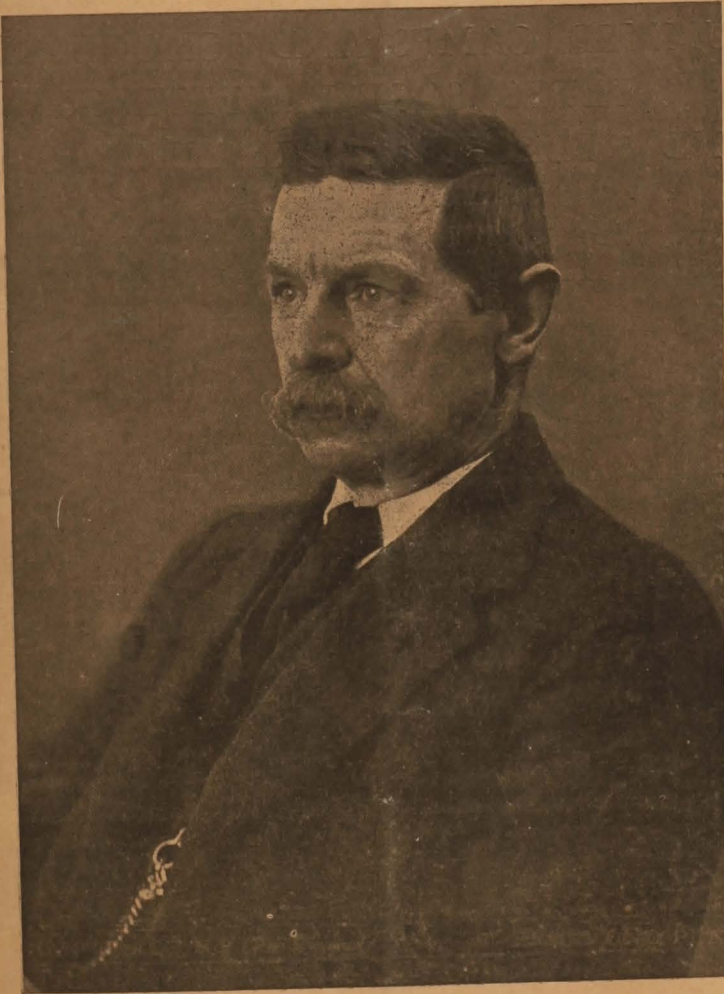


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PROFIT-SHARING AND
CO-PARTNERSHIP: A
FRAUD & A FAILURE?



BY

EDWARD R. PEASE.

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PROFIT-SHARING AND CO-PARTNERSHIP : A FRAUD AND A FAILURE ?

THE capitalist employer as a factor in the machinery of production is a comparatively modern phenomenon. The English landlord is as old as England: the princely merchant venturer appeared in the sixteenth and seventeenth centuries, but he was a buyer and seller of goods and not in the main an employer of labor. It was only about a century ago that the capitalist manufacturer, the wealthy owner of huge works employing thousands of "hands," began to emerge, with the steam engine which was the author of his being.

And the curious thing is that no sooner had he made his appearance than the best of our social thinkers set themselves to discover how he could be eliminated. Nobody really welcomed him: nobody wholly admired him: whilst the thinkers and dreamers began to devise schemes for getting rid of him altogether.

Robert Owen, himself one of the foremost of the cotton-capitalists, spent his later years in planning, crudely and vaguely, his ideal communities at New Harmony, Queenwood, and elsewhere, whose basic principle was the production of wealth without the intervention of the employer—organized communities which should own their capital in common, and where the profit on the capital employed would go to those who did the work.

Co-operative Associations of Producers.

After him, in England, came the Christian Socialists, Maurice, Kingsley and Ludlow, whose ideal was a sort of peaceful Syndicalism, a society composed of co-operative producers, groups of men living the individual life of citizens but all possessing shares in the machines they worked, whereby the interests of capital and labor would be completely harmonized, because the laborer would always be a capitalist and the capitalist a laborer. All these projects were plans for eliminating the capitalist and distributing his profits, obviously vastly in excess of the value of his services to society, amongst the workers, who again were as obviously underpaid for their all-important share in the process of production. Owen and the Christian Socialists were at any rate whole-hearted in their plans for the reform of the system of distribution; their intentions were excellent; they failed because they did not recognize that the capitalist director of industry performs a necessary function: labor by itself is in practice insufficiently supplied with capital and is inexpert in the art of management. Co-operative productive societies had the advantage of magnificent advertisement, but this did not compensate for inadequate capital and a form of organization extremely difficult to manage. The employer, driven by the competition of his rivals, must make profits his

HD 2970 Profit-sharing.

first concern. He can dismiss inefficient workmen; put his men on short time or order wholesale discharges when business is slack, and, subject to the risks of a strike, reduce wages when profits decline. For the manager of a co-operative production concern (and *à fortiori*, of any Communistic community), who is the servant of the men he superintends, such drastic measures, at times vital for commercial salvation, are well-nigh impossible.

Hence co-operative production, organized on the basis of an association of producers, is a feeble plant, and half a century of active propaganda leaves it as incapable as ever to cope with the other forms of industrial enterprise.

The Advent of Profit-Sharing.

Realizing this difficulty, a new idea presented itself to certain well-meaning capitalists, who recognized the social defencelessness of their position and sought some way of salvation which should not lead to commercial destruction.

Let the capitalist keep his control and provide the capital as of old; but let him share out a part of his surplus profits, voluntarily, as an act of grace, amongst the workpeople who create his wealth. Here surely is a solution to the age-long antagonism of labor and capital. Let one side contribute capital and organizing ability and in return receive interest at a reasonable rate, and an agreed sum as wages of management; let the other get their weekly wage for their work as of old; when times are reasonably prosperous there will still be a balance left, which can be divided, on terms to be arranged, between owners and workers. All will then be partakers in the profits of industry; industrial warfare will be replaced by industrial peace; and the paternal employer surrounded by his contented and loyal workpeople will reproduce in the industrial world the happy picture of the kindly landlord and devoted tenantry which existed or was supposed to exist throughout Merrie England in the good days of old.

Profit-Sharing Good for Employers.

But the introduction of this millennium had to be set about in a different manner from that appropriate to co-operative undertakings. Owen and Maurice had to convert the working classes; the re-organisation of society was to grow up from below. Well-intentioned friends might help, but the workers themselves were to act. In profit-sharing, on the other hand, the employer takes the lead; it rests with him to formulate the scheme; the profits are his, and he alone can consent to share them. Therefore the appeal must be attuned to his ears, and the trap baited with lures which will attract his appetite. Hence we find that the promoters of profit-sharing make haste to explain that the capitalist employer has everything to gain and nothing whatever to lose by the new panacea. He is to share out his profits amongst his men, no doubt, but all the bread he casts upon the waters of labor will come back to him forthwith bearing abundant increase.

"It is related that when John Marshall of Leeds was showing Robert Owen over his mills he remarked, 'If my people were to be careful and avoid waste they might save me £4,000 a year.' Owen replied, 'Well, why don't you give them £2,000 to do it? and then you would be richer by £2,000 a year.'"^{*} That is the key-note. Share the profits with the men, but see that they themselves produce extra profits which will more than cover their "shares."

The picture drawn in all innocence by the advocates of profit-sharing is in truth most alluring to the intelligent capitalist. By a neat re-arrangement he is to get:—

1. Additional profits on his capital, since only a *part* of the savings of extra zeal and care is to be returned as dividend on wages to the workpeople.
2. His hands are to be loyal, contented, diligent, trustworthy and better paid, and this last, according to modern economics, is in itself a source of profit. Good pay means good work.
3. The trade union agitator is to be kept outside the door: no strikes, no organized demands for shorter hours, better wages, improved working rules. All chance that his men will go out on a sympathetic strike, a catastrophe the good employer justly fears and excusably resents, is averted. No labor unrest will disturb his oasis of industrial peace.
4. A saving of supervision, and reduction of all those worries incidental to bad work, waste of material, and industrial inefficiency. The employer is often an artist in production: quite apart from mere profits, he prefers to see his work done properly; waste annoys him for its own sake; complaints from customers of bad work touch his sense of honor as well as his pocket. All these will be averted when every workman is a foreman to his fellows, each interested in saving material, in devising little plans for doing things better and cheaper, and each on the look out that no one of the scores or hundreds of co-partners wastes the time for which he is paid and so diminishes the margin of profit in which all alike are to share.

All these advantages will yield the profit-sharing enterprise profits substantially in excess of what otherwise would have been earned. Part only need be ceded to the workers; the other part falls to the employer as the reward of his enlightened self-interest.

Surely here is a project for making the best of both worlds! Let us now consider its history.

Statistics.

"Co-partnership in Industry," by Charles Carpenter, Chairman of the South Metropolitan Gas Company,† gives a chronological list of "over two hundred notices of attempts in the direction of improved relations between capitalist and laborer. . . . Most of the schemes

* D. F. Schloss, "Methods of Industrial Remuneration," 3rd edn., 1898, p. 255 n.

† Co-partnership Publishers, 79 Southampton Row, London. 1912. 6d. net.

have come to an end. In some cases the business has ceased to exist or has [changed hands]. Sometimes the scheme has failed because the workmen failed to see its possibilities . . . the great majority of failures are in connection with cash bonus schemes. . . ." The prefatory note adds more about the failures and their causes which we have not space to quote, but adds not a word about the successes!

The first recorded scheme dates from 1829. Three were started in 1831-2, two in the fifties, one in 1864, sixteen in 1865-7, and then any number up to half a dozen yearly till 1889, when the active propaganda of Professor Sedley Taylor and the industrial unrest of the dock strike period brought the yearly total to twenty or more. By 1893 the boom was exhausted, and only three cases are recorded, and the good trade years 1905 and 1906 yield not a single case. Since then the movement has been looking up, though the crop of 1911 is no more than five.* If we take the Board of Trade 1912 List for the period 1865-1896, that is from the beginning (omitting an Irish scheme started in 1829) up to 15 years ago, 177 schemes have been started, of which 134 have come to an end, whilst 43 remain in operation, and the fate of 2 is unknown. In the four years 1889-1892, when profit-sharing had a boom, 87 schemes were started, of which 66 have stopped, 2 cannot be traced, and only 19 are known to exist still. The average duration of the 76 schemes formed between 1867 and 1890 inclusive which have ceased and of which precise particulars are known was about 9 years and 9 months.

What is the explanation of this slow progress constantly dogged by failure? Why does this attractive scheme, apparently beneficial to all concerned, end so constantly in disappointment? Where is the flaw in the reasoning? How is it that ardent advocacy of benevolent enthusiasts such as Sedley Taylor, the blessings of the economists—the professorial exponents of the science seem nearly all to regard profit sharing with approval†—and the active propaganda of the Labor Co-partnership Association, whose annual meeting of 1908 for example was addressed by the Right Hon. A. J. Balfour, Mr. Christopher (later Lord) Furness, and Professor A. C. Pigou, all come to so little?

What is Profit?

In order to answer this riddle we must more closely examine exactly what is meant by profit-sharing. In the first place, what is profit? The answer to this is, in effect, under the modern industrial system, whatever you please. The return on capital embarked in industry is quite properly divided into two parts, the first called interest, say three to four per cent., the rate which the investor can obtain from safe securities, and which is therefore the minimum he

* Since this was printed the Board of Trade Report on Profit-sharing and Labor Co-partnership (Cd. 6496, 1912) has been published, which gives a list of 133 schemes in operation, 164 abandoned schemes, and 3 doubtfuls. The list includes nearly 100 cases omitted by Mr. Carpenter, and should be consulted if more complete figures are desired.

† An exception is Professor J. W. Ashley of Birmingham: see his Preface to Edward Cadbury's "Experiments in Industrial Organization." Longmans. 1912.

expects from any enterprise; and next, the amount, whatever it may be, in excess of this sum, which capital embarked in risky enterprises—and all business is risky—obtains. The latter is profit in the narrower sense. But there are two sorts of capital commonly dealt with in business. The one is the actual things, whether money or machinery or goods, which are used in any enterprise. These are the tangible assets of a company and this is the capital which earns the profit. The other is the nominal capital, usually, but not always, considerably in excess of this amount, either because the company has purchased the tangible assets as a going concern, along with the goodwill, and often has paid a price, in shares, far in excess of its actual cost, or because there are promotion expenses, legal expenses, commissions, discounts, and services of all kinds, which may be greatly in excess of the genuine minimum. In one sense this does not greatly matter to anybody. The capital of a company is, in many cases, no more than a method of determining at what rate the profits shall be divided. After the company is started it makes little difference whether a profit of £1,000 is paid away to the owners of 10,000 £1 shares, earning ten per cent., or 10,000 £2 shares, earning five per cent. But since the shareable profit is calculated according to the rate and not according to the amount, it makes all the difference in the world in the case of a company which shares with its workpeople everything over four per cent. If the company is capitalized at £10,000, the profit over four per cent. in which the workers share is £600: if it is capitalized at £20,000, the shareable profit is only £200. Now it may be positively stated that there is no definite basis whatever on which a going concern turned into a company should be capitalized. Occasionally the owners of a business have sold it to the public at much below its true value, so that the shares (as those of Bryant & May, Limited, for example) have stood at a very large premium ever since the day of issue. More often company promoters sell at too high a price, so that the shares quickly drop to a discount and remain there ever after. But if the workers are to share in the profits after a minimum rate of dividend is paid, they will want to be satisfied in every case that the nominal capital of the company is not in excess of its real value; and, on the other hand, should profit-sharing become, as its promoters hope, a widespread custom, a real factor in the industrial system, any business man who desired to conform to the letter of the principle whilst escaping its consequences, has only to capitalize his company on such a generous scale as to avoid making profits above the minimum rate, and so to escape the obligation of sharing anything with his employees.

What is "Sharing"?

If profits are difficult to determine, "sharing" is equally vague and shifting. The varieties in the method of sharing might be described as infinite, if the total number of cases were sufficient to justify the appellation.

The essence of the whole thing is that it is a gift from the employer to the employed; and obviously the gift may take any form that commends itself to the employer, may be in cash or in shares, or in a provident fund, or an old age pension, payable at once or on departure, to all employees or only those who have served a minimum period; may be dependent on non-membership of a trade union or on contracting for a term of service; may be forfeited by a strike, and so on.

Then as to the amount payable, we find there is no fixed plan. There is usually a minimum rate of interest on capital before the shareable profit is reached; depreciation is usually provided for, and sometimes reserves to whatever amount the employer thinks fit!*

The minimum interest may be cumulative (i.e., payable out of good years if passed in bad ones) or it may not. Finally, there is no fixed proportion in which the surplus, whatever it be, is divided between the workers. Profit-sharing is, in fact, the antithesis of collective bargaining. The profit shared out is a gift horse, and the workmen have no right to look it in the mouth. Clearly, then, with so diverse and elusive an arrangement, the causes of failure may be innumerable; and the thing itself may vary from a genuine and generous scheme by which an employer hands over to his workpeople everything above a legitimate salary to himself as manager—there have been such cases—to the dishonest dodge of a clever hypocrite for getting bigger profit from his hands in exchange for promises that never materialise.

Co-partnership.

The early profit-sharers adopted the crude and unsuccessful method of cash bonus, that is a percentage of profits payable in cash. But it seemed a pity to let good money go out of the concern. Why not keep the money, encourage thrift, turn the workpeople into small, very small, shareholders, and, in addition, drop the old name, with its melancholy associations, and call the new variety Co-partnership?

This novel plan involves, it is true, some concession to the workpeople. They are to be placed, after a fashion, on a level with the proprietors; they are to have a voice, if only a small one, in the management; they may even be allowed a director or two on the board. On the other hand, their alliance with the company is cemented more firmly than ever. The cash bonus is soon paid and soon spent. The slowly acquired share is a stake in the concern which cannot be pulled up without effort. With every workman tied up to such a stake, industrial rebellion is improbable, and even labor unrest will fail to disturb.

* A famous scheme, Henry Briggs, Son & Co.'s Collieries, which divided £40,151 amongst its employees in nine years to 1874, was terminated partly because the men struck against a reduction of wages and partly because in 1873 £30,000 was taken from profits for the purchase of a new mine, and large sums were placed to reserve, in all of which the workers considered themselves entitled to share. (Report, etc., Cd. 6496, pp. 43-6.)

It must here be remarked that the term co-partnership is nowadays applied to two other forms of industrial enterprise with which this paper is not concerned. The housebuilding companies of co-partnership tenants are schemes whereby persons combine as tenants to erect and then purchase collectively out of their savings the houses they occupy. This industrial device is, in fact, a species by itself, altogether distinct from the profit-sharing co-partnership dealt with in this paper, and equally distinct from the "self-governing workshop," which used to be called a co-operative productive company, and is now frequently classed as co-partnership. When the capital of a company is owned, in whole or to a substantial extent, by the workers in the establishment, and the control of the concern is vested in them and their elected delegates, the profits belong to them to share amongst themselves in such a manner as by their rules they determine.

The self-governing workshop has its merits and demerits, which are not considered in this paper. But although it is often classed as co-partnership, it is, in fact, a very different sort of industrial enterprise, and to describe by one term the South Metropolitan Gas Company and some little group of struggling operatives formed into a co-operative society to make boots or bind books simply leads to confusion of thought.

The pioneer of co-partnership profit-sharing was

The South Metropolitan Gas Company.

The strange history of this company's relations with its men sums up the pros and cons of profit-sharing. The matter was one of acute controversy at the time and is so, in a sense, still. We cannot therefore be accused of unfairness if we quote at length the account of it given by Mr. Aneurin Williams, Hon. Treasurer of the Labor Co-partnership Association, in his pamphlet "A Better Way."*

Speaking of cases in which the workman becomes a shareholder, he says :

"Certainly the most striking example of this kind of partnership is to be found in the South Metropolitan Gas Company in London, a business with a capital of £8,325,340, and employing some 5,459 workmen ; and there can hardly be a better introduction to the subject than the history of what that company has done.† It will be remembered how, in the winter of 1889-90, it was engaged in a life and death struggle with the National Union of Gasworkers and General Laborers. It was just at that time that the organizations of unskilled labor in this country were beginning to feel their strength and to try, no doubt in a somewhat blind and desperate way, to gain for their members some of those advantages which had been so successfully won during the preceding generation by the great unions of skilled workers. The

* Labor Co-partnership Association, 6 Bloomsbury Square, London, n. d., ? 1911, price 2d.

† See also Sir George Livesey's "Paper on the Profit-Sharing Scheme of the South Metropolitan Gas Company." (London: Labor Co-partnership Association.)

late Sir George Livesey, for so long chairman of the South Metropolitan Gas Company, has given more than one graphic account of the danger the company found itself in, of losing altogether control over the management of its own business. The company, upon the initiative of Sir George (then Mr.) Livesey and of his father before him, had over a considerable period of years adopted various schemes for the special benefit of its employees, and had also considered some scheme of profit-sharing. In 1889, therefore, the directors decided to carry out this idea, with a view to more closely identifying the workers' interests with those of the company, and of avoiding the friction and great losses to which they found themselves more and more subject. They therefore offered the workers a profit-sharing scheme under certain conditions. By law, the amount of profit which this company may distribute to its shareholders rises as the price at which it sells gas to the public falls. When gas is 3s. 1d. per 1,000 cubic feet, the company may pay, if it earns it, a dividend equal to ten per cent. per annum upon its old unconverted stock, or four per cent. on its present converted stock. For every penny per 1,000 cubic feet which the price of gas is reduced below 3s. 1d. the rate of dividend which may be paid rises 2s. 8d. per cent. on its converted stock. Thus, at 3s. per 1,000, £4 2s. 8d. per cent. may be paid: at 2s. 6d. per 1,000 £4 18s. 8d. per cent., and so on. Thus the interests of the public and the shareholders both lie in cheapening the selling price of gas. The company now offered to its employees of every class a similar arrangement, which, as since modified, is that for every 1d. the price of gas falls below 3s. 1d. per 1,000 cubic feet a bonus of 1s. per cent. is paid on their wages or salaries. This, however, was subject to the condition, among others, that each person accepting the profit-sharing scheme should sign an agreement to serve the company for one year. These agreements were to be dated on different days, so that a strike would become practically impossible, inasmuch as the workers could only strike all together by an illegal conspiracy to violate their agreements. To these agreements the trade union took violent objection, saying at the same time, however, that they did not object to a scheme of profit-sharing under fair conditions. The result, as is well known, was a great strike, its end being a complete victory for the company. The places of the strikers were supplied by new men, and the best terms they could get in the end were that they would be taken back if and as vacancies arose. I may mention, incidentally, that the Labor Co-partnership Association, for which I am now writing, offered its friendly services during this lamentable conflict, and I am told all terms might have been, if indeed they were not, satisfactorily arranged, except the question of reinstating the strikers and dismissing the newcomers. This was a point of honor on one side and the other, and an absolute split took place.

"When, however, the strike was all over, it might have been hoped that things would settle down into harmony. Unfortun-

ately, the most prominent labor leader concerned made a speech in which he threatened that the next time the men would not give notice, but would lay down their tools on the minute. The company retaliated by posting a notice that no member of the trade union concerned would be employed, though Sir George Livesey told the Labor Commission this notice had not been strictly adhered to. However, every workman accepting the profit-sharing scheme was, until 1902, required to declare himself not a member of that trade union. Thus, and from other causes, the feud between the company and the trade union was continued. In 1902, however, the company at the suggestion of the Labor Co-partnership Association withdrew this restriction. It is no part of my duty here to try to apportion the blame for this lamentable state of affairs continuing over so many years. The company, no doubt, felt it absolutely necessary to keep control of its business, and to provide against the public calamity of South London being some night reduced to darkness, and thereby delivered over a prey to the worst elements of its population. On the other hand, in the absence of any other form of efficient protection (whether by the action of the State or otherwise), the trade union no doubt felt that to prevent the workers striking if necessary, and to prevent them joining the union of the trade, was to deliver them over helpless into the hands of their employers.

"It will be seen, therefore, that the South Metropolitan Gas Company is not in every respect a good instance of those better relations between capital and organized labor which we desire. It must, however, be carefully noted that, as between the company and those employed since the strike, the relations have left nothing to desire in the matter of good feeling. The ill feeling has been solely between the company and the trade union and its sympathisers. It should be pointed out also that though two unions were concerned in this quarrel, the company never denied the principle of trade unionism.

"For several years simple profit-sharing on the basis I have described went on. The workers were encouraged to leave their bonus on deposit with the company at four per cent. About one half of the money was so left, but by less than one half of the men. In 1894 the company was so satisfied with the results that it made a move forward, and offered to increase the rate of bonus by one half (i.e., from one per cent. to one and a half per cent. per penny on the price of gas) to those workmen who would agree to leave half their profit as shares in the company. For carrying out this plan trustees were appointed to purchase shares represented by the total of the small sums belonging to the employees. Each man became an independent shareholder when his stake in the company reached a nominal value of £5 stock,* costing at that time about £13, and yielding at that price about five per cent. to the investor. This development

* That is, old unconverted stock, equivalent to £12 10s. nominal of the present stock.

also was a great success, and in the years 1896-1897 the company took a further step and sought and obtained power from Parliament to add to its board of directors representatives of its employees. This power was somewhat later carried out: the manual workers who are shareholders now elect two directors, and the salaried staff who are shareholders one, while the ordinary shareholders elect six. Of course this gives the employees (who now hold shares and deposits to the value of about £401,038), an amount of representation on the directorate very largely in excess of the proportion of their shares. It was, however, felt that while shareholding must be a condition precedent to a voice in the affairs of the company, it was not the only interest of the employees which ought to be represented on the directorate. In addition to the partnership arrangements, and partly growing out of them, there are other arrangements, for a conciliation board, for social purposes, for enquiries into such accidents as occur, for provident purposes, and so forth, in which the representatives of the company and of the employees act together for their mutual advantage. Sir George Livesey declared again and again that the large sum of money (£427,000) which had been paid over the period of eighteen years in the form of profit to the employees has not meant a penny reduction of profit to the shareholders, inasmuch as the workers have more than earned it by their better and more economical working. It should be clearly understood that the worker shareholder remains just as liable to dismissal and in every way just as subject to the officials of the company as ever he was under the wage system pure and simple.

"This is by far the biggest experiment in partnership between capital and labor which has been carried out in this country, and it is certainly a highly successful one, in spite of the deplorable conflict between the company and the trade union."

Co-partnership in Gasworks.

The example of the South Metropolitan Gas Company has been followed, slowly at first, and rapidly in recent years, so that in 1912 there were 33 companies working on this system. But there is a strange and very obvious reason why co-partnership succeeds in gas concerns and in gas alone. All gas companies are established by Act of Parliament, and all are regulated by the peculiar sliding scale system already mentioned. The Act fixes a basic price, in the case of the Gas Light and Coke Company of London of 3s. 2d. per 1,000 feet in 1910. The company is forbidden by law to increase its dividend above the minimum unless it reduces the price to the customers. For every penny reduction in the price of gas the shareholders may receive an extra quarter per cent. dividend.

The effects of this are complicated. The company is always apt to be loaded up with profits which it cannot make use of. Money is sometimes no object to it. When profits grow large enough, roughly speaking four fifths of them have to be conceded to the con-

sumer in reductions of price and only one fifth can be paid to the shareholders. What above all things the company desires is reductions in the cost of production, which will allow the price to be reduced and the dividend to be increased. Moreover, in view of this arrangement, the law takes very good care that there is no hocus pocus about the capital account. There is no chance for the shareholders to get allotments of valuable stock for less than the market price, and anything like "watering" the capital is out of the question.* If a gas company wants more capital, it must notify the local authority, advertise in the local press, and sell the new stock at public auction. The whole business must be carried out under the public eye, and full returns rendered to the Government of every pound of capital received and every penny of dividend paid.

The Gas Light and Coke Company of London, probably the largest gas company in the world, pays a bonus to its men on the price of gas, which corresponds to the dividend payable, thus :

Price of Gas.	Bonus.	Dividend.
3s. 2d.	nil	£4 0 0 per cent. per annum.
3s. 1d.	½ per cent.	£4 2 8† " "
3s.	1 per cent.	£4 5 4† " "

And so on, the bonus increasing at a higher rate till it reaches :

2s. 6d.	5 per cent.	£4 17 4 per cent. per annum.
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which is the figure at present.

Lastly, in the gas industry, the operatives are by law virtually compelled to give long notice of any proposed strike. For reasons of public safety Parliament enacted, at a time when gas was the sole illuminant, that for gasworkers to leave work in breach of their contract of employment and without due notice should be a criminal offence punishable by as much as three months hard labor.

Gas companies and their employees are therefore in a very peculiar legal position, and it is probably owing to this, together with the legal monopoly which frees them from the risks of competition and makes regular profits virtually a certainty, and also to their necessary geographical isolation, that profit-sharing has, for the moment at any rate, succeeded in this industry and in this alone.

"The Treaty of Hartlepoons." †

The most famous of recent co-partnership schemes was started in the autumn of 1908 by the late Lord (then Sir Christopher) Furness in his Hartlepoons Shipyards.

Annoyed by what he regarded as needless friction with trade unions, he made a public offer either to sell his works to the unions

* "Watering" by Act of Parliament does not matter. The Gas Light and Coke Company has £14,451,145 of "water" in its £28,632,925 capital, but the amount is recorded in every balance sheet for the information of all concerned.

† These figures are temporarily modified by a special provision for redemption of stock.

‡ See *The Magazine of Commerce* (Souvenir Co-partnership Edition), December, 1908, 155 Cheapside, E.C.

or to establish the following scheme in the Middleton and Harbour Dockyards of Irvine's Shipbuilding and Dry Docks Company, Limited.

He proposed to create 50,000 four per cent. preference shares, with a first charge on the profits of the company, to be called Employees' Shares, and to be held by persons employed in the yards. These were to be allotted to employees, and paid for by a five per cent. deduction from wages and by capitalizing the dividend. Profits, after providing for this preference interest, were to be allocated to pay a five per cent. cumulative dividend on ordinary capital, and the directors were to have a free hand to put away reserves, depreciation and development funds. Anything left was to be divided pro rata on the ordinary and the employees' capital.

Anybody leaving the service of the company "would be able to sell his shares" at an assessed price, or at the market value, to other employees only.

The wages and conditions of labor were to remain matters of negotiation between trade unions and the directors, and the holders of employees' shares were to have no voice at all in the management of the company and no right to attend the shareholders' meetings.

But a Works Council was established, consisting of delegates of the employers and employed, with power to advise on anything in dispute; and a proposal was even made, not very definitely, that trade union officials from outside might be co-opted to this council as aldermen.

The whole scheme involved a complete recognition of trade unions. The treaty was referred to the unions concerned, discussed by them, and finally accepted by a vote, in the aggregate, of ten to one.

It was tried for a year and then it failed. The men resolved, by a decisive vote, to abandon it. What precisely weighed with them in coming to this decision must necessarily be a matter of conjecture, but the chief complaint appears to have arisen from the fact that although shipbuilding is a very irregular trade, and men constantly change from one firm to another, by this scheme each move from the Furness yards involved the sale of Furness stock.

Moreover, apart from the Works Council, which had no essential connection with the co-partnership scheme, it is difficult to see what there was particularly attractive in the proposal. The men were kindly permitted to purchase out of their wages a four per cent. preference stock at par, with the chance of a further dividend, if earned, but with no voice in the management of the business. It is, to say the least, doubtful if the company could have raised capital so cheaply in the market or, in other words, if the market value of the stock offered would be as high as the price asked for it.*

* The Irvine Shipbuilding Company is a subsidiary company in the Furness, Withy, & Company combine. The latter paid ten per cent. in 1905, fifteen per cent. in 1906, ten per cent. in 1907, five per cent. in 1908, 1909 and 1910 (during which the scheme was in operation), and seven and a half per cent. in 1911.

We do not suggest that the scheme was, in fact, a dodge for getting cheap capital, but undoubtedly it was not anything in the nature of a gift to the workmen. They were asked to pay full value for what they got. The only concession was in the form of a method of purchase by small instalments, which was no doubt troublesome and expensive to the company.

Anyway, the scheme, in spite of the glamor of its inception and the ability and good faith of its founder, was quickly added to the long roll of co-partnership failures.

A Limited Sphere.

Destitution cannot be remedied by doles, and almsgiving is no cure for poverty. But it does not follow from this that no one should help a neighbor in distress or that the squire should be blamed if he gives Christmas gifts to the laborers on his estate.

Profit-sharing is no remedy for the poverty of the workers, and offers no solution of the problems of modern industry, no sleeping-draught for industrial unrest. None the less, it cannot be said that all profit-sharing is bad, far less that all employers who adopt it are pious frauds. It is essentially a gift, and when an employer resolves to give his workpeople a supplement to their regular wages calculated on a fixed basis, no one can complain, provided that it is a genuine gift taken from his legitimate profits and not earned by their own excess of labor and, above all, that it does not destroy their class solidarity. This last condition bars out all staple and all organized trades. Few trade unionists do, and none should, countenance any such proposal. Cotton and coal and iron workers should have nothing to do with such schemes. But the case is otherwise with unskilled employees in some isolated works, say a jam factory in a remote village, or the laborers on a farm, where trade unionism is, apparently, impracticable.

The desire of the idealist, that the worker should take an interest in his work, and feel himself to be not a mere hand employed by a master but a co-partner, a part owner of the concern, is well founded, and indeed is largely the root of all industrial co-operation. To this extent the idea of profit-sharing is sound, and appeals to every intelligent student of social conditions. Provided, then, that the share of profit given by the employer is a genuine gift for which no return is asked either in extra exertion or in "loyalty," and that the solidarity of labor is not broken, the benevolent employer may properly adopt this method of benefitting his workpeople, just as the landlord may properly distribute blankets and beef to the cottagers on his estate. But neither of them must pretend that his beneficence is a solution of any social problem.*

* The statistics of profit-sharing in all the concerns in which it has been tried are significant. The "profit" shared (after the deduction of rent, interest on capital, wages of management, depreciation and reserves) has averaged about 10 per cent of the amount given in wages; and the worker's share has been, on an average, just about 5 per cent. addition to his wages, or about a farthing an hour! Out of a total national income in 1912 of about 2,100 millions, the total of wages was under 800 millions. Universal profit-sharing might have made it 840 millions out of 2,100.

The Causes of Failure.

Probably if the truth be known profit-sharing schemes have failed because the workmen have studied too carefully the publications of the advocates of the system. The fraud on the workers is too palpable. The men have found out that they are like the dog fed off his own tail. They earn the bonus (if there is any), and their employer returns them a fraction of what they have produced. Moreover they may easily earn it and yet receive none of it. Profits depend on the trading skill of the employer and the chances of the market, even more than on the special diligence of the men. The return they receive for their extra exertions is determined by factors over which they have no control. One or two miscalculated contracts may deprive them of all the profits for which they have labored. They properly object to let their remuneration depend on the skill or luck of the heads of the business.

Working Class Solidarity.

But the final and conclusive objection to profit-sharing is that it necessarily tends to working-class disintegration. Wherever the capitalist system continues, dividing society into private employers on one side and private employees on the other, the employer and workman must be armed for a fight, even if, like the Great Powers of Europe, they maintain cordial relations for generations. Organization alone places the worker on the same plane as his employer. All intelligent workmen recognize that industrial solidarity is the basis of all working class progress; and profit-sharing is, intentionally or incidentally, destructive of this solidarity. The workers must be free to combine in trade unions and in federations of unions in whatever manner they think fit, and must be able to strike as a trade, as an industry, or indeed as a class, as often as is necessary for the protection and advancement of their interests. Profit-sharing splits up trades and industries into coteries of privileged workers, each group with interests different from, and perhaps antagonistic to, the others. In some cases, as has been already indicated, profit-sharing and co-partnership schemes have been adopted deliberately with the object of smashing up trade unionism; in other cases it has been recommended to employers because of its value for this purpose; in all cases it has this effect, unless there is no solidarity to disintegrate, no unionism to destroy.

The employees of a profit-sharing firm are bound to their employer more closely than to their fellows. It is their interest to stand aloof from the industrial combat, because they have privileges to lose or a tiny share of capital to consider.

Collective bargaining, the common rule, trade union wages and conditions, are the protection of the workers against sweating and oppression in all their forms; and in these safeguards lie their hope for material advances in wages, and ultimately an increase in their share in the product of industry and their control over its management.

Profit-sharing and co-partnership may be properly called a "piffling palliative," which assumes the permanent continuance of the antithesis between employer and employed. This relation is out of date and no longer in accord with our sense of the fitness of things. There can be no true fellowship between the employer and his hands, the master and his men. We have come to see the truth in the old command, "Call no man master." In the industrial organization of the future there will be no master, but all will be servants one of another, and yet all owners of the wealth which together they create.

That is the fellowship of the future, which, as Morris said, is life.

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