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PROFIT SHARING FOR IRELAND?

R. C. Geary and M. Dempsey

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1. A BRIEF SURVEY OF PROFIT SHARING

Profit sharing (PS) may be defined as an agreement between an employer and workers to pay a share of the profits or wealth created by the organisation, in addition to wages and direct incentives. It is a recognition of the worker's right to a share in the results of the organisation, just as the right of those who provide the capital. Profit sharing is regarded frequently as a direct incentive to employees, whose extra efforts can increase the profitability of an enterprise; it should not be confused with productivity schemes, however.

There are many ways in which profit sharing may be operated: (i) it may be a cash distribution; (ii) it may take the form of share allocation or of share option; (iii) it may apply to all workers or to certain categories; (iv) the amount may be at the discretion of owners or determined by rule; (v) profits shared may be a fixed percentage before tax, net profit after tax, a proportion of profit over a specified minimum. The profitability of a firm depends on many factors, sufficient capital, capable management and the efforts of all the workers, therefore it would appear equitable that all interests should share in the surplus remaining after each section has been reasonably remunerated.

Some of the arguments against profit sharing are: (i) if employees are encouraged to participate in a scheme of investment in a firm's shares, they may expect to be compensated even if the firm runs into difficulties; (ii) many employees might prefer a cash bonus to investment in shares; (iii) the formula for calculation of shares is often too complex to be understood by all workers; (iv) employees may consider that profit sharing gives an illusion of ownership without the power of control; (v) workers may begin to regard bonuses or dividends as a right and resent their absence in unprofitable years; (vi) if paid in cash it is likely to be regarded as part of pay and hence lose the incentive or distribution of ownership advantage; (vii) it cannot be applied to public service and other nonprofit organisations unless special arrangements are made.

The advantages of profit sharing are said to be: (i) employees acquire an interest in the organisation as owners as well as workers; (ii) profit sharing provides an interest in the firm; (iii) good employees may be induced to join and to remain with the firm; (iv) employees are encouraged to save; (v) by building up a common purpose, profit sharing may help to reduce conflict and therefore further public interest which is often forgotten when confrontations occur between management and workers; (v) social justice is seen to exist when workers share in the profit of the enterprise; (vi) profit sharing would involve a wider distribution of ownership in the community.

Most writers on the subject of profit sharing stress some basic principles: (i) basic pay to employees must take precedence over all other interests; (ii) there must be a reasonable proportion of profit for distribution to staff: if the profit bonus is only a small fraction in relation to total dividends, its psychological effect may be disastrous; (iii) the scheme

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should be simple and clearly understood; (iv) there is emphasis that schemes can operate only in successful firms and cannot be used to salvage a loss situation; (v) the scheme must state who are eligible, e.g., full-time employees, certain period of prior service for eligibility, exclusion of certain staff, applicable to all staff; (vi) many think that employees cannot be involved in sharing losses but benefits must vary according to the profitability or otherwise of the firm; (vii) it is important that a reasonable proportion of employees will voluntarily retain their shareholding. In voluntary shareholding, staff should be able to opt for a cash bonus instead of shares, as it is pointless to give shares which will be realised immediately. In many organisations, employees are assisted in acquiring shares in the concern, by means of loans, payable over five years. During the repayment period, shares cannot usually be sold except in exceptional circumstances; (viii) there should be income tax concessions to encourage promotion of profit sharing schemes; (ix) the size of the firm does not appear to be important, as both large and small firms have introduced profit sharing successfully; what appears to be important is a steady dividend; (x) schemes may fail to stimulate workers to greater effort if they have to wait too long for results; (xi) schemes are said to increase loyalty to the organisation and lessen strikes.

There appears to be general agreement that unless the wage structure is adequate, profit sharing is not possible. There must be good working conditions, satisfactory pensions and sick pay schemes, particularly in the UK and Ireland, before profit sharing can be considered; although in the USA it appears that schemes are introduced to provide pensions and other benefits. Workers in European countries do not appear to respond in such motivation. European profit sharing companies tend to be those which have adequate fringe benefits.

It would appear that for profit sharing to be successful there must be a high standard of communication and consultation flowing each way between management and workers. It would be unwise to expect too much from profit sharing schemes alone. They will not necessarily remove or reduce conflict over pay or conditions of work; usually workers prefer increases in basic rates of pay rather than in what they regard as marginal or fringe benefits. There is also the argument that whereas basic pay remains, rewards based on profits may fluctuate or be discretionary.

The Commission of the European Communities considered employee participation in asset formation in a Memorandum issued in 1979. They were "of the opinion that employee participation in productive capital formation constitutes an efficient approach towards the fundamental goal - from a social standpoint - of greater justice in the distribution of total wealth. This asset formation policy is furthermore a modern means of regulating the economy and of controlling inflation".

The most important basic principles which should tend to reinforce the social aspect of incentives to individual savings are, in the view of the Commission:

(i) A jointly negotiated asset benefit at a standard rate in absolute value, as in the Federal Republic of Germany.

(ii) Compulsory "frozen" participation of the wage earners in the profits of undertakings financed in part by the State, as in France. Several forms of voluntary participation are operational in the Netherlands, the Federal Republic of Germany and in the United Kingdom. Also, in France, there is compulsory participation in shareholding by employees in certain public enterprises. Similar systems are to be found, although optional, in Denmark, the United Kingdom and in the Federal Republic of Germany.

The Commission favours the sharing of profits by employees, whether by free negotia-

tion between the two sides of industry or within a legal framework. Among the many objectives of such sharing schemes, it was argued that priority should be given to the social objectives, particularly to a fairer distribution of wealth. Further objectives were:

(i) to ensure an overall level of saving necessary for the financing of investments;
(ii) to obtain greater participation in saving;
(iii) to channel such saving towards medium- and long-term forms of investment;
(iv) to maintain relatively stable prices by balancing incomes with consumption, savings and investment.

In order to encourage savings, countries must implement a policy to control inflation as in times of accelerated inflation savers can see their efforts largely wiped out by currency depreciation, while the real value of interest paid to savers can be negative. It would, therefore, be necessary, the Commission argued, that at least the low income groups should have some kind of guarantee that medium- and long-term savings will keep their real value.

There is no EEC law on PS. The Commission recommends two methods. According to the first, employees in the private sector and the government would pay their employees standard contributions in addition to earnings which would be frozen for a certain period. The idea would be for the two sides in industry to negotiate agreements on asset formation within a legal framework. According to the second method, described as "more advanced", employees would be given a frozen share in company profits, growth or capital. Funds transferred to employees, preferably in the form of share certificates, could be limited to the employees of the particular company or could be extended to a wider range of employees by assignment to a more or less general fund. It is pointed out that limitation to own company is more likely to bring about improvement in the work atmosphere, while funding is the more likely to bring about nearer to equality in reward for employees of more profitable and less profitable companies.

Following are short notes on the practices in some countries. Of greatest interest for Ireland is the UK. In a booklet produced by CBI (1978), what is described as a "checklist for management" is important because almost invariably schemes are introduced on the initiative of management, whose reasoning, it is suggested, should be on the following lines:-

> Why do we want a scheme? The timescale is important here. A scheme with regular short-term pay-outs can be used to reward performance but it is wise to consider a scheme based on longer-term achievement if the objective is to seek to increase employee involvement and commitment to the company.
>
> Who should belong to the scheme? Should it be for executives, or the whole workforce? Who should be excluded - non-executive directors, senior management, part-time staff?
>
> What ratio is the scheme to be based on: net profits; pre-tax profits; added value? Should there be a 'triggering-off' device whereby a certain profit percentage has to be reached before there can be a distribution?
>
> How will the company cope with employees' disappointment and disillusion when the company has a bad year and there are no profits to share? Should all the profit surplus be distributed, or some held back in reserve for bad years?
>
> Should the company bind itself in advance to the payment of an agreed proportion of profits every year?

On what basis should the distribution be made? Should it be related to remuneration, length of service or a combination of both?

What should an employee's entitlement be when he leaves the company, retires or is dismissed? Will his estate be entitled to anything if he should die?

Who should manage the funds set aside for sharing - board of trustees/management/trade unions? Is there scope for a joint management/union initiative?

How can we best inform our employees of our proposals and seek their views at the earliest opportunity?

How can we ensure that when we have decided on a scheme, it is explained as clearly and simply as possible and that all those covered by the scheme have an opportunity to discuss it with senior management?

We emphasise that these questions represent only management's thinking; regard must be had also to the viewpoints of employees of particular industries and of trade unions, and to society generally if government is to be involved.

The 1978 U.K. Finance Act purports to make it easier for employees to acquire shares in their company. Relief from income tax is provided for schemes approved by the Inland Revenue. From the viewpoint of the company, amounts expended on PS are deductible for calculation of corporation profit tax. Conditions were: administration by trustees resident in the UK; at least five years' employee service; participants to be treated like other shareholders; maximum of untaxed allocation £500. In the 1980 budget speech the latter was increased to £1,000. To encourage retention of shares vested, the recipient could not sell these in the first two years of ownership and income tax was payable on sales less than seven years but at a decreasing rate in years 3-7 after acquisition. In the IDS international report (1980), where much of the information in this paragraph and in what follows was obtained, it is stated that profit sharing in the UK has but a small role in "companies' employment participation policies". There are few schemes in heavy industry or in highly unionised companies. It is stated that British trade unions "have shown little enthusiasm for profit sharing, being more interested in increasing their members' influence and pay in other ways".

In August 1980, firms with PS schemes approved by the Inland Revenue numbered 151, with 114 awaiting approval. Only two per cent of British workers are in PS schemes. The CBI booklet gives a few examples of PS in the UK. In ICI the scheme is administered by the company through trustees. Under new proposals, four employee trustees will be elected by the staff. Shares in the company are issued to PS participants in the July of the year following the particular year of PS allotment. There is no accumulation of shares in the trust from year to year. The formula for allocation is based on the ratio:-

R = Value added/Employee remuneration. (Note that R is largely unaffected by inflation.) R is converted to a percentage of income (7 per cent in the following example) by a ready reckoner:-

Salary £4,000, rate 7 per cent	=	£280
£280 less tax at, say, 34 per cent	=	£185
£185/share issue price of, say, £3.90	=	47 shares

This manner of calculation has the virtue of simplicity, the desirability for which is emphasised. While shares can easily be sold, it is stated that, when last calculated in 1971, about 40 per cent of employee shares were retained.

The Boots Company scheme is about 20 years old. Its declared aim is to give employees a share in the company's prosperity. The PS fund is calculated as 8½ per cent of UK trading profit (calculated before PS). Members of UK staff who have completed

twelve months' service or more qualify for a share in the fund. It is for the company to decide whether an individual qualifies (absenteeism, etc.). Staff of 49,500 shared £7.3 million in 1977. Each employee entitled to a bonus will be allotted a number of shares in the fund equal to the amount of his weekly pay, with multipliers for 10, 20, 25 and 30 years' service. An example is given illustrating how each share is valued: if the annual fund was £1,000,000 and total number of shares 513,000, the value of each share would be £1.95. Again, the simplicity of the scheme will be noted.

The H.P. Bulmer Group's plan is administered by six trustees, of whom two are employees. Each employee is allotted shares as a percentage of earnings. Again, allotment depends on the ratio R, e.g., being 1.15 per cent of pay when R = 1.50 rising to 2.40 per cent when R = 1.75. Trustees hold shares for five years after which they are vested in the individual employee if he/she is still in the company. There is mention of a criticism: during this delay in vesting the employee "feels very little sense of being a shareholder".

Rowntree Mackintosh has had a PS scheme since 1923. Latterly, however, the emphases seem to have been more on SAYE (Save as You Earn). The scheme is stated to offer a large number of employees the opportunity to acquire ordinary shares in the company. According to Option A of the scheme, employees can have savings (between £1 and £5 a week) deducted from pay, the money being held for five years and then used to buy shares in the company, paying the price of those shares fixed five years earlier. (The latter proviso is interesting in protecting the employee from the risk of a fall in share price and if share price has risen in the five years, as will ordinarily be the case with a successful company, granting more shares than if price at vesting were used.) An interesting feature is that at the end of the five years the employee has a half-year to decide whether to buy shares (minimum 25) or to withdraw savings which are index-linked and carry a bonus. This description has been given at some length for this company because SAYE has features in common with PS.

In 1974, the Government of the Federal Republic of Germany adopted a plan that undertakings with an annual profit, before tax, of DM400,000 (limited liability companies) and DM500,000 (private companies) would have to transfer some equity capital or cash (in some cases) to a clearing institute which distributes the resources to specially created funds from which all employees and self-employed persons whose income does not exceed a certain limit will receive participation certificates which may not be sold for seven years. This draft law has not been implemented because of some practical difficulties, but the principle of employee participation in company profits has been accepted and denationalisation of part of the Federal industrial property resulted in a distribution of shares to workers, principally in Volkswagen and Preussiche Bergmarks and Hutten A6. By legislation in 1967, income tax is not payable, up to a stated maximum, by workers owning shares in the company which employs them. There are some provisos including the holding of the shares for five years before sale.

In West Germany, voluntary PS schemes are rare (and there is no legislation making PS compulsory); some major companies use other means towards the same end. They have arrangements which enable their employees to acquire shares in the company or other forms of investment, with fiscal incentives. In 1976, about 770 firms had arrangements for 800,000 workers to acquire a stake in their company, and these firms included the ten largest companies in the country. The usual procedure is for shares to be made available at discount rates to employees with service qualifications. Shareholding of workers is still very small.

France is exceptional in that, since 1967, PS is required by law in private sector companies with more than 100 employees and, in spite of a lack of trade union interest, many smaller companies have voluntarily introduced a PS scheme. At the end of 1978, nearly 5,000,000 employees in 11,500 companies had PS, a quarter of these with less than 100

employees and hence not bound by law. France has a "complex array" of legislation to put a greater proportion of industrial capital into the hands of French workers but, so far, with little success (*pace* the law!). It would seem as almost in desperation the Minister of Labour in 1978 proposed an obligatory handout of shares to employees equivalent to three per cent of the capital of publicly-owned companies, envisaging that eventually "employees would own between 20 and 30 per cent of the capital of the companies in which they work". Not surprisingly, one learns that the proposal has had modifications during the past two years. A bill based on it is at present (September 1980) before the French parliament but advocating only voluntary share distribution. There is a second bill making changes in the 1967 PS law. In our source of information it is stated that the fate of these bills is uncertain.

PS in France - cash or shares - is designed for the individual employee and not for a collective fund. In 1976, the last year for which statistics are available, average allocation under the law was £110 but there were wide variations amongst industries, ranging from £320 in the petroleum industry to about £60 in construction. About a fifth of beneficiaries got more than 5 per cent of annual pay, and a quarter got less than one per cent. Presumably because of the statutory formula (consideration of which follows), nearly two million employees in companies with PS schemes got nothing.

The formula used in France to define a firm's contribution to the workers' Special Participation Fund (SPF) is as follows:-

$$SPF = (B - .05C)\ S/2\ VA$$

where B = profit less tax, C = capital applied, S = employee compensation, VA = value added, to which we may add N = number of employees. One can see most of the *rationale* of the formula; no payment unless profit after tax exceeds 5 per cent of capital and, once again, the ratio S/VA (which we have noted in UK schemes). The fraction ½ may imply an equal division of this surplus between owners and employees. An authority states that an object of the formula is to "cushion the difference" between capital and labour-intensive industries. As an example, let C = £2,000,000, B = £250,000, S/VA = 1/2 and N = 100. Applying the French formula, distribution would amount to £37,500, a substantial addition of £375 to pay of £2,500 per employee. There is no suggestion that this example would be typical for Ireland; it will, in fact, be seen later that the 5 per cent deduction of capital in the formula would eliminate PS in many firms, even before the present recession.

A survey of industries in the Netherlands in 1976 covering 40,000 companies with ten or more employees, 2.8 million in all, showed that 7,000 companies (one-sixth of all) had PS. Schemes were more common amongst larger companies; one-fifth of those with 100 or more employees had PS. Four-thousand firms had a scheme covering all employees, most of the remaining schemes extending only to senior employees. Some 600,000 employees participated in 1976, and 90 per cent of these received some payment in that year. In companies covering all employees, payment per employee was about £290 and average payment was £750 in companies with schemes for part of staff. Most important manner of payment was a fixed percentage of employee's pay. About half of the PS schemes are included in conditions of employment but it is stated that Dutch collective agreements seem to have had only a small part in establishing schemes. Most allocations were based on companies' published profit figures, the rest on taxable profits, dividends, turnover or output. Legislation facilitating company savings schemes has been in force since the 1960s. In 1978, two bills were introduced in the Dutch parliament which would require companies to distribute up to 24 per cent of "excess" profits to employees, i.e., in excess of a certain amount each year - £26,000 in 1980 - to be indexed in future. A maximum is proposed equivalent to three per cent of the company's taxable profit. The

principle is the participation of employees in the capital growth of companies: it is known as VAD. Some of the allocations would go to individual employees, some to a national fund for all Dutch workers with trade union representatives with a majority on the board. This is known as the collective VAD scheme. In principle, all payments would be in the form of shares or other asset certificates. There seems little point in describing the schemes in detail since they are controversial, with many amendments proposed already, so that the final form is uncertain.

The Meidner plan in Sweden (initiated in 1971) rejected individual PS, because of the objection of tying the wage earner to the firm and promotes solidarity amongst workpeople and employers instead of amongst workpeople alone. The plan envisaged companies being required by law to use some 20 per cent of their pretax profit annually in the form of new shares. These would go to a "central equalisation fund" to be run by the trade unions. The object would be for the fund to acquire shares which would entitle it to appoint delegates as directors of companies. The Swedish blue-collar union federation, LO, gave formal support to the plan in 1976. The plan naturally created great political controversy and it is believed that it was partly the cause of the fall of the Social Democratic (SAP) government in 1976 after 40 years' rule. In 1978, a joint LO-SAP working party proposed changing obligatory PS rules to voluntary and the 1978 SAP congress postponed party decision on employee funds to 1981. There is also a Meyr commission appointed by the government in 1975 to examine the whole question of employee funds and due to report in December 1980.

Danish unions were amongst the first in Europe to claim a greater share in the ownership of industry through a collective fund. The Danish LO's proposals formed the basis for a draft law introduced by the Social Democratic government in 1973 but the government fell that year. While unions persist in central fund proposals, employers oppose but they favour voluntary financial participation by employees in their companies. According to Danish trade union ideas, the employee-holding would be frozen for seven years in the fund after which the employee would receive payments in cash. There are already voluntary schemes in Denmark. Usually the arrangement is for the employee to acquire shares at a favourable rate; there can also be a transfer of profit; 99 companies with 85,000 employees were involved at the end of 1978.

In the US, profit sharing has grown, perhaps more than in European countries; this may be, in part, due to the fact that schemes are used to provide superannuation schemes and other fringe benefits. The Employee Retirement Income Security Act of 1974 is stated to have had a profound effect on promoting PS in the USA. Tax deductibility has played a large part. Usually, profit sharing schemes are envisaged as (i) a means of attracting and retaining quality personnel; (ii) the creation of incentives; (iii) the deferment of current income taxes and accumulation of a capital reserve, (iv) maximisation of accumulation of capital through the exemption trusts; (v) the provision of retirement income and of benefits in respect of sickness, death, disability; (vi) fulfilling the company's social responsibility and enhancing its image.

With regard to PS in the USA, J. I. Fitzpatrick (1978) writes:

> The present strength of the movement may be gauged by reference to its membership. Some ten million employees are now covered and the trust funds accumulated on their behalf amount to over $30 billion. One in every four manufacturing, one in three distribution businesses, now operate profit-sharing schemes. Forty percent of America's four thousand banks, including three-quarters of the largest, have schemes. Sectors hitherto considered unsuitable for profit-sharing, such for instance as construction and transportation, have been found susceptible. Irrespective of whether the Company's

operation is labour-intensive or otherwise, or whether profits are stable or widely fluctuating, it has been found possible to devise effective schemes.

As regards USA's greater recourse to PS, it may be observed that, as regards pensions and social security, at company level and governmentally, USA has been backward compared to Europe. PS is tax-favoured in the USA, yet this alone cannot account for its success which must be due in part to PS's incentive and related effects. The most usual schemes for profit sharing are cash only, deferred shares, a combination of both, and savings and thrift plans. Profit sharing is regarded as an organisational incentive designed to unite employees with the company in the common goal of profitability and efficiency. Its objective is the promotion of unity of purpose and equitable sharing within the enterprise.

Bert L. Metzger (1980) states that: "Profit sharing should *not* be used as a substitute for: competitive wages and customary fringe benefits; good working conditions; sound personnel practices (e.g., fair wage and salary administration, equitable treatment of employees, grievance resolution, training and development, promotion from within, and the like); competent management (profit sharing will not generate a profit when management, even in normal times, cannot)".

A US writer, using US data, states that: "On all measures of significance, the profit-sharing group of companies outperformed the non-profit-sharing group by substantial and widening percentages as can be seen in the following table:

Ratios, 1969	*Profit-sharing Companies*	*Non-Profit-sharing Companies*
Net income to net worth	12.78%	8.00%
Net income to sales	3.62%	2.70%
Indices, 1969 (1952 = 100)		
Sales	358.40	266.00
Net worth	376.10	256.70
Earnings per common share	410.50	218.80
Dividends per common share	293.70	175.30
Market price per common share	782.10	397.60
Other Measures		
Approximate company earnings per employee (1969)	$1,165	$647
Growth of the invested dollar (1952-1969)	$9.89	$5.61
Employment growth	103.7%	75.5%

The data relates to US department store chains. Our comment is that the trouble here is attribution of causation. While the introductory wording of the foregoing quotation is careful, there is an implication and an intention to convey the impression that PS was the reason for the different experience of the two groups. It may be that it was because they were successful that the PS group had recourse to PS; there seems no justification for the adjective "widening" in the quotation. If more successful than the non-PS group in the period 1952-69, it is likely to have been more successful prior to 1952 and, when it was decided to adopt PS, the future prospect of the group must have seemed favourable. Our reading leads us towards the latter direction of causation, i.e., towards a discounting of incentive effects of PS.

In Ireland, a discussion paper on Worker Participation (which includes financial participation) was issued in 1980 with the aim of "focusing debate on the

key issues", to promote discussion and to encourage initiatives. The section on financial participation argues that recognition be given to employees "in respect of their interests in and contribution to the wealth created by their labour". Financial participation could also influence the level of inflation and the supply of investment capital, while in its social dimension "it is a logical development of workers' demands for broader-based participation in the operations of the enterprise". When workers are asked to practise wage demands restraint, it is "only just and equitable that they should be entitled to share in the wealth thus created when the subsequent recovery in economic performance takes place". Financial participation must be developed through good management and trade union practice "as part of a total pattern and philosophy of employee participation".

2. SOME STATISTICAL ASPECTS OF PROFIT IN IRELAND

For a consideration of PS, we should know something about profit levels in Ireland, in regard to which statistics are meagre. Our short analysis may have some interest in itself.

Table 2.1 shows that between 1960 (about when the modern industrial revolution started) and 1979, the proportions borne by pay of employees and "other" income (the latter so termed in what follows) in added value has changed drastically; in fact, percentage of other income fell from 42.5 to 34.1, the very low figures for 1974-76 reflecting the recession in these years, reminding us of the essential character of other income, namely that it is a residue, showing the effects of the vicissitudes of fortune in factors external to enterprise. Of course, other income includes more than profit in the narrow sense (i.e., as interest on capital) since it includes total incomes of proprietors working in the business.

From the PS point of view, interest must centre on major sector 3 of Table 2.1, even though other income as a per cent of total income in this section dropped from 29.1 to 23.2 per cent between 1960 and 1978. The great fall in the percentage borne by employee compensation in AFF from 12.9 in 1960 to 6.4 in 1978 is due to the decline in number of employees in AFF.

Table 2.2 shows the fluctuation in price of ordinary stocks and shares of Irish companies quoted on the Irish Stock Exchange. These are the prices of a weighted set of quotations which would have cost £100 on average in 1963. Annual averages are calculated using the prices at the beginning of each month. The trend is illustrated on Chart 1, which also shows the CPI to the same base (1963). The fluctuations in price from year to year in the share price index are seen to be very large, remarkably so, considering that these figures are averaged two ways, by individual quotations and by months.

Since 1963, the prices of stocks and shares have barely kept pace with the CPI, while reflecting the recession of 1974-76. This experience is in strong contrast to the period 1960-63, the early years of the industrial resurgence, when, obviously, an investor buying in 1960 and selling in 1963 would have profited handsomely in real terms.

Table 2.3 has for its object the comparison of the last two rows (5, 6): while real earnings per hour of employees have doubled between 1960 and 1973, real profit per £100 constant price capital has declined slightly. Hence, in manufacturing industry the reward of labour has improved enormously, no doubt mainly through greatly increased capitalisation, the unitary remuneration of which, however, has not increased over the period 1960-73. From this it would appear that there is limited scope for profit sharing in Ireland.

As will be shown later, however, variation is great, so that at least a proportion of firms could afford it.

Table 2.1. Added value in categories (1) remuneration of employees, (2) other income in three major sectors 1960-1977, with percentages derived therefrom, with personal expenditure price indexes,

Values in £ million

	Major sector	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978
						£ million						
1.	Agriculture, forestry, fishing (AFF)											
	Remuneration of employees	17.2	20.5	26.0	28.6	31.0	33.6	38.1	45.4	50.9	54.8	58.4
	Other Income	116 2	146 2	188 3	208 0	293.0	374.0	342.1	489 7	552 6	761.9	858.5
2	Public administration, defence (PAD)	30 5	49.9	84 2	96.2	116.7	142.6	168.5	241 3	282.2	310.5	353.6
3.	Other domestic sectors (ODS)											
	Remuneration of employees	246.1	403.9	734.6	854.3	989.9	1,200.8	1,451.6	1,836.1	175.7	2,561.0	3,148.0
	Other Income	100.9	141.3	216.6	238.7	292.7	337.2	318.5	376.2	493.2	680.1	985.7
4.	Net domestic product at factor cost (NDP)	510.9	761.8	1,249.7	1,425.8	1,723.3	2,088.2	2,318.8	2,988.7	3,554.6	4,368.1	5,404.2
	Remuneration of employees	293.8	474.3	844.8	979.1	1,137.6	1,377.0	1,658.2	2,122.8	2,508.8	2,926.1	3,560.0
	Other Income	217.1	287.5	404.9	446.7	585.7	711.2	660.6	865.9	1,045.8	1,442.0	1,844.2
						Other income as percentage of total						
1.	Agriculture, forestry, fishing	87.1	87.7	87.9	87.9	90.4	91.8	91.5	91.5	91.6	93.3	93.6
3.	Other domestic sectors (ex PAD)	29.1	25.9	22.8	21.8	22.8	21.9	18.0	17.0	18.5	21.0	23.8
4.	Net domestic product (incl. PAD)	42.5	37.7	32.4	31.3	35.0	34.1	28.5	29.0	29.4	33.0	34.1
	Derived personal expenditure price index (1975 as 100)	23.4	40.5	52.8	57.7	63.3	70.6	81.8	100.0	119.2	133.7	143.8

Basic source NIE 1977, Tables A2 and B2, NIE 1978 and 1979.

Note

Date for 1978 are from NIE 1979, those for 1971-1977 from NIE 1978. Revisions of 1971-1977 in NIE 1979 are small and do not affect the argument in the text based on the percentages.

Table 2.2: Price index numbers of Irish ordinary stocks and shares and of consumer prices 1960-1979

1963 as 100

Year	Ir. ord. Stocks & Shares	CPI	Year	Ir. ord. Stocks & Shares	CPI
1960	60.4	91.1	1970	149.5	145.0
1961	71.6	93.6	1971	145.0	157.9
1962	82.0	97.6	1972	213.3	171.6
1963	100.0	100.0	1973	252.0	191.1
1964	124.6	106.7	1974	169.3	223.5
1965	121.0	112.1	1975	164.6	270.2
1966	112.9	115.4	1976	174.6	318.8
1967	112.7	119.1	1977	219.2	362.3
1968	160.7	124.7	1978	331.9	390.0
1969	169.9	134.0	1979	370.7*	441.9

*7 months

Basic sources: various issues of Irish Statistical Bulletin

An examination of the financial returns of Irish companies brings to light the extraordinary variability in profit return between companies. We envisage the single year 1979, and in Table 2.4 we consider the result of investing £100 at the beginning of the year and selling it at the end. The dividend is not that for the calendar year 1979 but that which (if any) is the latest paid. The data used are those compiled by E. McVey for *The Irish Times,* in which companies are ranked according to turnover, number 1 the highest. Table 2.4 shows net dividend, capital gain realised and the sum of the two which we term "return" (on the £100 invested, not to be confused with company profit, analysed later).

The number of companies listed is 61. The simple averages of net dividend, capital gain and return on the £100 invested were, respectively, £6.06, £0.08 and £6.14. Ten companies (or one-sixth) paid no dividend, 31 (or just one-half) made capital losses. Since capital gains (or losses) were greater in absolute magnitude than net dividends, the picture for returns was similar to that for capital gains; losses occurred in 27 companies. The highest net dividend was £24 (for company number 60), capital gains (or losses) ranged from £59 (for company number 47) to *minus* £51 (for company number 46), all in relation to the same investment of £100. Table 2.5 gives the frequency distribution according to the three factors.

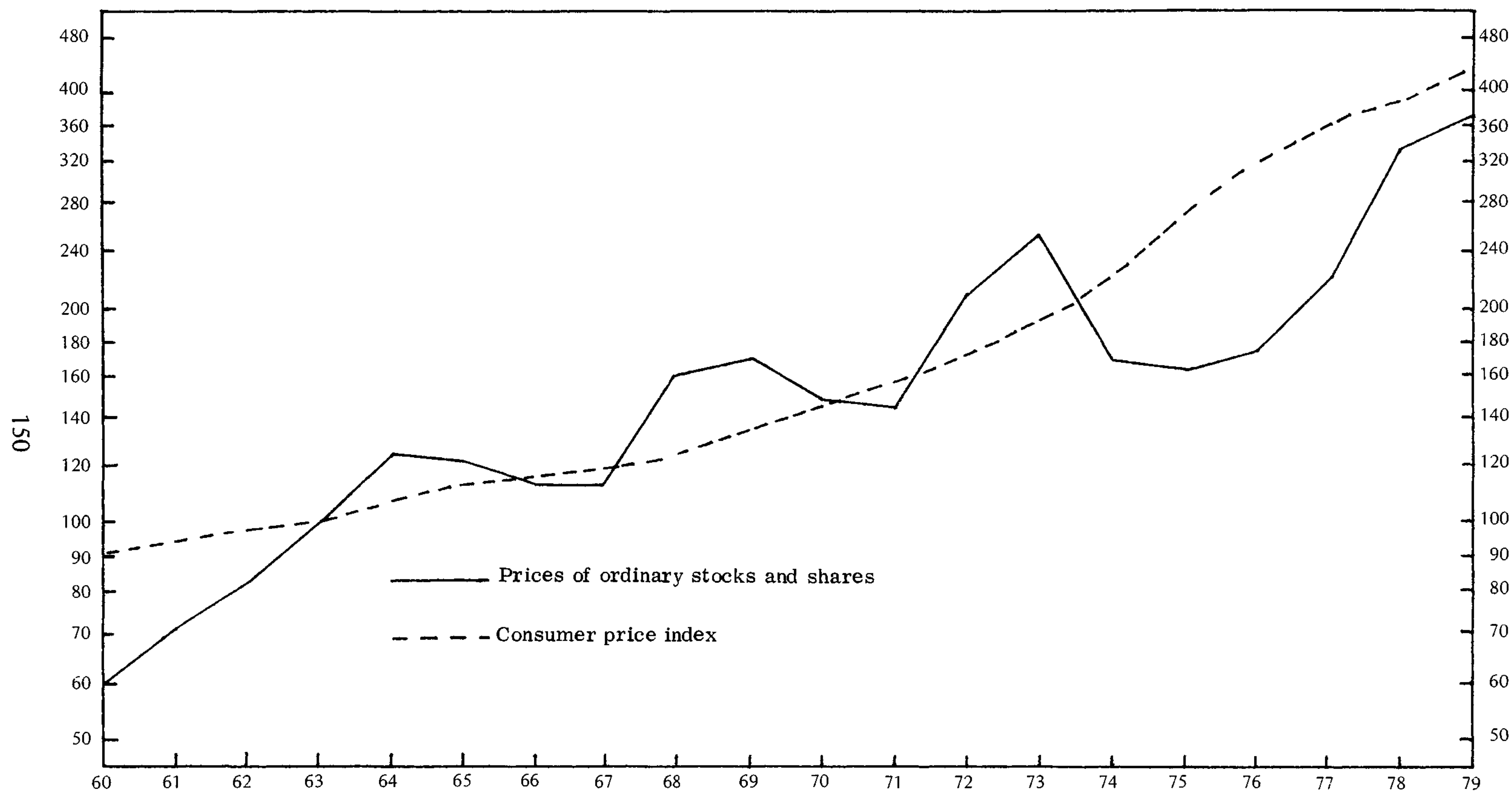

Chart 1: Index numbers of the prices of Irish ordinary stocks and shares and of consumer prices 1960-79, 1963 as 100. Logarithmic scale of ordinate.

Table 2.3: Real earnings per hour and real profit per £1,000 fixed capital invested, manufacturing industry, 1960-1973

	Item		1960	1965	1970	1971	1972	1973
1.	Fixed capital at constant (1958) prices, net	(£m)	185.1	269.7	404.1	440.0	494.5	535.6
2.	Profit at current prices	(£m)	38.3	54.8	100.2	110.0	154.2	197.3
3.	Profit at constant (1958)	(£m)	38.1	44.4	62.7	63.2	81.6	93.7
4.	Earnings per hour, current, September	(£)	0.167	0.245	0.424	0.491	0.559	0.687
5.	Earnings per hour at constant (1958) prices	(£)	0.167	0.198	0.263	0.280	0.293	0.323
6.	Profit at constant prices per £100 net capital at constant prices	(£)	20.6	16.5	15.5	14.4	16.5	17.5

Basic sources: Measures of Capital Stock in the Irish Manufacturing Sector 1945-1973 by R. Vaughan, ESRI Paper No. 103, 1981. Irish Statistical Bulletin (various issues)

Notes

Item

1. R. Vaughan's estimates
2. E. W. Henry's input-output estimate for profit in manufacturing industry in 1976 adjusted proportionately according to value added other than employee income in all industry (Tables 2A and 2B in NIE 1977).
3. 2 deflated by annual CPI
5. 4 deflated by mid-August CPI
6. Quotient x 100 of 3 by 1.

Table 2. 4. Return on £100 invested in each Irish company at the beginning, and sold at the end, of 1979. Data in £

Rank No.	Net dividend	Capital	Return	Rank No.	Net dividend	Capital gain	Return	Rank No.	Net dividend	Capital gain	Return
1	4.46	-20.92	-16.46	21	5.78	1.05	6.83	41	5.13	-7.69	-2.56
2	3.93	-11.22	- 7.29	22	8.20	-34.00	-25.80	42	5.30	-9.72	-4.42
3	4.93	-20.54	-15.61	23	8.72	-10.26	- 1.54	43	12.96	-7.41	5.55
4	8.66	15.46	24.12	24	9.71	5.91	15.62	44	0	-3.85	-3.85
5	7.65	2.94	10.59	25	8.71	57.41	66.12	45	0	-48.15	-48.15
6	6.87	5.00	11.87	26	5.95	-29.52	-23.57	46	0	-51.43	-51.43
7	3.20	-14.14	-10.94	27	8.33	3.33	11.66	47	1.41	58.82	60.23
8	0	-39.71	-39.71	28	11.67	-1.67	10.00	48	11.96	30.43	42.39
9	3.71	-14.29	-10.58	29	4.12	37.36	41.48	49	5.12	-19.51	-14.39
10	11.27	3.23	14.50	30	5.05	-33.33	-28.28	51*	4.36	-35.00	-30.62
11	4.88	-20.98	-16.10	31	9.52	20.29	29.81	52	10.29	23.53	33.82
12	6.36	-1.73	4.63	32	8.33	0	8.33	53	4.58	-14.29	-9.71
13	3.78	-4.05	-0.27	33	4.45	17.50	21.95	54	11.72	-21.88	-10.16
14	7.14	-17.86	-10.72	34	6.09	0.78	6.87	55	8.33	50.00	58.33
15	8.35	12.78	21.13	35	10.32	31.58	41.90	56	0	-5.00	-5.00
16	5.00	-35.19	-30.19	36	0	27.27	27.27	57	4.11	9.20	13.31
17	10.00	-4.62	5.38	37	7.02	6.67	13.69	58	0	-10.00	-10.00
18	5.58	11.63	17.21	38	12.50	37.50	50.00	59	0	-38.60	-38.60
19	7.52	27.82	35.34	39	0	42.86	42.86	60	23.86	36.36	60.22
20	0	-10.00	-10.00	40	3.96	-15.09	-11.13	61	2.50	0	2.50
								+	6.60	39.62	46.22

* Particulars missing for company ranked No. 50   + Turnover, hence rank, unknown.

Basic source Table compiled by Eoin McVey in The Irish Times, 29 December 1979.

Table 2.5: *Frequency Distributions Based on Table 2.4*

Net Dividend (£)	No.	Capital Gain (£)	No.	Return* No.
0	10	30 or over	10	12
0.01 - 3.99	7	0 - 29.99	20	22
4 - 7.99	24	-30 - -0.01	23	21
8 - 11.99	17	-30.01 or less	8	6
12 or over	3			
No. of companies	61		61	61

*Same classification as for capital gain.

Table 2.6 is based on the 59 of the 61 Irish companies displayed in Table 2.4 for which particulars of employment, capital and profit were available from the McVey table. In aggregate in the 59 firms, capital employed amounted to £674 million, profit £125 million, number of employees 75,400. It will be noted that the principle of classification by size, namely turnover, is different for the three factors manipulated, a procedure necessary for avoidance of bias. The average number of employees column shows that the turnover classification also is successful in classifying by size of company as measured by number of employees. Assignment of about equal numbers of companies in each grade in Table 2.6 is deliberate, to avoid selectivity.

Table 2.6: Number of employees per company, profit as a percentage of capital and capital per employee in five groups of companies classified by turnover, 1979

Rank Nos.	No. of cos.	Employees per company	Profit as % of capital	Capital employed per employee
		No.	%	£
1-12	12	3,649	19.8	9,970
13-24	11	1,363	15.1	7,538
25-36	11	827	21.0	7,675
37-48	12	453	14.1	7,486
49-61	13	163	11.8	6,992
All cos.	59	1,279	18.6	8,932

Basic source: Same as Table 4

Note: Capital employed is the sum of the issued share capital, reserves, loans, net bank overdraft, minority interests and future tax, less goodwill. Profit is before interest and tax.

While the figures in the last two columns do not vary regularly with size of firm, it is fairly clear that capital intensity (last column) is related to size of firm.

There are many definitions of capital. To assume that any of the capital, as defined and measured for Table 2.6, would be available for alternative investment, is fanciful. Nevertheless, a very strong impression from Table 2.6 is that percentage profit is far too low, in view of the demonstrated risk attached to investment in Irish securities, which are anything but secure. The aggregate 18.6% is but little in excess of the approximate 16½% yield on long-term Irish Government stock in 1979, available without any hazard whatsoever, apart, of course, from capital or inflationary loss.

It may be because of emphasis on employment in the Irish economic upsurge that profitability of investment has been disregarded, due in large measure to the absence of official statistics of capital employed. Yet in the private sector, investment depends on anticipation of profit, and investment is needed for employment. If no firm statement can be made about the rewards in equity of labour and capital in the division of value added, we have shown that, trendwise, labour has fared better than capital and, having regard to the risks associated with private investment, earnings therein seem meagre.

One of the stated objects of PS is the wider dissemination of ownership of wealth, so there is some interest in its present concentration in Irish business. Table 2.7 shows that of £674m. capital, £119m., or 18 per cent, is owned by company directors or members of their families. As might be expected, family-director ownership percentage diminishes as company size increases. Outside ownership percentage, 31 per cent overall, varies generally, if not regularly, with size of company. While, as pointed out in the Note, the two categories are not exclusive, it seems that about half the capital is owned in Ireland other than by directors and family and that the proportion (one-half) does not vary much by size of company. In Tables 2.6 and 2.7, the classification of companies is the same. The showing in both is dominated by the twelve companies in the largest group, which accounts for two-thirds of capital employed and nearly two-fifths of employment.

Tables 2.4-2.7 relate only to what are described as "Irish public companies", which are those for which prices are quoted on the Irish Stock Exchange. Their activities cover only a small fraction of all Irish business, best evidenced by their employing 75,000 fewer than 10 per cent of all non-agricultural employees in the State.

Table 2.7: Total capital employed, capital owned by family and directors, and capital owned outside the State, in same five groups of companies as in Table 2.6

Rank nos.	No. of cos.	Capital employed	Ownership Fam. dir.	Ownership Outside	% Ownership Fam. dir.	% Ownership Outside
		£m	£m	£m		
1-12	12	436.6	59.81	163.15	13.7	37.4
13-24	11	113.0	23.05	15.82	20.4	14.0
25-36	11	69.3	17.50	15.64	25.3	22.6
37-48	12	40.7	14.03	10.10	34.5	24.8
49-61	13	14.2	4.79	2.44	33.7	17.2
All cos.	59	673.8	119.18	207.15	17.7	30.7

Basic Source: Same as Table 2.4

Note: Capital is as defined for Table 2.6. Amounts in the two categories of ownership in each size group estimated by applying given percentages to capital employed. The two categories are not exclusive since it is obvious from the individual records that some family-director owners reside outside the State.

Correlation coefficients between the variables dealt with in the foregoing analyses are as follows:-

		1	2	3	4	5
1.	No. employees	1				
	% equity held by –					
2.	Fam., Directors	-.15	1			
3.	Outside State	.13	-.36	1		
	Per £100 invested –					
4.	Net dividend	-.07	.22	-.11	1	
5.	Capital gain	.20	.16	-.02	.39	1

For c.c. NHP critical levels for 57 d.f.: - r (.1) = .22; r (.05) = .26; r (.01) = .33

All correlations are small. Only two can be accounted significant and both are to be expected, the .39 between dividend (4) and capital gain (5) and the negative -.36 between percentages (2, 3). There seems to be a slight tendency for businesses with high ownership by family and directors to have higher dividends and capital gains.

One set of non-significant results is of greater interest, namely that size of business as determined by employment (1) had no influence on the other variables. The tables given earlier were more revealing than this correlation analysis.

As regards PS by Irish public companies, it would appear that for most, profits would have to be far larger for their sharing to be of interest to their employees.

3. IRISH EXPERIENCE WITH PROFIT SHARING

"Company" is a vague concept in its popular usage in Ireland. From different sources we derived a list of about 3,000 companies, from which we selected a non-random sample of about one-tenth, in fact 319, to whom a very simple single page form containing six questions was sent; 180, or 56 per cent, were returned. We are aware that PS in Ireland is at its small beginnings so that the object of our inquiry was more to obtain details of types of PS as case histories than as statistical estimates (of number of companies practising PS classified in various ways); enough to know that some one-tenth or fewer of companies have some form of PS. Hence the non-random sample which, in fact, consisted of (i) all Irish companies in the 1979 *Irish Times* list, (ii) all banks and finance houses listed in Thom's Commercial Directory 1979/80, (iii) a one-tenth systematic sample of companies listed in Thom's Commercial Directory 1979/80, (iv) a one-third sample of the top 100 grant-aided foreign companies, 319 companies in all.

Of 180 which responded, 30 had PS in some form, or one-sixth. Probably the national proportion is much smaller (even as regards companies) since one assumes that the 139 who did not trouble to reply contained very few profit sharers. Suffice to repeat that PS is at its small beginnings in Ireland. The 30 were interviewed orally using a very detailed structured form - see synoptic table - or were sent the form; 22 companies complied. It may be stated, without specifically identifying them, that they contain a number of the most illustrious companies in Ireland. Our object is not to obtain statistics of the number of companies practising PS in Ireland (we knew beforehand that they were few) classified in various ways, but rather to ascertain the types of profit-sharing which, as it happens, vary a great deal. We have tried to show these variations in the synoptic table but there are many particularities which the table conceals. For those interested, a short description for each of the twenty-two companies, is available from the ESRI.

Table 3.1 Synoptic table showing profit-sharing characteristics of twenty-two Irish companies, (see Key for numeration)

Co. No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33
1	iii	25	3	8,000	i	iv	7,300	ii	i	i	i	ii	iii	iii	i	i	ii	i	i	i	ii	ii, iii, iv	i	ii	73/74	i	ii	i	iii	i, ii, iii, v,	ii	i	i, ii
2	iii	100	15*	160	ii	iv	160	i, iii	i	i	i	ii	i	i	i	i	i	i	i	ii	ii	ii, iv	i	ii	65/66	i	ii	i	iii, iv	i, iii, v, vii	v	i	i, ii, iv
3	ii	1	6	230	ii	i	30	i	-	-	-	ii	i	-	-	i	i	i	i	ii	i	-	-	-	'33	i	-	-	i	i, ii, iii	v	i	i
4	i, ii	39	5	115	ii	i	12	i, ii	ii	-	i	ii	iii	-	i	-	ii	i	i	ii	ii	ii	i	-	78/79	i	ii	i	i	iii, v	v	i	i
5	iii	-	-	7,500	i	iv	7,500	i, iii	i	i	i	ii	iii	iii	i	i	ii	i	ii	i	ii	ii, iii	i	ii	'50	i	i, ii	i	iii, iv	ii, v	v	i	i, ii, iii
6	iii	100	1	200	ii	iv	90	i, iii	i	i	ii	-	iii	iii	i	i	ii	i	i	i	i	-	i	ii	'74	i	ii	i	iii	i, ii, iii, vii	i	i	i, iii, viii
7	iii	16	4	600	i	i	32	i, iii	i	ii	ii	ii	i	ii	i	i	ii	i	i	ii	ii	i, ii, iii iv	i	ii	'78	i	ii	i	iii, iv v	i, ii, iii, v, vi	v	i	i, iii, vi
8	i	75	4	2,500	ii	iv	2,500	i	ii	-	ii	i	ii	-	-	i	ii	i	i	i	ii	ii	-	-	'64	i	ii	-	iii, v	i, ii, iii	v	i	i, ii, iii, iv, viii
9	i	100	-	323	ii	iv	323	i	ii	-	ii	i	i	-	-	ii	ii	i	i	ii	ii	ii	-	-	'79	i	i	-	ii, iv	i, ii, iii, v	ii	i	i, ii, iii, viii
10	iii	100		2,700	i	iv	2,700	i	ii	-	-	-	-	-	-		ii			ii				-	-	i	ii		iv, v	i, ii, iii	iii	i	i, vi
11	i	51	10	217	ii	i	12	i	ii	-	i	iii	iii	-	-	i	ii	i	i	ii	ii	ii	-	-	'79	i	ii	-	i	iii	v	i	i, ii
12	i, ii	5	-	1,800	i	iv	400	ii	ii	i	ii	ii	-	iii	i	-	ii	-	ii	ii	ii	ii	i	ii	'79	i	ii	i	iii, iv	i, ii, iii, v, vii	ii	i	i, vi
13	iii	100	6	90	i	iv	70	i, iii	ii	ii	ii	ii	iii	iii	i	i	ii	i, ii	i	i	ii	ii	i	ii	'78	i	ii	i	iii	i, v	iii	i	i, ii, iii
14	i, ii	51	-	900	i	i	40	iii	i	ii	ii	ii	i	ii	i	i	ii	-	-	i	ii	i, iv	i	ii	'75	i	ii	i	iii	viii	v	i	i, ii, iii
15	i	5	2	600	i	iv	550	ii	ii	ii	-	ii	iii	i	i	ii	ii	ii	ii	i	ii	i	i	ii	'71	i	ii	i	iii	ii	iii	i	i, ii
16	i	0	-	350	i	i	40	i	ii	-	ii	ii	iii	-	-	i	ii	i	i	i	ii	ii	-	-	'76	i	ii	-	iii	iii, vii	i	i	i, ii
17	iii	100	-	598	ii	iv	524	i, ii	ii	ii	ii	ii	iii	ii	ii	i	ii	i	i	ii	ii	ii	i	ii	'79	i	ii	i	iii	-	-	i	-
18	i, ii	43	1	2,700	i	i	170	i	ii	i	i	ii	iii	ii	i	iii	ii	iii	ii	i	ii	i	i	ii	'69	i	ii	i	i	vii	ii	i	i, iii, v
19	i	100	3	600	ii	iv	593	i	ii	-	ii	i	ii	-	-	i	ii	i	i	i	ii	ii	-	-	'25	i	ii	-	ii, iii, iv	ii, ii, iii, iv	i	i	i, ii
20	i	35	4½	863	i	iv	849	i	ii	-	ii	i	ii	-	-	i	ii	i	ii	ii	ii	ii	-	-	'75	i	i	-	ii, iii, iv	i, ii, v	v	i	i, ii, iv, vii
21	i	100	9	482	ii	iv	482	i	ii	-	ii	i	iii	-	-	ii	-	i	ii	i	ii	ii	-	-	'67	i	-	-	i	i, ii	v	i	i
22	i	25	-	900	i	iv	350	iii	i	ii	ii	ii	iii	i	i	-	ii	-	-	-	-	-	i	ii	-	-	-	-	ii, iv	i, ii, iii, iv	i	i	ii, iii, iv, viii

KEY TO NOTATION IN SYNOPTIC TABLE

1. Broad sector:- (i) manufacturing, (ii) distribution, (iii) other services.
2. Percentage of equity held outside State.
3. Percentage of after-tax profit distributed under the profit-sharing scheme in the last financial year.* Percentage before tax.
4. Employment (approximate).
5. i public (principal), ii public (subsidiary).
6. Coverage:- i managerial, executive, ii clerical, iii other employees, iv all employees.
7. Number of employees in scheme.
8. Form of sharing:- i cash, ii allocation of shares, iii share option.
9. Contribution by employees:- i Yes, ii No.
10. Are shares issued at a discount? i Yes, ii No.
11. Is scheme varied according to type of employee:- i Yes, ii No.
12. Are part-time staff included? i Yes, ii No.
13. Minimum period of service for qualification:- i no minimum, ii under one year, iii one year or over.
14. If shares are allocated, can employees:- i sell shares immediately or hold for under one year, ii hold one year but under five years, iii hold five years or over?
15. Shares or options issued to:- i individual employees, ii a trust fund for employees.
16. Frequency of payment:- i yearly, ii twice yearly, iii more frequently.
17. Employee participation in management of PS:- i Yes, ii No.
18. Allocations:- i before tax, ii after tax, iii unrelated to profit.
19. Minimum profit necessary before allocation:- i Yes, II no.
20. Allocation discretionary:- i Yes, ii No.
21. Do employees receive equal amounts? i Yes, ii No.
22. If 21 is No, allocations are according to:- i seniority, ii pay, iii grade, iv merit?
23. Allocation is of i ordinary shares, ii preference shares.
24. Negotiation of value of shares with employees:- i Yes, ii No.
25. Year when PS started.
26. Was PS started on initiative of i management, ii employees.
27. If 26 was i, were employees consulted before initiation? i Yes, ii No.
28. Is share of share option allocation confined to own shares? i Yes, ii No.
29. Steps taken by management to propagate benefit of PS - i no action, ii notices on notice boards, iii communications to individuals, iv staff meetings, v brochures, etc.
30. Company objectives in PS - i distributive justice, ii industrial relations, iii productivity, efficiency, iv lessening absenteeism, v motivation, vi competitiveness, vii profit, viii retain staff.
31. Attainment of objectives - i no, ii partly, iii doubtful, iv not long enough in operation to judge, v yes.

32. Fringe benefits independent of PS - i Yes, ii No.

33. If yes at 32, benefits:- i pension, ii medical, iii cash bonus, iv subsidy to canteen, bar, v car, vi loans, vii product allowance, viii other.

– Does not apply or not stated.

The showing of the table may be summarised as follows. About half the companies are owned (in majority equity) outside Ireland. Practically all are large firms by Irish standards. Most of the after-tax profit for PS is less than 10 per cent. All are public companies, half-and-half principal and subsidiary. Two-thirds of the companies' PS extends to all permanent staff, one-third to the executive class only: in the latter case the proportion of staff covered is therefore small. In most cases, distribution is in the form of cash, sometimes with shares or share-options. Contributions by employees are rare. In most relevant cases, shares are issued to participants at a discount, and do not vary according to rank of employee. Mostly part-time staff are not included. A year or more service by recipients for inclusion is required in most cases. Practice is varied as to length of time shares must be held unsold. In all cases but one in the sample, shares were allocated on an individual (and not a trust fund) basis. Sharing was mostly yearly. In nearly all cases there was no employee participation in management of PS, in the initiation of the scheme or any form of consultancy in regard to it: PS is the child of management in Ireland. Most allocations are before tax: a minimum profit is necessary before PS, mostly. Allocation is discretionary in about half the sample companies (i.e., at the discretion of management, half, therefore, according to some predetermined rule). Distribution is usually according to pay. Shares are always ordinary shares in own company, with no prior negotiation of value with staff by management. In all known cases but two, schemes were of recent origin (earliest 1964). Some action was taken by management in most cases to propagate benefits of PS amongst employees. Company objectives ranged over the whole spectrum listed in the Key (head 30). All sampled companies had fringe benefits, invariably including pension. As to attainment of objectives, most companies were satisfied, but among 21 respondents to this head, there were four blunt nos.

Our interviews with the twenty-two PS companies left us with the following impressions:-

1 Companies were highly successful by the usual tests.

2 Their PS was of recent origin.

3 Their deep involvement in fringe benefits.

4 Non-involvement of staff in initiating or controlling PS schemes.

5 Extent to which PS schemes consisted of cash and not share allocation, tending to result in PS being regarded as part of pay and not in sharing in ownership.

6 Comparative disinterest as to whether PS would benefit company

7 Small propaganda amongst staff about PS.

It would seem, indeed, that the impulsion towards PS on these companies was an extension of 3 above, which could come under the head of enlightened self-interest, but with little concern about results. If PS is to be adopted, it seems that reversal at heads 4-7 would be beneficial.

While, in our sample, a majority indicated that they were satisfied with the results of PS (and are so recorded in the synoptic table), we suspect that this is usually a statement that the system is working efficiently. For the majority of companies, PS has been in

operation for only a few years and it is too soon to decide whether the scheme has been a success as regards any or all the desired effects, as listed at head 30 of the key to the synoptic table. In any case, it will be difficult to decide since the firms which have PS are "good" firms and they might have been equally successful without PS.

4. CONCLUSION

From our study of the literature, the survey in Ireland involving personal interviews on a structured questionnaire with companies practising PS, and from our own impressions of all this material, we find:-

1. not much interest in the topic amongst managements or employees
2. some interest in the EEC Commission and governments generally, Ireland's in particular;
3. a vast degree of variation in schemes in Ireland and elsewhere;
4. a small proportion of firms with PS in Ireland and no high percentage anywhere except in France, and in the USA where it is tax-favoured and involved in fringe benefits;
5. in Ireland, practising firms have good fringe benefits: we infer that PS is widely regarded as an extension of these;
6. trade unions are disinterested when they are not positively antagonistic;
7. broadly, there are two types of schemes of deductions from profit: (1) distributed amongst own staff, (2) contributed to a general fund for all employees of all firms, (2) being favoured by trade unions, (1) by firms;
8. experts are generally agreed as to aspirations with regard to PS but there is an entire absence of statistical proof as to whether stated objectives have been attained, there being simply statements that this has been the case usually.

Our title is in the form of a question, implying that we seek an answer. This answer should be Yes, No, or Doubtful. For any choice, reasons should be given. If Yes, the type of scheme favoured should be sketched in broad lines, while recognising that choice of scheme will depend on company circumstances. We may state at once that our answer is Yes.

Our analysis must be full of value judgements, so deprecated by analysts seeking proof. To repeat, we have been unable to find statistical proof, but vast variability in scheme detail. So we feel justified in recourse to value judgement, noting the words of the EEC Commission in regard to PS "We are of the opinion . . . ", implying this. We consider our judgements to have value, but we will be well content if the opinions in this section and in the paper generally polarize discussion, even if most other opinions differ from ours.

PS in its origins was idealistic, paternalistic and generally charitable in its intent. Tending towards the economic were the objects of increased saving, increased labour productivity, improved industrial relations, distributive justice, with diminution generally of the two-sided industrial philosophy within the firm. Collectively, these objects, in so far as they are attainable, would go some way towards justifying PS.

Very early on we came to the conclusion that PS was but a small part of the important topic of participation, implying the question of the share of employees in ownership and management of the firm. Taking a stand, mainly on ethical grounds, we have not the smallest doubt that ownership and management should be widely distributed amongst staff, who are vitally concerned in the success and even the survival of the firm. We are on record as deprecating these two sides in industry, arguing that employees and owners of an enterprise are in the same boat. Unfortunately, the two-sided view results in demands

for employee compensation being, to a large extent, independent of the welfare of the firm, sometimes leaving too little for profit on which, largely through allocations to reserve, the survival of the firm depends. We do not argue, of course, that the disappearance of the two-sided philosophy is necessary for participation in general or PS in particular. We do consider that a better atmosphere in industrial relations than at present is a prior condition for PS to take firm hold.

In its practical application, the problem of PS raised the more general question of the fair division of value added (VA) between owners and staff. Thus, some consideration of VA will be necessary.

VA is the difference between total sales and purchases of goods and services embodied in these sales in any period (usually a year, but nowadays efficient firms use shorter periods for accounting). It is the measure of work done by the firm in the period. Sales will include value of increase in stocks of goods (products and materials) during the period; that these unsold elements can be valued in different ways need not trouble us at this stage. Purchases include a valuation for depreciation (or capital consumption) as well as repairs and maintenance during the period. Here again there is an unsold (and hence non-valued) element, namely, depreciation. That added value can have different valuation does not disqualify it from being the *fons et origo* in any discussion of the distribution of the value of work of the firm. Our argument will apply, however VA is defined. Nor need we be troubled about the fact that levels of sales and/or purchases may be subject partly or wholly to monopolistic pressures, thus increasing or decreasing VA.

For this discussion VA may be regarded as consisting of four main categories:-

(i) employee compensation;
(ii) company taxation;
(iii) additions to reserves, i.e., company saving;
(iv) dividends and interest.

These four categories are set out in their natural order, the order in which a board of directors usually would consider them. We deal with them in the following paragraphs, as far as relevant to our inquiry.

(i) *Employee compensation* includes overtime and bonus (on turnover or for productivity, etc. - let us exclude bonus in the form of PS for the moment, terming it "non-PS bonus"). Regular pay and overtime are unrelated to outcome, in so far as payments are independent of output or sales of goods or services. Non-PS bonus, on the other hand, depends on results, though it may become a routine payment, at more or less the same rate over a term of years and, as such, indistinguishable from ordinary pay. If PS is in operation, it would seem to be important for the staff to distinguish clearly between such bonus and PS, if PS is to have any incentive effect in any direction which, incidentally, will be to the weal of staff as well as shareholders. There must, therefore, be no tendency towards confusion of non-PS bonus and PS, especially if PS is paid in cash. In turn, any PS scheme should be voluntarily adopted by the staff, in general principle and as to the method of distribution. It seems logical that PS should vary up or down with profits if it has to have its incentive effects and that this fact should be accepted by the staff. The same argument might appear applicable to non-PS bonus but the staff will not look at it that way since such bonus is regarded as part of pay. There should, however, be no difficulty in distinguishing between PS and other bonuses.

(ii) We have become so accustomed to *company taxation* that we have ceased to realise how odd it is. It started in World War I and amounted for many years to about one-half of company profit before tax, but has latterly tended to diminish. It is really a phenomenon associated with the transition of the firm from private ownership to joint stock status. It obviously entails double taxation on both staff and stockholders, both

groups of whom have also to pay personal income tax. Nowadays the private owner still pays only a single (Schedule A or B) tax, as is equitable. We shall not pursue this aspect which we assume will be dealt with by the Commission on Taxation. During the last few years, government and EEC subsidies to firms have become so common that the relevant figure may be taxation *minus* subsidy. The point is that with the advent of PS, taxation and subsidy, hitherto irrelevant, have entered the orbit of interest of employees and their TUs.

(iii) The survival of the firm depends on *additions to reserves.* In the opinion of many economists, survival interests most firms rather than maximization of profit. Furthermore, self-financing of capital development is far preferable to borrowing at the level of interest rates of the last few years. In strict logic, staff should be regarded as part-owners of allocations to reserve, after PS is adopted in principle.

(iv) As regards *dividends and interest,* interest will be absolutely determined by the amount of the loan to the firm and the rate of interest. The lender will almost invariably be a bank and the amount and probably the rate of interest will depend on the lender's assessment of the borrower's credit. Dividend itself is usually expressed as a rate on capital invested originally, which capital is deemed to be a loan to the company, regarded as a corporate entity. While individual companies try to keep this rate of dividend approximately level (sometimes by withdrawals from or additions to reserves), there is considerable variation (sometimes the rate is zero) over the years and much greater variation in rate between companies.

The foregoing are mainly explanatory comments of the four categories of VA. Something on these lines would be absolutely necessary in any conference between staff representatives and management in the determination of rules for PS. Indeed, explanations by management should extend far further and in greater detail, for instance to planning, external constraints, etc. (to the absolute limit of prudent confidentiality) in the interest of the firm, and quite apart from PS.

These remarks are a preparation for coping with the problem stated at the outset of this chapter which amounts to finding an equitable division of VA between labour and capital. Really, it is VA less company taxation which is the sum to be divided, for the Revenue Commissioners will have immutable rules for determining their share, beyond the control of the firm or its employees. The problem, as we envisage it, is one confronting a firm which has decided to adopt PS. Are there any rules for deciding the amount of the share?

In drawing up rules, we must ask to whom should be given the credit and hence the reward for an increase in VA? Investigation may show that this was due to some or all of a great variety of causes, including (i) increased sales from contracts won by sales force supplemented by other staff's working harder to meet conditions of contract, (ii) increased prices of products or lower prices of materials, (iii) increased labour productivity, (iv) more modern machinery and instruments, etc. The short answer is, therefore, that it would be quite impossible to apportion fair shares amongst shareholders and the different kinds of staff. The argument is the stronger for the fact that the increased profit may be due entirely to increased demand, whether this was or was not anticipated by the firm in the pre-determination of the kind of goods or services produced. The point we are making is that no section of the staff can lay exclusive claim to increased VA of a firm. Hence, any distribution by way of bonus on PS should be proportional to the basic remuneration of each member of the staff, an accepted measure of her/his contribution to VA, with abandonment of effort to ascertain what the true contribution of each individual or group is. Even if this were possible, differentiation in relative reward other than on the basis of basic remuneration, would lead to discontent.

If PS is to be widely adopted, it must be accepted by trade unions, in principle and in

detail of plan. Trade unions at present tend to disapprove of profit sharing schemes, particularly share-holding schemes, as workers' insecurity may be increased if the employing firm gets into difficulties. They fear, also, that employees in labour-intensive industries would not be included in profit sharing or would get very much less return than in capital-intensive enterprises. It should be possible to evolve a scheme of profit sharing, however, so that the proportion of profits distributed to employees is higher in labour-intensive industries - not that the individual will receive more but the total bonus will be adequate for sharing among a greater number of staff. Unions tend to regard profit sharing schemes as "sharing" in a very limited way since the principles and administration of such schemes are usually entirely in the hands of management with very little sharing of power - in most cases, none. Unions also argue that, because of the degree ot profit sharing usually envisaged, profit sharing schemes contribute little to a more equitable distribution of wealth in society. Unions object to the implicit idea that workers employed in unprofitable organisations should be punished. They also argue that inequalities arise, as profit sharing cannot be applied to the public sector. Therefore, such schemes are not seen by trade unionists as a satisfactory substitute for good pension and sickness provisions, nor are they a substitute for a sound industrial relations programme. Union objections are rational and must be met for PS to be successful.

An editorial in *The Irish Times* (25 February 1980), has a bearing on the equity of PS. It is suggested therein that the security of tenure issue of the modern industrial worker (instancing workers in the British steel industry) is analgous to that of the Irish tenant farmer of a century ago, who could be evicted for non-payment of rent. The cases certainly are similar in that insecurity of tenure was or is a characteristic of both. The editorial goes on to point out that agrarian turmoil ended with the Land Acts whereby tenants acquired a legal equity in their holdings. The implication is that workers' acquisition of an equity in their companies (implied by PS) would lead to industrial peace; the editorial is doubtful about this outcome. To the analogy it might have been added that in modern business the non-executive shareholder could be cast in the role of the absentee landlord of the land wars. Analogies, however, are not proofs.

Is a fair division conceivable of VA between employees and owners? We think so. But there must be far greater frankness on the part of owners with employees and their trade unions about the financial condition, plans and prospects of the firm, and improved goodwill on both sides, than has heretofore been the case. Since capital intensity varies so much between firms and industries, a fixed percentage of VA (less tax), generally applicable, would be inequitable. The greater the capital the greater the investment and the greater should be the reward of the investors. (It has been shown elsewhere that, with industries as units, the greater the capital per employee, the greater are earnings per employee.)

We have pointed out also that survival is a major, if not *the* major, concern of any business. Employees, management and owners will agree that reserves are necessary for survival, which is in the interest of both sides. But will there be agreement as to the amount to be allocated or withdrawn in a particular year, agreement, that is, between all parties concerned with survival (which includes improvement), embracing, of course, employees or their representatives? We think that in a proper atmosphere there could be agreement as to reserve policy.

The amount to be distributed as dividends to shareholders will also cause problems. Workers tend to regard shareholders as parasites, forgetting that it is shareholders' money which has created their jobs and that shareholders must be adequately remunerated for their investment. It could be argued that because the shareholder has a choice between investment in risk-free bonds and risky equities, the rate of interest on bonds should be the minimal rate to which the equity holder is entitled. This is not necessarily so. Equities

are very often purchases for capital gains, the investor wishing to preserve the value of his capital stock in inflationary times. In companies, therefore, where the value of the shares is increasing, the interest rate as represented by the dividend will tend to be lower than that on bonds where the capital stock is depreciating. In deciding, therefore, on the amount of the dividend, if any, account must be taken of the market price of the shares as well as of the interest rate on, say, government securities.

We consider, therefore, that a full-scale inquiry into profits in Ireland would shed much light on the ascertainment of a minimum rate of return to owners of capital investment, minimal in the sense that it must be earned before any PS distribution. But, of course, dividends must not be confined to such minimum rate. In France, where PS is mandatory, excess profit over a basic minimum is divided between employees and owners by formula, as we have seen. In such an enquiry, the co-operation of the Revenue Commissioners would be necessary, especially as regards private companies and partnerships which constitute the bulk of Irish business. Of course, if PS is legally adopted as a policy, there will probably be a lower limit for size. We see no reason for any such limit, for voluntary application, always assuming that a PS policy is found recommendable for Ireland.

We conclude by asserting that a widespread plan for PS should be set up in Ireland because it is equitable that employees should be part owners of enterprises. There are other arguments on balance favouring PS but equity is by far the most important, in our view. While we appreciate the force of arguments favouring a scheme for contributions from profit to a central fund for sharing with all the nation's employees, we consider that for the present in Ireland, the U.K. type of plan is most suitable, firmly centred, as regards funding, control and distribution of own shares, in the particular firm. We set down for discussion other recommendations as follows:-

(i) the scheme should be voluntary for the present;

(ii) a PS bill should be prepared in consultation with employer and employee organisations;

(iii) contributions should be tax-deductible as regards firms and individual employees for schemes approved by the Revenue Commission;

(iv) schemes should involve the setting up of a fund within the firm to receive cash contributions, employees being consulted on the setting up of any scheme and represented on the board of the fund;

(v) while employees can choose to have contributions in cash or shares, share-holding should be strongly favoured by tax policy: a cash distribution will come to be regarded as part of remuneration expected each year without giving the employee any stake in the business;

(vi) arrangements should also be made to keep the time for the individual employee's coming into possession of shares as short as possible;

(vii) the scheme should extend in principle to all employees with as few exclusions as possible;

(viii) PS contributions should not be discretionary on the part of management but according to rules or formulae determined by agreement with staff in advance;

(ix) employees with shares in the firm should have shareholders' rights in full;

(x) on leaving the firm without discredit, the ex-employee should receive his full entitlement from the fund;

(xi) for the present, PS contributions should be particular to the firm determined as half the residual of VA after tax and after pay (including fringe benefits), allocation to reserve and reward to capital calculated at minimum government bond rate adjusted for growth in value of shares.

The last proposed condition has the attraction that it recognises the basic rights of both sides, capital and labour, before determination of residue which, it is proposed, should be equally divided (for want of a better rule). As shown in Section 2, many Irish firms do not earn the minimum government bond rate on capital invested and so would not be liable for PS, using this formula; only successful firms would be so liable. We propose the scheme, with no special conviction for discussion. The French statutory formula we examined in Section 1 implies that no PS is necessarily payable (by firms with 100 employees or more) unless interest on capital exceeds 5 per cent which, of course, is far lower than present day bond rates, even after adjustment for stock appreciation; the French formula has a much wider catchment area than that which we propose; while, as we have shown, the French formulae nearly achieve equal rewards to staff in low and high capital-intensive firms (as favoured by trade unions), we do not consider it suitable for adoption in Ireland at the present stage. The simplest system of all would be a straight contribution, x per cent, from profit, perhaps after the deductions specified. Choice of formula will be for high level consideration involving government and organisations of employees and employers. The tax system can help selection of favoured formula, for instance, no tax concessions unless deductions exceed x per cent. In frank discussion of the fair division of VA, allocations to reserve seem likely to give most trouble, since they must differ from year to year and firm to firm.

Profit sharing is but a single detail in the immensely more important problem of employee involvement in the welfare of their enterprise, but it may be a necessary condition.

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DISCUSSION

Brendan Halligan: The note convening this meeting describes the presentation of the

paper before us as an occasion of particular significance for the Society. Dr Geary's first paper to the Society was presented in the 1924/25 session, and at 86 years of age, is believed to be the oldest person ever to deliver a paper here. But it is not that fact alone which makes it an occasion of significance. In truth, any paper by Dr Geary at any stage of his life would be an occasion of particular significance and I am more honoured than I can say to have been given the opportunity of proposing the vote of thanks to him and to his associate, Ms. M. Dempsey.

I am sure Dr Geary has no objection to receiving the honours which normally accompany longevity. Somerset Maugham once wrote that the way to become the greatest living novelist was simply to live longest. But in Dr Geary's case, he has long ago been one of our greatest scientists, achieving an international pre-eminence seldom enjoyed by an Irish person. His continuing intellectual vigour and the contributions he makes to our national life, not alone evidenced by this paper, but for example, by a letter in today's *Irish Times* on the nature of Irish democracy, all prove that we are in the presence of a remarkable man and it is a privilege to share his thoughts with him.

Practicality: Apart from the eminence of its authorship, the paper before us this evening is characterised by a number of other special features. Its title comes in the form of a question which implies an answer, although an answer is something most scholars avoid if at all possible, particularly in the realms of economic or social policy. Unusually, in this case an answer is given and with an admirable combination of clarity and brevity. To their own question the authors have responded: "We may state at once that our answer is yes". The answer also has the undoubted merit of being one with which I can agree. And then the paper is enhanced in value by going beyond the descriptive and analytical and dealing with an issue which is not alone concrete and specific but, which more importantly, is essentially one of ethical significance. In their own words, the answer to the question was amplified as follows: "Taking a stand mainly on ethical grounds we have not the smallest doubt that ownership and management should be widely distributed amongst staff".

There is a very refreshing candour about this approach which hopefully will commend itself to the less adventurous. That economics is a neutral science has always seemed to me to be the most value-loaded of statements. There is no pretence here of neutrality or ethical indifference, which is just as well, since either posture is impossible on what is really a debate about the power structure of modern capitalist societies.

It is on that aspect of the paper that I intend to focus my remarks.

The Nature of Profit Sharing: We were offered a definition of profit sharing in the opening sentence of the paper: it is an agreement between an employer and workers to pay a share of the profits or wealth created by the organisation, in addition to wages and direct incentives. That definition presupposes a given social order in which there is inequality between the employer and workers to the extent that, it can be argued, the employer has virtually all of it. That reality is dealt with in the paper by implication rather than by facing it explicitly but the consequences of the reality are readily acknowledged and to me they can be summarised in the following three propositions:

(1) That Profit Sharing, far from being an agreement, is an arrangement unilaterally determined by the employer. It is stated, arising from a study of the Irish experience, that "in nearly all cases there was no employee participation in management of Profit Sharing, in the initiation of the scheme or in any form of consultancy in regard to it". One of the conclusions of the survey comments on the "non-involvement of staff in initiating or controlling Profit Sharing schemes". There is further reference to this phenomenon.

(2) That Profit Sharing is seen both by management and workers as an extension of fringe benefits.

(3) That trade unions (as a consequence, I would argue, of the above two features of Profit Sharing) have little or no interest in such schemes *per se*. This is stated to be true of British unions, French unions, and of unions in general. It is equally true of Irish unions.

Workers Not Interested in Profit Sharing: There is no mystery in workers or their unions being disinterested in profit sharing schemes. It is not an illogical attitude. On the contrary, it is a very logical response to the nature of work in a capitalist society. For the great generality of employees, work is not an expression of self, it is not the free use of mental and physical energy, nor is it the free utilisation of creative talents. On the contrary, it is the subordination of self to the dictates of another. In modern society, work is external to the workers and is not self-fulfilling. It has been rightly said that the worker only feels at home during leisure, whereas at work the worker feels homeless. Work is not voluntary but imposed, forced labour. It is often dull, routine, monotonous. Instead of being creative and satisfying, work is stultifying and denies the individual a creative active function. Consequently, satisfactions are found in non-work, where people "do their own thing", or in working for oneself even at a lower financial reward, because the other rewards are more than sufficient compensation for any income lost.

Alienation: There will be little difficulty in recognising this as an expression of Marx's theory of alienation which was used as the theoretical foundation of the Labour Party's policy statement on "Worker Democracy" in 1969 and on which I am here drawing. And I do so without sense of plagiarism because I co-authored that document with Jimmy Kemmy, now the Independent Socialist Deputy from Limerick, and the late Griff Cashman, one of the great co-operators in Ireland.

That statement of socialist principles upon the nature of work could be summed up in three sentences. The alienation of the worker is based on the fact that it is not work for oneself but work for another, the product being appropriated by someone else. Work is not the satisfaction of a need but only a means of satisfying other needs, needs which are deeper in human nature than the primitive drive for acquisitiveness and domination over others, which so marks the capitalist system, a system which deifies those instincts. Finally, in order to survive, the system civilises consumption and leisure so as to avoid having to civilise the productive and work relationship.

The system, as Roger Garaudy declared in his seminal work, *The Turning Point of Socialism* militates the person because it "excludes from work all that is specifically human, namely the planning of goals and of the potential means and methods of attaining them". He regarded the common denominator of different movements in France and elsewhere since the mid-sixties as a demand for participation, as opposed to alienation from existing structures and the refusal to be integrated into a system without being able to discuss its meaning, value or purpose. His words have been prophetic as far as France is concerned. They explain apparently illogical attitudes amongst workers elsewhere. But everywhere, they are a challenge to humanise the inhuman.

Liberal Approach not Enough: Fortunately, there are some who see the necessity of civilising the productive relationships, not as a necessary precondition for the survival of the system, although there are many self-enlightened capitalist who do, but as something which is valuable in itself. I hope I am not embarrassing the co-authors of this paper when I put them into that category, for that is how I have read their intentions. But having postulated the civilising of work relationships as sufficient reason in itself for proposing change, one is immediately confronted with the problem of the power structure of society. Some good people genuinely believe that the present social order can be humanised by more enlightened, liberal and humane policies. Indeed, the French Minister for Labour, described in the paper as acting in desperation and proposing an obligatory hand-out of share in publicly owned companies in 1978, was obviously representative of that

approach. Yet it was an approach contradicted, and I would say corrected, by the socialist alternative offered by Francois Mitterand, which was overwhelmingly supported by French workers. Not for nothing has the Parti Socialiste had "Changez la vie" as its slogan for over a decade, because that is the conclusion of a great many others. For them, profit sharing, however admirable, particularly where it is done as a spontaneous gesture of goodwill, is nothing more than a palliative. They propose something more. It is nothing less than the democratisation of the workplace and the socialisation of ownership. As the Parti Socialiste Programme states, "the real power which socialists want for the workers must come through a break with capitalism". They are committed to the concept of worker self-management. That is how life is to be changed.

Economic Democracy is Much More: Thus, if I have an analytical criticism of the paper before us, it is this. It lumps together as being variations on a common system, species of a genus, as it were, profit sharing practices or proposals within the capitalist system and the proposals of the Swedish and Danish Labour Movements. Both of these are mentioned and are sandwiched between a Dutch bill which fell and profit sharing schemes in the U.S. The Danish and Swedish proposals belong to a different genus. They are pathways to economic democracy involving a fundamental change in society, and not (to quote the Labour Party statement of 1969) "a mere reforming programme which makes work more bearable without changing the control and ownership structures". In fact, the Danish LO proposal, prepared by a committee under the chairmanship of Henry Grunbaum, a former Minister for Finance, is simply entitled, "Economic Democracy". It specifically and contemptuously dismissed the conventional idea of profit sharing through share allocations as "nothing but an evasive measure intended to support the existing system". It went on to explain that "*economic democracy* is more than a question of profit sharing and accumulation of capital. It is a question of the democratic influence of the entire society on . . . economic development". The objective is "the democratisation of the economy".

The Danish LO was quite clear about the scope of this objective and the anticipated response to it. In their concluding paragraphs they described it as "a proposal which will interfere deeply with ownership rights". It was scarcely to be avoided that the proposal would meet with opposition for there was much prejudice to be overcome. The old capitalist attitude had to come to an end since wage earners would no longer accept inequalities in the distribution of income and capital.

Opposition to Democracy: The anticipation of opposition was an accurate prophecy. A bill based on the LO proposals was introduced into the Folketing in January 1973 by the Social Democratic Government. It was expanded on the joint agreement of the Party and Congress three years later, but it is not yet law. The struggle to change society by the legislative process, the distinguishing feature of democratic socialism, has proved to be just as protracted as the struggle for the right to political democracy in the last century.

In neighbouring Sweden it has not been much different. Here the process commenced with the research project of Rudolf Meidner in 1971, as mentioned in the paper. The Swedish LO endorsed the principles of his report in 1976 and formed a joint working party with the Social Democrats to draw up detailed proposals for implementation into law. Their report was published four years ago but it, too, awaits endorsement by the legislature, although, in this case, the Social Democrats have not been in office since. It is also true that up to last year the Swedes had not completed the process of working out all the practical details of their plan to finance development funds from a special levy on earnings.

It is obvious from this that there is a profound qualitative difference between schemes extending employee rights or perks within the existing social system and schemes designed to change the social system by altering the ownership structure. Thus, to distinguish between profit sharing schemes on the basis of those which offer a percentage of

profits by way of cash/or shares in the parent company and those which provide for the collective accumulation of capital by workers without any distribution to individuals, is to make a false classification. It may have the merit of logical orderliness but it is ontologically irrelevant.

Distinction between Profit Sharing and Economic Democracy: The real distinction is, in my view, between profit sharing schemes as practised in Ireland and analysed in the paper and proposals for economic democracy as put forward by the democratic socialist movement throughout Europe. The latter are admittedly no more than proposals, for they have nowhere been put into practice. But, as such, there is a wide family of them, ranging from the Labour Party proposals adopted here in 1969 (one of the first parties to do so as a matter of interest), to the German proposals drawn up by the SPD in 1973, supported by the DGB and actually agreed, although not implemented, by the coalition partners; through the British Labour Party's document on employee co-ownership inspired by the Danish proposals, the Austrian Trade Union Congress scheme for a national investment fund, and the French programme, as previously mentioned.

The aim of all these schemes is to ensure co-ownership, participation and joint decision-making in industry and individual companies for workers and, at the same time, to achieve a fairer distribution of wealth through the establishment of a common investment fund which eventually would be the dominant form of ownership. It is this latter institutional proposal which distinguishes policies for economic democracy from profit sharing schemes and, I hope, it is now obvious why it does.

The British Experience: I have not so far, save for one brief reference, referred to the British experience, which, we are told, is "of greatest interest for Ireland". I would advise caution here. Generally speaking, the British are *sui generis* as far as Europe is concerned, usually being the odd man out. It seems to me that it is still the case, even in this area. While it is true that the British Labour Party proposed a National Labour Fund to be owned jointly by all employees, it is, however, to be seen as a supplement to, and not an alternative for, the Party's proposals to nationalise the means of production, distribution and exchange.

The British, not least its labour movement, are still terribly insular, a fact borne out by a Fabian pamphlet on this subject in which the author, the Labour M.P. David Watkins, managed to avoid mentioning even one example or experience from outside the island of Britain. Notwithstanding that, some elements of the British experience are of relevance, even if only for the reason that Britain still mesmerises some of us. There, as the paper notes, only a tiny minority of workers are covered by profit sharing schemes. But alongside those schemes are working examples of what is called industrial common ownership, which concept was enshrined into law in 1976 under the Industrial Common Ownership Act. It provided, for the first time, a proper legal definition of what constituted enterprises of a common ownership and industrial co-operative nature, as well as some practical measures to encourage these enterprises.

Industrial Common Ownership: Common ownership is a long held tradition within the British socialist movement, which Watkins traces as far back as the pamphlet of Peter Plockhoy published in 1659, the Diggers and later to Robert Owen and the Rochdale pioneers. For Watkins, "common ownership means more than nationalisation by state corporations. It means much more than putting workers on company boards or issuing them with a few shares in firms which employ them. It means far more than schemes for profit or capital sharing . . . Much of what is called "participation" is in reality only another way of manipulating people. To improve the quality of life and to release the full potential of people at work, enterprises must have social as well as economic objectives".

He lists and describes some enterprises where those objectives are at work, including the Scott Bader Company in which all the capital is collectively held on behalf of the

members, which in 1977 had a turnover of £21 million and a profit of over a million pounds. Its Board of Directors derives its authority from the general meeting of members. It appoints managers to carry out its policy. At least 60% of profits must be retained for taxation and investment and generally the amount has been about 80%. That might, perhaps, be an encouragement to the co-authors in any further consideration by them of the division of value added, such as they deal with in their concluding section.

I will leave the British experience there, for it must be approached with caution, as well as respect and curiousity. It is not the totality of our universe.

Profit Sharing for Ireland: The scope of this evening's paper demonstrates that its authors voyaged much further afield. If, at the beginning, I said it was a paper marked by many refreshing features, I want to say, at the end, that the extent of its horizon was another stimulating aspect of its scope. The European scene has been surveyed, as it should, and the US experience thrown in for good measure.

The conclusions drawn from that survey are as practical as they are exciting, particularly that which asserts "that a widespread plan for profit sharing should be set up in Ireland because it is equitable that employees should be part owners of enterprises". For those who do not agree with the authors, that equity is by far the most important argument in favour of such a proposal, profit sharing will remain just another mechanic in the operation of personnel policy.

A Personnel Technique: Within that context, it has much to recommend it, although no great enthusiasm need be expected, for it and its practitioners should be forewarned so as not to fall for the French disease of exasperation at apparent indifference and ingratitude. It has much to recommend it because Irish personnel management lacks that frankness which is referred to as being a necessary component in the good management of a firm. Irish management tends to be secretive to an undue degree and this is paralleled by an inevitable suspicion on the part of workers. Profit Sharing might at least help in some small degree to civilise the unacceptable within capitalism.

No Trade Union Input in Ireland: If profit sharing thus has something to commend it to those in personnel management, it surely also has more than enough for trade unionists as a starting point in evolving a new social order. That has been the case elsewhere where the union movement has worked out elaborate and ambitious programmes for the achievement of economic democracy. Not so here. There has been virtually no trade union input into the theoretical development of economic democracy in Ireland. That is more than something to regret in passing. It is a tragedy. The seventies, particularly since the world depression of 1975, gave the unions a unique chance to change the character of the Irish ownership structure as the price to be paid for participating in national economic management. That opportunity was never taken. It is almost inexplicable, but not quite. It is simply another manifestation of the non-ideological nature of the Irish character. I might be tempted to add, non-intellectual nature of our society. We are not a reflective people.

Conclusion: So, on a purely practical level, let us advance this argument for Profit Sharing. It might help to convince that sometimes there is no profit to be shared, a most interesting by-product of the paper before us. Frequently the books are opened in Irish industry, if at all, only when it is too late, and too often they are regarded as being cooked just for the purpose of securing co-operation in redundancies and changes in work practices.

At a time when the long-run trend of unemployment is upwards, profit sharing, or more accurately, the common acceptance of losses and their causes, could be a significant technique in saving jobs. For that reason alone, I welcome this paper, I look forward to the interest which it will re-inspire in the subject and I warmly thank, on your behalf, the two authors for a stimulating, provocative, timely, and above all, practical paper. Thank you both.

G. Dempsey: The paper is a very welcome and necessary contribution to the continuing search for ways of improving the employer/employee relationship and providing a better environment for investment and social development. The contribution which the paper makes is strengthened by the practical and realistic manner in which the subject is treated. It is important that the paper stresses certain points which need to be acknowledged in considering the possible development of profit sharing:

For example:-

- adequate pay and fringe benefits must precede attempts at profit sharing: the latter is no substitute for the former.
- financial participation is only one aspect of participation. A quotation from the Department of Labour Discussion document published in 1980 is used in support of the statement that financial participation must be developed through good management and trade union practice "as part of a total pattern and philosophy of employee participation".
- trade unions are disinterested when they are not positively antagonistic to profit sharing.
- a better atmosphere in industrial relations than at present is a prior condition for profit sharing to take a firm hold.
- if profit sharing is to be widely adopted it must be accepted by trade unions, in principle and in detail of the plan.
- and perhaps most importantly, the conclusions regarding the levels of profit in Ireland where it is judged, 'that percentage profit is far too low' and that 'having regard to the risks associated with private investment earnings therein seem meagre'.

In the concluding section of the paper, the view is put forward that a full scale enquiry into profits in Ireland should take place. There seems to me to be some merit in this suggestion being seriously considered as part of the requirement to get a better understanding of the need for profits, along with other developments which would be required to improve industrial relations and give a more secure base for investment and growth.

There are some other points which I feel are relevant to make in discussing financial or other forms of participation. Firstly, I think it is very important that profit sharing is seen as a possible development within an economic system that recognises the necessity of a strong market sector. I think it is simplistic to put forward the view that the development of what is called economic democracy would positively transform attitudes to work and people's satisfaction in their work. The disinterested or antagonistic attitude of trade unions to profit sharing or other new forms of participation which has been mentioned in the paper, in my view stems not from an ideological antagonism, although there is a different ideological view in a section of our trade union movement, but more from competition between unions and the pursuit of sectional interests between unions. This view is not being put forward to blame trade unions but simply to acknowledge one of the aspects of our industrial relations that inhibits progress towards a more collaborative relationship between unions and management. At a recent public meeting which I attended, I heard a worker director in one of our public enterprise companies say that prior to meeting other worker directors from other sections and unions in the same company there had been no connection or meetings between representatives from different unions and none had been attempted by the unions officially.

There are, of course, managements which are unnecessarily secretive, but more common is the situation of management trying to maintain at least relative tolerance between competing interest groups represented by different unions in the organisation. With re-

gard to the idea that company law should be changed in order to recognise a new status for employees as part owners of the business, this is something that requires the closest and most careful examination and raises very fundamental questions about the conduct of our industrial relations and the fabric of our industrial relations and trade union law.

Finally, developments in participation should take account of the need for investment (much of which comes from overseas) in the market sector of the economy and its resultant provision of new jobs.

Much has been said already about the authors. Iwould like to add my few words. It has been said that time is the erosion of matter. This paper is certainly proof that time does not necessarily erode the spirit. The enthusiasm and force in the paper and in its presentation tonight makes many people who are young in calendar terms look very old in terms of their mind and spirit. It is an honour for me on this unique occasion to second the vote of thanks to Mrs Dempsey and Dr Geary, and I very much appreciate the opportunity.

J. I. FitzPatrick: Having congratulated the co-authors on their paper, which, in his opinion, represents a significant contribution to the literature on profit sharing, Dr John FitzPatrick said that his conclusion from it was that profit sharing, as traditionally interpreted, has little to offer. Few Irish employers have adopted it, and the trades union attitude is at best indifferent, at worst strongly contra. In spite of this, it must be accepted that the idea of employees sharing in the profits of their enterprise is a sound one. Therefore, the past record of the movement, here and elsewhere, should be studied with a view to its adaptation to today's conditions.

In that regard, the Planned Sharing Research Association had devised a related concept, planned sharing, which aims at creating the profit to be shared. To achieve this, employees and management co-operate in planning the progress of their enterprise, an exercise which requires disclosure of relevant information and constructive involvement of employees in all important decisions. The operation, therefore, establishes two-way communication between managers and employees and must help to improve relationships. Leading consultancy firms are already advising on planned sharing schemes for an ever-growing number of important Irish companies in both the public and the private sectors. Planned sharing is a forward-looking idea, well suited to today's new "industrial revolution", and soundly based on social justice principles.

Kieran McKeown: It should not be forgotten that profit-sharing can and does occur even though it is not formally and legally recognised as such. In other words, it is possible for profit-sharing to exist *de facto* even though it may not be recognised *de jure.* This point seems to have been overlooked in this paper which adopts an exclusively *de jure* concept of profit-sharing. There is, however, considerable evidence of *de facto* profit-sharing. This evidence relates to the UK (Glyn and Sutcliffe, 1972); the US (Boddy and Crotty, 1975; Weisskopf, 1979); and the OECD countries generally (Heap, 1980; Hill, 1979). All of this evidence suggests that the rate of profit in these countries has been declining over the past twenty years and that this decline has been due, in large part, to the rise in real wages. This is evidence of *de facto* profit-sharing. Interestingly, the authors of the paper suggest that 'there is limited scope' for profit-sharing (in the *de jure* sense) in Ireland because of the decline in profitability in recent years. It is interesting to conjecture that this may well be due to the fact that profit-sharing has already occurred in the form of rising real wages. It is not, of course, denied that profit-sharing schemes might help to regulate conflicts in this matter.

I would like to join with the other speakers in thanking Dr Geary and Mrs Dempsey for sharing the profits of their labour with us to-night.

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Sean Cromien: I join with other speakers in complimenting the authors of this paper on their valuable and comprehensive review of profit-sharing in Ireland and other countries. When I joined this Society in 1948 or 1949 as, I hasten to add, a very young man, Dr Geary was president. He was a regular contributor to discussions and I - then as now - always looked forward to his witty and stimulating comments. While I am only too conscious personally of the passage of time since then, I notice with surprise that Dr Geary remains the same age. This paper clearly illustrates his belief, like that of Ulysses in Tennyson's poem, that even in one's later years

"Some work of noble note may yet be done
Not unbecoming men that strove with gods".

The paper prepared by him and Mrs Dempsey provides a very useful background to a discussion on whether there is anything in the profit-sharing idea and whether it is worth following up in this country. I agree fully with the authors in their remark that they deprecate what they call the "two-sided view" of industry which separates employers and employees. If profit-sharing is of any help in changing this view and in reminding all the workers in a particular company or industry of their common interests, it is worth encouraging. Brendan Halligan, in his thought-provoking comments, made clear why the idea was unattractive ideologically to the trade unions. In this connection, he referred to the alienation of workers in private industry. Strangely, this alienation seems to exist equally in State-owned bodies.

If your memories can go as far back as the Budget of 27 January last - admittedly difficult, given the number of other statements which have caught our attention since - you will recollect that the Minister for Finance proposed to provide in the next Finance Bill for exemption from income tax of shares given by companies to their workers under profit-sharing arrangements. He went on to say:

> This concession should help in promoting a greater involvement by workers in their employer companies and in a small way contribute to the attainment of more harmonious industrial relations and increased employment.

I would like to comment briefly on the reference to company taxation in Dr Geary's paper. The principle of company taxation derives from the fact that a company is a separate legal entity in law and in practical commercial terms. More fundamentally, it is desirable, for social and political as well as fiscal reasons, that every form of economic activity should make a contribution to the cost of Government services. Industry has benefited enormously from the generosity of the ordinary taxpayer - to the extent of over £2,000 million between 1973 and 1980. It is only reasonable that it should give some return to the Exchequer. Dr Geary mentions the double taxation of company and shareholder. This is, in fact, taken into consideration by means of a tax credit which is imputed to the shareholder.

Gerry McMahon. Ladies and gentlemen, first I would like to congratulate the authors on a fine piece of work in an area which, up to recently, has been totally rejected in Ireland.

On doing some research on financial participation last year, I, like the authors, believed that in order to successfully operate a profit-sharing scheme, the company must be assured that it will, in fact, make a profit. The logical view is, you must make a profit before you can share it. However, in my survey, I encountered four enterprises having experienced years of no profit share distribution, and all four rated their schemes as being successful. This might suggest that the fact of having a scheme, being willing to share with the workers, had brought the benefits management expected from the schemes.

Moving on to the trade union stance on profit-sharing, it is worth noting that two surveys of worker representatives or shop stewards conducted in Ireland, found that profit-sharing was a benefit which would be of great interest to them. Consequently, it is regrettable that the trade union officialdom is apathetic to the idea on 'ideological' ground. It is ironic that the representatives of workers' wishes did not even make a submission to the Commission on Taxation, promoting tax advantages for workers participating in profit-sharing schemes.

The management view to profit-sharing also leaves something to be desired. As with the authors, my own research showed that profit-sharing was to be encouraged. It involves more than a surrendering of control - but a mechanism by which management can secure more co-operation.

V. Armstrong: Congratulations to the authors for a stimulating paper. Three points:

1. I note that only 12 out of Ireland's 60 to 70 quoted companies operated a profit-sharing plan. Presumably, all quoted companies responded to the questionnaire. They most certainly must have been included in the non-random sample. This is a disappointingly small proportion which reflects the lack of enthusiasm, so far, for the concept.
2. It should be noted that over the intervening one year and seven months, the number of approved U.K. schemes has risen to approximately 400.
3. In view of the comments of the previous speaker (a senior Civil Servant from the Department of Finance), in which companies were berated on the grounds that they pay inadequate taxation, I would like to query the ethics of the Government advertising, extensively, savings giving negative returns. For periods going as far back as the late 1940s, the average rate of inflation has exceeded the average yield on Government stocks.

Reply by Dr Geary: I am grateful to the President and other speakers for their kindly references to me personally, though these are not good for my natural modesty. Maura Dempsey and I rejoice that our paper has emerged practically unscathed from the discussion which we found very interesting and, indeed, as adding substantially to knowledge of profit sharing in Ireland, actual and in prospect.

Brendan Halligan, in his interesting address, shows clearly why trade unionism is lacking in enthusiasm for profit sharing; namely, that this falls far short of economic democracy and bolsters up the capitalistic system. Wearing another hat, I have protested about the absurdity of those two sides in industry. I found helpful the speaker's references to the alienation of the worker in his work, of the worker finding himself only in his leisure. The speaker does not take too absolute a political stance, for he stated "Profit sharing might at least help in some small degree to civilise the unacceptable within capitalism".

Gerry Dempsey finds simplistic the view that economic democracy would transform attitudes to work. He finds it important that profit sharing implies a strong market sector. I assume that this means that profit sharing might improve profits. This point was not made in the paper but seems sensible. Reference is made to managements' difficulty in coping with competing unions within an organisation.

Sean Cromien, commenting on Brendan Halligan's view about worker alienation, finds it strange that this alienation extends to State-owned bodies. In the Budget of last January the Minister for Finance proposed that in the next Finance Bill, shares given to workers under profit sharing should be exempt from income tax. I am obliged for his explanation of double income tax of company shareholders.

J. Victor Armstrong stated that since the late 1940s, average rate of inflation has exceeded the average yield on Government stocks. We note that in the last nineteen months the number of U.K. profit sharing schemes has risen to about 400.

Gerry McMahon makes the ironical comment of his encountering firms who regarded their profit sharing schemes as successful, though they made no profits for years. He differs from Brendan Halligan and ourselves in his mention of two surveys which found that Irish trade unionists would have "a great interest" in profit sharing.

Kieran McKeown mentions that there may be *de facto* profit sharing without more formal arrangements, giving references in support of this contention. The speaker surmised that profit sharing in Ireland in recent years may have occurred in the form of increasing earnings and decreasing profits.