction for capital losses of gains and losses realized by first purchasers of securities issued to finance new enterprises or expansion and additions and betterments, and major rehabilitation expenditures by existing enterprises.

Carry-over of losses attendant upon operation of new enterprises or development by existing organizations of new products.

Increase in deductible allowances for depreciation and obsolescence.

Carry-over of credits for capital expenditures.

Carry-over of losses in connection with guaranteed-annual-employment plans.

Deduction for severance-payment reserves.

Exemption from capital gains and income taxes of profits on bonds purchased at a discount for retirement from funded debt account of railways and operating public utilities.

Congress is also requested, now that the basic tax laws of the United States Government have been codified, to clarify and simplify the income-tax regulations, with the particular view of encouraging the economic development of the Nation.

Restrictive influences, such as abnormally high rates of taxation which consciously or otherwise bring into play the law of diminishing return should be eliminated from our tax schedules.

Congress should enact an income-tax law which should encompass the long-range viewpoint and one that does not require yearly changes in rates or rules.

Business should be given an opportunity to plan for and meet governmental exactions by not being confronted with retroactive tax measures. It is understood that it is not possible to apply such a result to the 1939 tax law, but in passing a tax bill in 1940 its effective date should not be until January 1, 1941, for those companies on a calendar-year basis and not for at least 60 days after enactment for those enterprises reporting taxable income on a fiscal-year basis.

Changing of rules in the middle of the game, which in effect is the result when laws are made retroactive in effect, is not sporting and certainly has no place in the official code of American ethics.

Were Congress to initiate at this time a comprehensive study of the tax laws, it is reasonable to expect that a very much improved schedule could be prepared for passage by March 1940.

One employer has this to say regarding the present tax legislation:

> No concern can operate under present regulations and expand or figure on increasing employment. If we were permitted to set aside certain reserves every year to take care of expansion and provisions for increasing employment and increasing business, then there would be some incentive. However, we are so badly tied hand and foot it is impossible for an average concern like ours to set up a reserve and pay the excessive tax. We must be content with safeguarding our business to the limit and not get ourselves in a position where we find it impossible to liquidate our obligations even though we would like to expand and furnish employment for more men. Until the Government can understand or is willing to cooperate with business to the extent of safeguarding them to a point where such expansion can be made without such tremendous penalties, we don't look for very much change in the attitude of the average business concern.

In concluding let us also not overlook the practical need of business to accumulate a *reasonable liquid surplus* during good times so as to cushion the effect of bad times.

Do not the workmen look to industry for employment—do not governments look to industry for taxes? If industry is to increase wages, shorten working hours and pay heavier taxes, should we not try and protect industry?

Simplify the tax structure so that the average businessman can proceed without fear and uncertainty.

OTHER SUGGESTIONS TO PROMOTE ECONOMIC RECOVERY

The foregoing chapters while treating primarily with the effects of taxation did not treat with one particular phase thereof. That phase is the exempting from income and capital gains taxes of profits to the railroads and operating utility companies, which by private or open-market sale, purchase for concurrent retirement from their capital structure their outstanding bonds, whether in default or not.

In the event of private sale, the price to be paid by the issuer should in the case of railways carry the approval of the Interstate Commerce Commission and of the Securities and Exchange Commission, when treating with utility-company obligations. In no event shall the commission be paid to any agent in purchasing bonds treated with under the tax-exemption privilege, be greater than one-quarter of 1 percent of the principal amount of the bonds purchased.

The President and others have frequently stressed the dead weight of fixed interest-bearing obligations particularly during periods of depression. The Interstate Commerce Commission, State regulatory bodies, and bondholders have often complained of the enormous losses to investors resulting from receiverships. Also to the heavy fees occasioned by working out reorganization plans to say nothing of the long periods during which security holders receive no income on their investment. In many instances the providing of a firm market for obligations of properties either in or about to go into receivership will be a real boon to private investors. Reference, in this connection, to banks and fiduciary organizations will be made later in this chapter.

We have but to reflect upon the records of the Chicago, Rock Island & Pacific, the two receiverships within approximately one decade of the present Chicago, Milwaukee, St. Paul & Pacific in which original equity holders lost not only their original investment but also an assessment, and to the many financial difficulties of that perennial ward of the courts, the Seaboard Air Line Railway, to appreciate that every method of assistance must be extended so as to make their financial structures more equitable and prepare ourselves for sound operations in the future.

An avenue of assistance not presently available to our public-service organizations (railways, telegraph, telephone, and operating public-utility corporations) would be for Congress to pass twin legislative measures, wherein they would—

1. Authorize the Reconstruction Finance Corporation either to buy for the account of an applying public-service corporation all or any part of its fixed interest-bearing obligations outstanding in the hands of the public, if such obligations can be purchased at a reasonable net discount or to loan funds direct to such applicant for the purpose of purchasing all or any part of its outstanding fixed interest-bearing obligations at a reasonable discount; and

2. Exempt from income and capital-gains tax the profit resulting to the public-service corporations for the difference between original issue price and repurchase price, provided such bonds repurchased are retired from the capital structure and canceled.

To protect the Reconstruction Finance Corporation against loss Congress would have to empower the Interstate Commerce Commission and the Securities and Exchange Commission to approve applications of public-service corporations to issue and to pledge with the said Reconstruction Finance Corporation par value of refunding bonds equal in amount to the dollar value of the loan or loans made by the Reconstruction Finance Corporation under the appropriate authorization.

In such a manner the debt of our public-service corporations, particularly the railroads and telegraph companies, could be substantially reduced, although perhaps not to as great an extent as might be desired. Whatever amounts were purchased would be eliminated from the fixed-debt schedules of the corporations, thus reducing overhead expenses to some extent.

The reduction in interest charges over a 5-year period would be substantial and would thus permit the increased expenditure of funds by the railroads for essential maintenance purposes.

Any increase in prices for that portion of the issue not retired would have a very beneficial effect on the surplus accounts of banks, insurance companies, and other fiduciary institutions. This effect would result from an increase in book value of such bonds with the increase being credited to surplus account which would thus provide a better cushion than now exists.

Present surplus accounts after 9 years of erratic markets are not yet of sufficient size to withstand any consequential decline in the price of Government and municipal bonds, particularly as may be expected to result from declines in tax exempt securities should Congress in its quest for supplemental sources of revenue decide to invalidate exemptions now privileged.

Considerable testimony respecting the foregoing subject, particularly as it refers to the railroads, is incorporated in that section of the hearings devoted to Messrs. Leo M. Cherne, Judge R. V. Fletcher, and George J. McNear, Jr.

Since 1929 our foreign trade has suffered considerable reverses, with the result that many American firms are not exploiting the foreign markets as assiduously as they might. Specific tax exemptions (particularly of a type to compensate for early-year operating losses) for expenditures designed to promote the flow of our products to foreign markets would be helpful as would the implementing of our Edge Act and export-import banks. Congress could also consistently reduce taxes on profits from foreign operations to the rate enjoyed by exporters of other nationalities competing for the same identical market.

The recent Lima, Peru, conference of the Pan American Society has placed the United States in a favorable position to proceed aggressively for Latin-American trade. Many avenues of procedure are open, but one of the first essentials to a satisfying commercial relationship with our Central and South American neighbors is the reestablishment of their credit standing in the international money markets.

CONCLUSIONS

The key to the business cycle is the capital-goods market, and the pace with which money flows to our plant and equipment replacements and to expansions determines whether times are good or bad.

Today not only are we confronted with our national income 60 percent below the amount which the President states is required to balance our Budget under our present rates of taxation, but we are also faced with a business machine that is estimated as being from 40 to 60 percent obsolete.

All the foregoing at a time when our national debt is at the largest figure ever known, with some of our best business brains retiring from active participation in our affairs because of punitive tax measures and harassing control efforts, plus 20 to 25 percent of our working population unemployed.

Congress should recognize the imperative need for enacting legislation, which will turn the attention of businessmen to the reemployment of workers in their establishments.

Congress should also recognize the imperative need for removing the fetters on our business institutions so that adequate steps may be taken to modernize our plant and facilities to the extent that should war eventuate our production facilities will be more efficient, the drain on our National Treasury will not be as great.

Capital in the final analysis pays or will pay the entire cost of providing for the unemployed, and Congress should not sit idly by awaiting the inevitable impoverishment of our capitalistic system through draining to the tax pool our reservoir of capital. Congress should not pass to the next generation a worn out plant, a debt load unequaled in the history of the world or a morale so weak that it will be be unable to withstand for long a burden which may be considered as intolerable as that which was carried by our forefathers immediately prior to the Boston Tea Party.

A job has to be done and done promptly and business alone cannot accomplish it, particularly if it is not permitted to establish "rainy-day reserves" for the rehabilitation and expansion of plant and equipment and to pay debts prudently contracted.

The savings to taxpayers through authorization of compensatory tax exemptions would be used to put men to work directly by business instead of being paid to Government and disbursed on public works which will not add to the productive facilities of the Nation. Certainly we cannot long continue to ornament the Nation and at the same time encourage obsolescence of our producing plants.

It must be kept in mind that permanent employment, new home construction, establishment of new enterprises, plant expansion, and consequential additions and betterments to our productive facilities can be brought about only by Government making it possible for private companies to operate their businesses at fair profits, and that such companies be not handicapped by burdensome taxation, restrictive legislation, and unfair competition.

Until Government adopts a more cooperative attitude toward business we can expect to see an indefinite period of business uncertainty, continued unemployment, and semidepression conditions.

Let us therefore experiment to a reasonable degree with incentive taxation, making sure that the funds exempted from tax collections by Congress will be used in the direct employment of labor and materials, particularly for the construction and durable-goods industries.

SECTION 4

Supplemental Report on Profit Sharing and Incentive Taxation

The American system of capital and industry, which has been so roundly condemned in recent years, is responsible for having provided the average American with more of everything which the rest of the world wants than any other system on the face of the globe.

With all of the vicissitudes which have been endured by the American people over the past several years, we still possess a living standard 52 percent above that of Great Britain, two-thirds greater than that of Germany, and 78 percent greater than that of Fascist Italy. The living standards of Russia, China, and Japan are so low as not to be comparable.

It is universally admitted that in the United States of America we have every factor necessary to the creation of new wealth—that we have not scratched the surface of the market for new and consumable goods and for services, if a way could but be found to provide the average person with renewed or increased purchasing power.

This survey is primarily concerned with the experience of businesses which have adopted a profit-sharing or extra-compensation plan of some kind, the success or failure of such plans, and the reasons for their continuance or abandonment, but in addition it covers the much broader field of industrial relations and the general economy.

Profit sharing is an agreement voluntarily entered into between management and employee by which the worker receives a share of the net profits, either a fixed sum, or a percentage, and usually determined in advance.

Extra-compensation and employee-benefit plans are not, technically speaking, profit sharing, but since they are frequently paid out of current earnings, and are invoked to develop a happier and more efficient working force, their value to industry may be quite as great as profit sharing per se, and their benefit to the individual employee and society generally may be of equal importance.

To date there is no scientific formula for determining adequate or just compensation for services rendered, any more than there is a scientific method for arriving at the cost or sales price of an article.

Research in both fields is under way, and eventually industry may develop a "yardstick" by which both may be accurately and justly measured.

Until that time arrives we shall have to content ourselves with the present methods, and continue to strive toward the sociological goal of fair and equitable distribution of the fruits of industry.

The majority of our citizens are familiar with the history of mankind, democracy's tortuous ascent, and the development of private capitalism, not only in the United States of America, but throughout the world.

The American system of government established that equality of opportunity, which "provides the largest measure of opportunity for a man to be and to do his best."

Our system of industry has been equally important in enabling a goodly number of our citizens to invest themselves with economic independence and to acquire cultural and material possessions far beyond those of the peoples of other lands.

Until there was a dislocation of the normal economic processes and a protracted interference with the free exchange of goods and services the American people could face the future courageously and without fear.

Nine years of depression have taught us that we must reexamine all of the facts and make an earnest search for suitable remedies.

It is not enough that we affirm our faith in our American democracy and our system of free private enterprise.

The rise of the totalitarian state, which marks the eclipse of free government and the denial of the right of man to labor voluntarily under a privately owned and operated national economy, is a challenge to the American system of government and industry.

As a nation we must be prepared to defend that system from attack by enemies from without and within, and to preserve to ourselves and our posterity its numerous and great benefits. That that system has been required to withstand great shock, sustain severe losses, meet grave crises, and overcome tremendous obstacles, and that it has met the demands made upon it without too great difficulty may be accepted as proof that it possesses intrinsic worth and deserves to be perpetuated

The real question to be answered by Government and industry is: Is there a better way of meeting the problems of employer-employee relationship? Can a better understanding be developed as to the mutual interests of management and worker? Is it possible to develop methods by which the fruits of industry may be increased and the profits of industry more equitably divided?

Some are willing to believe that the answer may be found in the more than 100 years of experience of profit sharing. There has been an ever-increasing tendency on the part of management to reward all employees for loyalty, efficiency, and ability. Various extra-compensation plans, other than formal profit-sharing systems, have been devised by numerous corporations, set up as bonus and pension systems, wage dividends, sick, accident and death benefits, group insurance, paid vacations, guaranteed annual wage systems, wage dividends, scholarship funds for technical and advanced study, hospitalization, including free medical and nursing service, and dental care, recreational facilities and instruction in sports and athletics, and in some instances, stock-ownership plans.

The employers are quick to state that the motives underlying their adoption of any one of the several methods of reward mentioned, are founded—not on altruism—but are the direct consequence of having attempted to interpret in modern terms the wise axiom of John Jacob Astor—"The best way to look out for No. 1 is to look out for No. 2." The contented efficiency of employees is an invaluable asset to any business. The majority of employers with whom we have talked share the views of Mr. Bruce Johnson, of Standard Oil of Indiana, who said: "Industry sits on a three-legged stool, its supports being capital, management, and labor. If these three stand on firm common ground, all goes well! But if one fails, the other two cannot carry the burden—and industry crashes!"

Each is an important and integral part of a perfect whole. That which injures one, injures all. The proof of this fact is to be found all about us. With the complete dislocation of the normal economic processes, commencing in 1929 when the stock market crashed and continuing down to the present hour, the workers have suffered through unemployment; industry has suffered through reduced buying power; the public has suffered loss of purchasing power; and capital has suffered through lack of earnings. Every wage earner, every employer, every farmer has been deprived of his fractional share of the average $23,000,000,000 of lost annual income, totaling $207,000,000,000 for the period of the past 9 years.

The cost of the depression should be figured on the basis of lost national income, which loss is substantially the equivalent of the estimated national wealth of the United States of America in 1914.

The cost of government, even though it totals six or eight billion dollars a year, is a trifling sum compared with our continued and profligate waste of men, money, and brains, sacrificed to an increasingly menacing inertia.

The additional income which the American people should have earned, and had to spend or save, as fancy or wisdom might dictate ($207,000,000,000) is "all water under some 1 of the 19,000 bridges" built during the depression.

Common sense tells us, however, that if we would have free enterprise survive, we must find at least a partial solution to the grave problems of unemployment and reduced national income. A most earnest program on the part of government to promote every kind of public project has failed to produce that measure of recovery essential to the reabsorption of the vast army of men and women eager to be gainfully employed in private industry. There is a growing suspicion in the minds of many of our people that we are destined to undergo infinitely greater hardship before any real improvement in conditions will be manifest.

Industry itself, headed by some of the greatest minds of our day, has not been able to find a satisfactory solution to this most perplexing problem. Leading economists, university professors, and business executives have been conscripted by government to aid in finding "a way out." Men learned in the law have deserted private practice while they placed their knowledge and wisdom at the service of their country. Still 12,000,000 of the 13,000,000 idle men and women, whom we had with us in 1932, are on relief rolls or are looking to government for a few days work each week on some one of the many work projects, and the United States Department of Labor recently reported that more than 21,000,000 persons were receiving some Federal grant in aid, whilst national income remains far below normal, and is estimated by government and industry as approximately $63,000,000,000 this year, substantially the same amount as 1936, but an appreciable improvement over the low of $39,000,000,000 in 1932.

The purpose of the survey, which has been conducted under Senate Resolution 215, and under the guidance of Senators Clyde L. Herring, and Arthur H. Vandenberg, has been to accumulate the experience of businesses having profit-sharing or extra-compensation plans, and to

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render a report thereon; and to collect all available facts relating to annual earnings, the division of those earnings in the various departments of cost and manufacture and distribution (whenever and wherever possible), and to ascertain the percentage of gross income, which is allocated to wages, salaries, dividends, surplus, and taxes. One of the important objectives has been to learn from the experience of going concerns, not what is a desirable earning on capital invested, but what has been the actual earning or loss throughout given periods.

It is believed that these facts, made available in simple and concrete form, will reveal to the public the monumental service which has been rendered consistently by employees, management, and capital, and indicate that a natural law of economic return has operated to establish the proportionate share which capital may reasonably hope to earn and what management and employees may reasonably expect as remuneration for services. What remains as profit, after all expenses and charges for the running of a business have been paid, determines the amount which may be divided between management and workers, under some system of profit sharing, which seeks to reward all for their contribution over and above the contracted salaries and wages.

The fruits of that endeavor, will, it is hoped, be made manifest as government and industry continue their efforts to provide restored opportunity for those willing to work, and to furnish the necessary incentives for both employers and employees to "carry on." The purpose constantly borne in mind is first to present the facts as to things as they are, and next to reveal a pattern, if possible, by which mutual aid and mutual benefits may be secured, the results of which will tend to remedy any condition of which we have just cause to complain.

Enlightened and patriotic cooperation on the part of government, industry, workers, and the public will be required to carry to fruition any program for economic and social betterment. Since the problems of unemployment and reduced national income remain unsolved, it is believed by some that profit sharing may provide one way of helping to solve them.

Just as agriculture is the foundation of our national economy, and without the raising of foodstuffs and raw materials we would starve or perish, so manufacture is the backbone of American industry. Without it and its marvelous development we would today be living without the comforts and conveniences which our most modest citizen accepts as commonplaces, and which, for want of ingenuity and ability to produce, the peoples of past ages could not own and enjoy.

The statistical data here employed have been gathered with great care from various sources, and are presented as approximate or relative factors having the definite limitations of statistics. They are, however, necessary to an understanding of present conditions and economic and social trends.

In 1820 six men worked on the farm, and one and one-third persons did other work in proportion to each worker in manufacture.

In little more than 100 years the situation had completely changed. By 1930 out of nearly 49,000,000 men and women gainfully employed, 10,000,000 were in agriculture, 24,000,000 in other work, and 14,000,000 were engaged in various manufacturing industries and allied businesses.

Population increased from 10,000,000 people to 123,000,000 and total jobs increased 13 times, whilst gainful employment in the manufacturing industries increased 32 times, and occupations in other lines, largely as a result of manufacture, increased 41 times during the period.

In 1930 for each worker in industry three-fourths of a man worked on the farm, and 1 and three-fourths men did other work. Today, instead of 49,000,000 of gainfully employed persons in private industry and agriculture we have about 36,000,000. Twelve of the thirteen million idle men and women whom we had with us in 1932 are still required to accept a dole or work on relief projects despite desperate efforts on the part of government and industry to overcome the unfortunate situation.

Notwithstanding that fact, however, throughout the depression industry has been face to face with a strange and perplexing problem—how to find efficient, loyal, and industrious workmen, who will accept as remuneration "all that the traffic will bear" and remain constantly and contentedly employed.

The great social unrest exemplified by the grave upheavals and events in Asia, Europe, and elsewhere, is likewise manifest in this country.

Sense of personal responsibility for one's support, and recognition of the necessity to toil, even at tasks not altogether pleasant, which characterized the lives of our pioneering ancestors, and even our parents and grandparents, are for the most part lacking among millions of our people, particularly the young, college-trained men and women, who have lost something of the independence and resourcefulness of their progenitors, whilst achieving an academic learning to which their forebears did not aspire.

Voluntary school attendance has increased 67 percent since 1920, and there is a general quest for knowledge and a desire for formal education hitherto unmatched. If the dynamic force generated by the desire to learn could be harnessed to a specific social task the results would in all likelihood be most satisfactory. Before that youthful energy is dissipated through disappointment, or appealed to by the "rabble rouser" who sees only evil, and no good in the current economic and social scene in America, it behooves those Americans who are sane and constructive in their acts and thinking to renew their efforts to find a way back to industrial peace and social plenty.

The strike situation in industry is bewildering alike to management, worker, and public.

In the period beginning January 1, 1933, up to September 1, 1937, the manufacturing industries alone were beset by no less than 11,250 strikes, involving 6,285,539 wage earners (more than the entire number employed in manufacturing in 1933) and losing to those workers 90,593,455 working days, with consequent loss of wages. The strikers and their families had to be supported, first by drains upon their own resources and those of the labor unions, and next by Government and other relief agencies.

In this same period, and with millions of idle workers desiring to be reemployed in private industry so that they might again become self-supporting, largely as a result of strikes and union wage demands, industry has had to meet an increase of 46 percent in the hourly wage rate, from an average of 49 cents an hour in 1933 to 72 cents in 1937, whilst the labor cost per unit of output for the same period increased 31 percent, raw materials rose in price 54 percent and factory production in dollar value increased 55 percent.

During the "golden age" of industrial prosperity from 1923 to 1930 how was the manufacturing income divided? Approximately 80 percent was paid out in wages and salaries (an average of $6,700 for top executives and $1,316 per worker per annum) as compared with 16 percent for dividends and from 2 to 4 percent for surplus. In other words, 5 times as much was paid in wages and salaries as was paid in dividends and 20 times as much as was put into surplus accounts to hedge against what had been anticipated as an inevitable "rainy day."

Even in those prosperous times only three factories out of five operated at a profit. Two were always "in the red." Today only one factory in four makes expenses.

From the surpluses thus created during the so-called boom years industry paid out nearly $9,000,000,000 during the first 5 years of depression.

In other words, the outgo from those establishments exceeded the income by $9,000,000,000. What would the situation have been had industry failed to protect itself by setting aside those reserves?

During the period from January 1933 to January 1938, the manufacturing industries paid out 3½ times as much in wages and salaries as in dividends, 278 times as much as were retained for surpluses.

One-eighth of the adult population owned stock in 1933, and one-seventh of all factory workers owned stock in their companies. Both relied upon dividends to supplement their income.

Still in the midst of the "rainy day" for which it attempted to prepare in the prosperous twenties—industry today is able to put into its reserve account only one-fourth of 1 percent in anticipation of future hard times.

While reserves were lowered to one-quarter of 1 percent, cost of government for the same period arose 45 percent. In 1929, 12 percent of the national income went for taxes; during the period from 1933 to 1938 taxes claimed 18 percent of the national income.

In view of these facts, if "planned economy" fails how will industry, government, worker, and stockholder meet the rigors of the next depression?

Shorter hours and a bigger pay envelope have been believed to be the answer to unemployment and reduced income.

The workweek was reduced from 48 hours in 1929 to 36 hours in 1933 due to adverse conditions, and is at present, approximately, 40 hours.

The average annual wage in 1929 in the manufacturing industries was $1,316. Nearly 9,000,000 workers were employed and received in wages approximately $12,000,000,000 of the total income of manufacture amounting to $20,000,000,000.

Based on a 30-hour week, industry would then have required nearly 15,000,000 workers in manufacture, but unless the revenue could have been correspondingly increased, the average annual wage would have been only $815 instead of $1,316 per worker.

Careful research and earnest study of the problem make it increasingly apparent that labor's share in the income from production can be made larger only through a higher output per worker, and that high hourly wage rates do not necessarily mean a larger annual income.

On the contrary, frequently an increased hourly wage rate has had the effect of slowing down production and throwing more people out of work because industry could not retain the same number of employees and meet the new wage demands.

If we are to maintain the present standard of living, much less increase it, we can only do so by continuing to produce more in order that there may be more to be divided. It is only that abundance beyond our purchasing power, which has invited the faulty economic thinking that scarcity rather than abundance is desirable, and that limiting the volume of goods produced will cause an automatic increase in price.

The sheer inability of our people to purchase new and consumable goods is responsible for the surpluses, which are so perplexing to both industry and government. Restored purchasing power would at once create new demands for goods and services. That can only be brought about through some rational method of increasing individual and national income.

Our free economy and the capitalistic system rests not on a profit system, but on a system of profit and loss. All business management hopes for a profit, just as all workers desire something more than a living wage.

The popular illusion that the 250 or so leading companies are making inordinate profits and could, if they chose, employ millions of idle workers is completely exploded by the facts regarding the earnings of industry.

Of all of the companies filing income-tax returns, more than 58 percent reveal that they earned no profit last year, nor for the several years preceding.

This fact should be borne in mind in connection with the further important fact that 70 percent of all workers are employed in establishments having less than 500 employees.

Of equal importance is the fact that the graph showing the variation in employment over the period of the past 15 years from 1923 to the present follows so closely as to almost duplicate the line on a similar graph for the expansion and contraction of individual industrial enterprise.

A careful examination of the facts based on figures supplied by the United States Census of Manufactures and the Department of Labor reveals that the surest way to increase the individual worker's income is to increase the volume of production per worker already employed, and to thus so expand the market that other companies will be induced to go into business.

In exact proportion to forced curtailment of production and to the liquidation of businesses, forced or voluntary, employment in private industry has declined.

We are, therefore, brought to the important conclusion that the basic solution to the unemployment problem and reduced national income lies in the promotion of conditions that will expand the number of going factories, and other businesses and increase the number of work hours available, and so enlarge the volume of business and restore purchasing power that capital will again be encouraged to invest in new and renewed enterprises.

We must find some method by which we may maintain America's high standard of living in an atmosphere of complete freedom from forced or compulsory labor and at the same time on the basis of equity, so that industry will not be destroyed through being forced to attempt the impossible. We refer to the rise in wage scales at the same time that our country is suffering from a problem of vast unemployment.

How much better off the Nation would be, if government, industry, and labor could sit down to a common board and work out their mutual interests, with primary consideration for the public good in preserving our free institutions and the rights of both management and worker, and with proper regard for the determination of Americans to move forward in the development of our economic and social life.

Profit sharing offers a partial solution to the need for the resumption of broad industrial activity, the reemployment of millions of willing workers, and the increase of annual production—factors highly essential to the restoration of a balanced economy and general prosperity.

A list of the companies with the longest history of experience in profit sharing in this country as well as the more recent is contained in the staff report. The labor turn-over in these companies was negligible until the forced discharge of employees due to disturbed business conditions.

The majority of executives and workers with whom we have communicated express the belief that the fine relationship developed between management and employees will be restored with the clearing up of the general social unrest, and upon revival of business, the formal profit-sharing and extra-compensation plans, whose successful operations have in many instances been interrupted, will be restored to full force and effect.

Out of the depression two particularly interesting experiments have developed—one the annual wage plan of the Hormel Packing Co. at Austin, Minn., and the other the Nunn-Bush plan, adopted in 1935 by the Nunn-Bush Shoe Co., of Milwaukee, Wis.

The Hormel plan guarantees its workers 52 pay checks a year of equal amount, regardless of seasonal fluctuations in production.

The Nunn-Bush Co. originated a unique system whereby the employer guarantees the workers 52 pay checks a year based upon a fixed percentage of the volume dollar. The system was adopted in the belief that the workers were entitled to a regular annual income and a guaranteed percentage of the value of all merchandise which was produced and sold. The management has discovered that the worker, given an agreed percentage, is quick to perceive that to increase his income he must produce more and the sales force must sell more. Thus he is brought into sympathy with the problems of management and is made conscious of their mutual interests and interdependence.

Under such a system, income increases not with wage rates, but with efficiency and the increase in the volume of goods produced and sold.

Over the past 3 years the workers of the Nunn-Bush Co. have all increased their income, which in many instances has amounted to an extra year's wages, based upon the former wage rate.

There is much to be said in favor of the simplicity of the wage dividend—an extra-compensation plan based upon the same theory as the payments of dividends on capital. It is argued, and with some force, that the investment of a man's labor power for the period of 1 year is equivalent to the investment of the same amount of capital, and that he is therefore entitled to earn a similar dividend on the investment of that labor power. In other words, if an annual stock dividend of $3 is declared on every $100 invested, an employee receiving $1,500 a year for the hire of his service, under a wage dividend system would receive $45.

The Joslyn and Sears Roebuck plans seek to protect the worker in old age, and deserve most careful examination and study.

Many of the companies whose executives and workers we have interviewed have labor policies built upon the fundamental ideas and ideals of the founders. The enthusiasm and loyalty of workers in the various plants which we have visited attest the fine labor-relations policies of these organizations, which are but present-day manifestations of the vision, humanity, and fairness of the men who established them.

The story of industry has been told only partially, and then only to small groups, reaching a fraction of the people of the Nation. The fine things for which industry and labor are responsible should be presented with sufficient clarity and dramatic force to make all of us realize not only the value of a well-balanced national economy, but its great importance in relation to our own happiness, safety, and well-being.

While the subject of taxation is as old as government, incentive taxation, in point of identification under that title, is comparatively new.

The primary purpose of taxation is the raising of public revenue. It is maintained by a goodly number of people that government should refrain from employing the taxing power beyond the necessity of raising revenues sufficient to support the institutions and activities of government.

At an early date the discovery was made that the only way certain industries could be effectively regulated and controlled by government in the interest of the general welfare was through the employment of the power to tax. For example, the social control of the sale of narcotics, alcoholic beverages, and tobacco by private individuals and companies is possible only through the employment of the taxing power of government.

The rearing of economic barriers in the form of tariffs against the importation of products from other countries is in essence a method of providing preferential treatment and incentives to certain of our American industries.

The deductions already allowed under the terms of the present revenue act with respect to gifts and benefactions in the interests of religion, charity, science, and education, may, in a sense, be construed as a form of incentive taxation. Exemptions or reductions are at present allowable in income taxes where employers have established irrevocable trust funds for the benefit of employees, and when profit sharing is entered into, subject to certain definite requirements.

Some of the States, notably Louisiana and Arkansas, have made substantial tax exemptions in favor of new industries, limited to 3 and 10 years, respectively.

Investors are familiar with the incentive offered to purchasers of tax-exempt Government securities.

The employment of the taxing power to compel a taxpayer to do or to not do some particular thing may be construed as punitive. The lowering of tax rates having for its object the voluntary persuasion of the taxpayer, as distinguished from compulsion, to do or refrain from doing a particular thing may be termed incentive taxation.

A few critical papers by trade association groups, a large number of editorials, and one book, entitled "Incentive Taxation" and written by C. William Hazelett and published by E. P. Dutton & Co. in 1936, comprise most of the literature on the subject to date.

Mr. Hazelett, who is credited with having first coined the term "incentive taxation," says in part:

> We desire the results of production continuously, which requires that our producing facilities shall be kept in continuous production. There is no centralized power to deal with this except the Government, and the only department of government which has power over all these producing facilities, is the tax department. And, finally, the only way taxes may be used to promote production is to decrease the tax rate as production goes up and increase the rate as production goes down. This form of taxation we shall call incentive taxation.
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> As we have previously stated, any solution which applies to a particular class will fail. Incentive taxation must apply to all producing facilities, money, land, factories, buildings, and transportation systems. It must apply to the sources of raw materials, of capital, to railroads and to one's customers. The rate of increase in taxes as production decreases must be sufficient to keep all productive facilities in a substantial rate of production.
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> The vital fact to be emphasized is that an idle productive facility of any kind is valueless to the owner until put into production. This applies to idle money, which earns no interest and cannot bring any benefit to the owner unless exchanged for goods and services or lent out for this purpose, and the income exchanged for desirables.

This philosophy expounded by Mr. Hazelett is not new. The fundamental idea was expressed by Henry George, father of the single-tax theory, in his book Progress and Poverty, first published in 1879. The principle of taxation by which idle land might be forced into use through its application has been widely discussed since that time. From one end of this country to the other a handful of "the faithful" have appeared in succeeding generations, which most earnestly believed that the application of the single-tax theory would accomplish all of the favorable results sought by the American people and now claimed by Mr. Hazelett and others for incentive taxation, namely, "the prevention of depressions, of strikes of either capital or labor, and for the maintenance of constant abundance and prosperity".

Is it possible that capital, management, and labor are willing to accept increasing and continuing losses for protracted interference in the normal economic processes, which could be overcome merely by the application of a new or even an old principle of taxation?

It is a little credulous to believe that an investor keeps his money idle out of obduracy, or a willingness to deny himself the return on funds invested. Does the owner of a mine, mill, or factory curtail production out of any consideration other than necessity? Does the worker quit work except to seek by that action higher wages, fewer hours of labor, or better working conditions, when his action is voluntary, and entirely within his control?

Should the Government undertake to adopt the Henry George theory of forcing all means of creating wealth into use by imposing progressively high taxes on idle money (land, which can only be taxed by the State) and other productive facilities, it would not only appall a majority of our citizens by the prospect of such infringement of basic personal liberty, but it would likely serve to further retard recovery, because of the new fears to which it would give birth.

Under the agencies already in existence, which require various types of examination into the manner in which business is conducted, business has had placed upon it a very great burden for clerical and legal services, for which, when running at a loss, there is no compensating factor, and yet which is inescapable, since government requires complete and accurate reports.

The suggestion of compensatory tax exemptions and rewards had serious consideration in the British Parliament as early as 1911, when it was believed that "copartnership companies and profit sharing might be encouraged by a preference in the giving out of public contracts, by lower stamp duties on incorporation, and by exemption from income tax on the portion of profit paid to labor."

For nearly 60 years previous to this time British businessmen had chosen voluntarily to encourage and develop the idea of profit sharing and copartnership. Almost by one accord it was agreed that 5 percent should be regarded as a fair and just earning on invested capital, and it so happens that that was also the experience of most British businessmen.

For purposes of comparison it should be observed that the American investor over the period from 1923 to 1933 received 4.3 cents as earning on investment. Less than half of all of the businesses engaged in manufacture had something left over after paying all expenses, including taxes. Fifty-eight percent paid no income tax whatever because they had no profits. The average profit during those 11 years was 4.2 cents per sales dollar.

Incentive-tax legislation was introduced into the House of Commons in 1912, the chief objects of which were:

Firstly, to enable companies to adopt profit sharing and copartnership through their articles of association or to make legal provisions which would not require the companies to alter their constitutions.

Secondly, it set forth a model scheme of copartnership which companies might voluntarily adopt, and

Thirdly, it provided that such model scheme should ordinarily, but subject to the discretion of Parliament in each case, be a condition for granting statutory powers to new companies.

The British have always recognized the danger of attempting to make profit sharing compulsory, and despite the fact that 5 percent was accepted by businessmen as a fair return on capital invested, no effort has ever been made to legislate 5 percent or any other arbitrary figure as a legal and fixed earning on invested capital.

While the Government of Great Britain, as early as 1900, insisted upon standard wages being paid by Government contractors, as sound public policy, government has never attempted to legislate maximum hours and minimum wages. The attitude of the British Government has been and continues to be one of attempting to secure voluntary cooperation rather than applying governmental pressure, a practice the value of which should be studied by the statesmen of other countries, particularly our own.

In order to meet the problems of unemployment and reduced national income in this country, it is reasoned with considerable merit, that government should reduce taxes; that industry, burdened with heavy or excessive taxes, will necessarily be required to keep large cash reserves for the express purpose of meeting obligations to the Government, including social-security taxes, sums which otherwise might be spent in three important ways, all of which would mean providing additional jobs: (1) To renovate, repair, and replace old and obsolete plant, structure, and equipment; (2) build new and additional plants and betterments; (3) to purchase new and improved equipment; (4) to hire additional help.

It would be possible to amend the revenue act so as to provide a reduction in taxes in consideration of companies voluntarily adopting some form of profit sharing or agreeing to do some one or all four of the things enumerated herein. Another use of the incentive-tax theory might be to rate companies according to the merit system, which has been established in some States, notably Wisconsin, based upon employment stability and low labor turn-over. That, incidentally, is an important factor in every profit-sharing company examined. Labor turn-over is negligible, and in some instances members of the third generation are working in the same plant with the original employee, now nearing retirement age.

Beyond the scope of Federal Government, but within the power of State legislatures, is the possibility of stimulating production by providing tax reductions on real property based on the percentages of capacity at which various plants are now operated in consideration of an increase in production above that which is agreed upon as the normal or average percentage of capacity, for each plant.

These are subjects which are already receiving serious study, and deserve the thoughtful consideration of qualified Treasury and tax experts, both Federal and State.

As a result of the survey of profit-sharing and extra-compensation plans in industry, a number of important facts have been established.

It has been revealed that instead of only 167 profit-sharing plans in operation in the United States, as had been reported previously by private sources, there are 728 plans in operation; this does not include the several thousand companies having one or more types of extra-compensation or employee-benefit plans. These companies, for the most part, have been singularly free of labor trouble, strikes, and increased wage demands, although frequently situated in the "hotbed" of industrial disorders. Both employers and employees are enthusiastic over the results obtained in creating and maintaining favorable employer-employee relations.

Interestingly enough, most of the executives of companies having profit-sharing plans regard profit sharing as its own reward, and therefore do not believe that incentive taxation should be offered as an inducement to adopt such plans.

They are sympathetic with the aims of the social-security law, the National Labor Relations Act, the Fair Labor Standards Act, and the necessity of government to support workers on relief projects. They most earnestly believe, however, that the laws should be most carefully administered and that industry, worker, public, and government should seek to amend such injustices or unfair consequences as are visited upon employer and employee through the practical application of these laws, and that we should restore prosperity if we can by every rational means at our disposal.

If profit sharing will achieve the favorable results claimed for it, and which we have found to exist in many of the establishments examined, employers seeking a "way out" should be quick to profit by the experience of others, and select from that experience the plan most likely to serve the individual requirements of each.

Planning, however, can only take us to a given point. The hazard of public taste or fancy, the question of whether what we produce is a necessity or a luxury, whether it is a cheap or a quality product, whether it is durable or nondurable, these and a dozen other factors are important in determining the success or failure of a given enterprise.

We may plan to cure the ills of our economic system just as we attempt to protect human life through preventive medicine, but the inexorable law of fate will continue to operate; human factors often unrecognized and seldom understood will affect us as they have affected the peoples of ages past and some businesses will succeed while others fail, just as some people will be fortunate enough to escape the ravages of disease while other human beings will succumb to those very maladies.

Recognition of that fact does not mean that we should not attempt to plan; that we should not strive to control the cycles of depression; that we should not endeavor to create favorable conditions socially and in industry. Rather, the facts argue that we should constantly seek to control these great forces, which are at best only slightly understood, and never under quite complete control.

In making any proposal as to how society should govern itself, one should accept as a premise that human beings are what they are, and that there is very little likelihood of a radical change in nature, character, and disposition, since man has survived successive centuries of living upon this earth, manifesting in substantially the same form, and possessing universal and ageless characteristics, both good and unfortunate. The sociologist and economist may use themselves as fair measures of what the rest of mankind is like. All of us are tractable until forced into a corner, where we must fight; all are generous, if it does not cost us more than we can afford to give; all are selfish in that we desire cleanliness and comfort, but never for ourselves alone—with someone, somewhere, we desire to share whatever we possess or may acquire.

If government, society, and industry can but recognize the good that is inherent and preponderant in human nature, and seek to control through cooperative effort our larger social activities without striving to regiment any of us into a rigid course of conduct, which destroys that most fundamental and valuable of rights—the right of the individual to be sovereign, above State, or church, or political party—and induces that inertia, which stifles industry and enterprise, individually and collectively, the future will give us no real concern for we shall have the wisdom and courage with which to face it.

By working together, inspired by a deep and an enduring patriotism, the American people will succeed in restoring prosperity, peace of mind, and national good health, and we will again be on the right road: "Labor's road to plenty."

MELINDA ALEXANDER,
Associate Director of Survey.

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