In the previous chapter, we have seen that there is a large multiplicity of methods being adopted by the various undertakings in India for paying the bonus. This variation is mainly due to the absence of any agreed principle for the determination and distribution of bonus. Towards the end of 1947, the Government of India convened an Industrial Conference to which representatives of Provincial and State Governments, leading businessmen, industrialists and leaders of labour organisations were invited. The main object of the conference was to give its due consideration to the steady fall in most spheres of production and to devise measures which would not only put an end to the deteriorating situation, but would bring about concrete results in the field of production. Among the many matters which met with general agreement was the recognition that improvement in employer-labour relations was the most essential pre-requisite to enhanced production. Although there were vital differences as to how best industrial relations could be established,
maintained and enlarged, the realisation by all of the immediate urgency of the problem and the resulting willingness on the part of both the employers and workers to come to a practical solution enabled the conference to arrive at a general agreement known as the Industrial Truce Resolution. The main principles of this Resolution are best described by quoting the relevant part of the Resolution itself. "This conference considers that the increase in industrial production which is so vital to the economy of the country cannot be achieved without fullest cooperation between labour and management and stable and friendly relations between them. The employer must recognise the proper role of labour in industry and the need to secure for labour fair wages and working conditions; labour for its part must give equal recognition to its duty in contributing to the increase of the national income without which a permanent rise in the general standard of living cannot be achieved. Mutual discussion of all problems common to both and a determination to settle all disputes without recourse to interruption in or slowing down of production should be the common aim
of employers and labour. The system of remuneration to capital as well as labour must be so devised that while in the interest of the consumers and the primary producers excessive profits should be prevented by suitable measures of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking.\(^1\)

The Government of India accepted this Resolution as part of their Industrial Policy and appointed a committee known as the Committee on Profit-sharing to assist the government in the implementation of their policy. One of the functions of the committee was to enunciate principles for determining labour's share of the surplus profit "on a sliding scale normally varying with production".

The Committee was of the opinion that theoretically, it should be possible to evolve a principle which would link labour's share of the surplus

\(^1\) Industrial Truce Resolution. 1947.
profit to the total production of a firm in some such way as follows: if normal production is "X", labour's share might be, say, 50 p.c. of the surplus profits. If production in any one year increases by 20 p.c. and is \( \frac{120X}{100} \) labour's share might be 60 p.c. of the surplus profit. Similarly, if production drops by 20 p.c. labour's share in surplus profit might be reduced to 40 p.c. There was also a suggestion that a similar formula might be devised in which "X" will be the total production of the whole industry and not of any particular undertaking. The committee was of the firm view that as a practical proposition, it was impossible to work out any such sliding scale varying with production. The reasons, according to them, are the composite nature of profit and that labour's contribution towards it is not amenable to any precise measurement. Further, the basic conditions in any one year may be quite different from the conditions on which the norm has been determined. The production equipment might have increased or diminished or improved or deteriorated in the meantime. The size and composition of the labour force might similarly have changed. There may be involuntary interruptions for which no one was responsible. Hence
the committee came to the conclusion that it was not in a position to prescribe any definite rule for linking labour's share in surplus profits to production and that it would have to be determined only in an arbitrary manner. In view of the lack of experience with profit-sharing, the committee was against any large-scale adoption of profit-sharing schemes in Indian industries. It, therefore recommended (though not unanimously) that to begin with, profit-sharing should be tried out for a period of five years and that it should embrace only the following industries.²

(1) Cotton  
(2) Jute  
(3) Steel (main producers)  
(4) Cement  
(5) Manufacture of tyres  
(6) Manufacture of cigarettes.

The Committee added that if the initial experience is encouraging enough "we would further recommend that government should consider extension of the scheme to other suitable industries."³ It made the suggestion that in the above industries "labour's share should be 50 p.c. of the surplus profits of

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³ Ibid. p. 8.
the undertakings. The individual worker's share of profits should be in proportion to his total earnings during the preceding twelve months minus dearness allowance and any other business received by him. This should be in substitution of any other profit-sharing bonus that is paid now. 4 For purposes of this scheme, the committee defined surplus profits as net profits minus 10 p.c. for reserve minus 5 p.c. on capital employed. It held "that paid up capital plus reserves (including all future allocations of reserves) which are held for purposes of business, is the nearest practical approximation to capital employed in the industry. 5

After studying the question in its varied aspects, the committee recommended a scheme where profit-sharing should normally be unit wise, but in certain selected cases, would be on an industry-cum-locality basis. "We consider that, to begin with, profit-sharing on an industry-cum-locality basis should be tried out in the Textile Industry of Bombay, Ahmedabad and Sholapur" 6

In these cases, the committee observed that the surplus profits of these units will be pooled for the

5. Ibid. p. 9.
6. Ibid. p. 11.
purpose of ascertaining what should be the profit-sharing bonus payable to labour in the industry in the locality. This bonus shall be payable, as a minimum, by every unit to its labour irrespective of its profits. But in those units where half the surplus profits (that is the amount due to labour in that unit) exceeds the sum required to pay the minimum bonus referred to, such excess shall also be paid to the workers of that unit. The committee further suggested "that in all cases, however, individual cash disbursement will be limited to 25 p.c. of a worker's basic wages and any excess will be kept in his account, provident fund or otherwise".  

The recommendations of the profit-sharing committee were considered by the Central Advisory Council of Labour when it met in New Delhi in July 1940. It was not possible for the Council to come to a unanimous decision and no final recommendation was made by the body. An interministerial study of the implications of the scheme was reported to have raised doubts about its relative importance. Some of the Ministers felt strongly that in the then existing economic conditions, the sharing of profits with labour would result in the irrational distribution of capital thereby hampering the government's industrial programme and would discourage the investment of

7. Ibid pp. 11-12.
fresh indigenous and foreign capital in Indian industries. The U.P. Labour Enquiry Committee after considering the pros and cons of bonus at great length, came to the conclusion that bonus should be linked with the profits of the industry. With regard to the method of linking, the committee recommended that bonus should be linked to dividend declared on share capital paid. Such a scheme, the committee held, will entail no difficulties of detailed analysis of account figures, no waste of time and expenditure and no scope for mis-understanding and mis-interpretation. In addition such an arrangement was found to be simple in conception and easy to operate.

QUANTUM OF BONUS.

As for the quantum of bonus to be paid to the workers, the committee was of the view that the industries were not likely to make high profits as they have done during the war. As the committee has already provided for an adequate wage and adequate and fair dearness allowance, it recommended that the workers in the United Provinces should be allowed two days' basic wages for every one per cent declared on ordinary share-capital paid up. In the case of private companies where

dividend method is not adopted "we recommend that 25 per cent of the net profits of the concern should be distributed among the workers in an equitable manner." 9

CONDITIONS OF BONUS.

The Committee found that the payment of bonus to workers was regulated by a variety of conditions in each undertaking, which differed from one concern to another. In the majority of them, the payment was regarded as discretionary. The committee did not endorse the discretionary aspect, and recommended that all employees including watch and ward staff, chaprasis, malis, sweepers, clerks etc., whether permanent, temporary or substitute were eligible to it, if he or she has worked for more than 60 days in a year. Employees, who have ceased to be so on the day of disbursement of the bonus, will also be eligible for it, provided they were not dismissed for mis-behaviour according to the standing orders of the concern. No other qualifying condition was prescribed by the committee. It held that "the amount to be distributed in each case should be calculated by dividing total basic earnings of each employee in a year by half the number of man days worked by him

during the year for every one percent dividend declared.\textsuperscript{10}

**RESERVES.**

The Committee opposed the inclusion of reserves in "capital" for the purpose of declaring dividend. It held that reserves which are nothing but appropriations out of profits cannot be considered to be the sole property of the entrepreneur. It agreed with the principle that workers have a claim on profits as well as on all other items to which appropriations are made out of profits such as reserve. If, therefore, a business is about to be closed or transferred, the workers should get their share of the reserves. But so long as this is not the case, the Committee did not find sufficient justification to recommend the distribution of a part of the accumulated profits of a going concern among its employees. However, the Committee made the recommendation that no part of profits or reserves should, in future, in any shape or form should be credited to share-holders such as by issue of bonus shares, or completely reserved for them as by transfers to dividend equalisation funds, without making a corresponding appropriation in favour of employees of the concern.\textsuperscript{11}

\textsuperscript{10} Ibid. p. 247.

\textsuperscript{11} Ibid. p. 248.