

# THE BONUS PROBLEM

Y. D. JOSHI

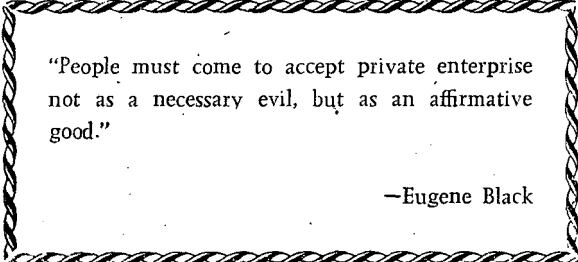
S. R. MOHAN DAS

DR M. C. MUNSHI



**FORUM OF FREE ENTERPRISE**

SOHRAB HOUSE, 235 DR. D. N. ROAD, BOMBAY-1



“People must come to accept private enterprise not as a necessary evil, but as an affirmative good.”

—Eugene Black

# THE BONUS PROBLEM

## I

### A HISTORICAL PERSPECTIVE

By

Y. D. JOSHI \*

The bonus problem started in our country in 1918. It has passed through several stages, and at every stage, changes have taken place in the concept of bonus. Even today, the concept has not been defined.

What is "bonus"? No one knows. Even the Bonus Commission which was appointed by the Government of India in 1961 expressed its inability to define the concept. One of the terms of reference to the Bonus Commission was "what is the concept of bonus, or what should be the concept of bonus", and it has expressed in very clear terms that it is impossible to define what is bonus, and it is impossible even to define in general terms what should be the concept of bonus. Therefore, what was bonus when it was started in this country?

About 50 years back, in 1917-1918, the textile industry was the foremost or rather the only well organised industry, and all conditions of service, and industrial strikes which arose on various conditions of service have arisen in the textile industry. In 1918, after the First World War, when the textile employers had made profits, they declared on their own that since the industry had made profits and since the

---

\* The author is the Chief Labour Adviser to a well-known business house. The text is based on a talk he delivered under the auspices of the Forum of Free Enterprise, Bangalore Centre, on July 13, 1972.

cost of living was also increasing due to the War, they were giving a "gift" to the worker of a certain amount, which they called the "bonus". In fact, it was not a bonus; it was in real terms the dearness allowance which takes care of the rise in the cost of living index. But, they called it "bonus". The trade union leaders in this country are apparently much more intelligent and shrewder than the employers themselves. The moment the textile employers said that they were giving a gift as a bonus, immediately the trade union of the textile workers in Bombay wrote a letter to the Mill-Owners' Association saying that they were accepting the money but not as a gift because they saw the point that in case the mills did not make a profit in the next year, probably the gift may not be there. Therefore, they created their own case right in the year 1918 by saying that they were accepting this money not as a gift, but as a deferred wage. This is a sort of a gap between the actual wage and the wage which ought to have been paid. For some time, this state of affairs continued.

After the Second World War had started in 1939, and when again the industry was booming and making huge profits, the employers on their own started paying bonus to the employees because some of the employers thought that instead of paying the excess profits tax of 93% why not distribute the amount to the workers themselves. I know of some textile employers who went to the extent of paying ten months' bonus for one year. Thus 22 months' salary for one year was paid because the profits were fabulous.

When the industry was making profits, it was quite all right. But the War came to an end in 1945, and then the industry started facing a sort of a slump—not a complete slump, not a complete recession—the industry was incapable of paying bonus, and the result was that in several places, workers raised disputes demanding the bonus which was paid to them during the war years. When the matter was not settled between the workers and employers, it was referred for adjudication to the Industrial Tribunals. In 1944, 1945 and 1946, cases of General Motors, Ford Motor

Company, Indian Hume Pipe, etc., were referred to High Court Judges for adjudication, and in the year 1944, Mr. M. C. Chagla, who was then the Chief Justice of Bombay, gave a decision in the case of General Motors that if the industry had made profits, then the workers' efforts must also be compensated to a certain extent because the profits made by the industry were to a certain extent due to the efforts of the workers. But, a rule was laid down, that if there was no profit, then no bonus should be claimed because bonus was in the nature of profit-sharing, and, therefore, bonus could be payable only if the industry made profits.

Immediately after our Independence, two committees were appointed by the Government, with the concurrence of the trade unions as well as employers federations. Those committees were (1) Fair Wages Committee, and (2) Profit-Sharing Committee. It was agreed, in principle, by the employers also that if the industry made excess profits, that is, profits beyond a certain limit, then the workers should have a share in those profits. For the purpose of determining what this share should be, the Profit-Sharing Committee was appointed. The Profit-Sharing Committee suggested that there are claims on the profits of the industry by the shareholders and the workers. The workers get their wages. As against that, what are the claims of the industry? They said the claims of the industry were depreciation and taxation. The claim of the shareholders was a fair return on the amount which they had invested, and in addition to that, if the company utilised its reserves as working capital—because otherwise if the reserves were not utilised as working capital, the company would have to borrow money from banks and in that event, the company would have to pay interest on the loans—then again the shareholders were entitled to a return. So, they said after deducting these charges—called prior charges—whatever remains would have three partners—the shareholders, the industry and the workers. What should be the exact share of these three partners was never decided and it could not be decided because the profits

of the industry differed from a few lakhs to a few crores. If 33% share after deducting prior charges was to be given to the workers, perhaps in some cases the workers would have got 20 months' or 24 months' bonus. Therefore, it could not be defined.

After the Profit-Sharing Committee, the next development in this issue was the dispute between the textile workers of Bombay and their employers in respect of bonus. This was referred to an Industrial Court in Bombay, and the Court gave its decision on the basis of making a little change in the recommendations of the Profit-Sharing Committee. Subsequently, the decision which was given by the Industrial Court was taken in appeal, because, in 1950, there was a Labour Appellate Tribunal, which was abolished by an Act in 1956. The Labour Appellate Tribunal heard the appeal of both the employers and the textile workers, and handed down a formula to be applied to the financial results of the company for a particular year, to find out what is the bonus that is payable. In fact, in one of the decisions, the Labour Appellate Tribunal said, we are not concerned whether directors declare 12% or 18% dividend, whether they provide for depreciation which is much more than what is allowed in the Income-Tax Act; because our formula of bonus is a "notional" or an imaginary formula. So, what we do is: we take the gross profits of the company before making any provision, and out of the gross profits, we will deduct certain amounts which are called "prior charges". After deduction of these prior charges, whatever remains are called the "available surplus" which was available for the purposes of distribution of bonus. In brief, the prior charges were the following according to them: deduct depreciation which you were allowed to deduct as per the Income-Tax Act. Immediately after deducting the depreciation, deduct the tax—the income-tax, the sur-tax, the super-tax, at the tax rate, applicable to a particular company, individual, partnership firm, etc. After deducting the tax, you also give a return of 6% on the subscribed capital—the equity capital. If there are preference shares, then, give the dividend at the rate at which the preference shares are issued, and after deducting these amounts

also, deduct a 4% return on the reserves which are used as working capital. They also allowed a further deduction and they called these "rehabilitation, replacement and modernisation of machinery" because they said that the machinery in the country in most of the industries had become old and the depreciation would not be enough for the purposes of modernisation of the plant, and unless the plant was modernised, there was no possibility of the industry surviving. They, therefore, calculated what was the amount to be deducted. After deducting all these amounts, you come to a figure which is called "available surplus". Out of this, the bonus was to be paid.

This formula of the Labour Appellate Tribunal worked for some time, right from 1950 to 1958. Bonus disputes became less to a very large extent because both the employers and employees knew as to how the formula had to be worked out. But, what happened was one of the Tribunals in Bombay gave a very wonderful decision. That decision was that the officer should not be entitled for bonus because the workers alone contribute to the profits of the company. The second point was that if you have not provided depreciation, you cannot claim depreciation. The third point was that if you are not liable to pay tax, do not deduct the tax. Perhaps, this might appear to be very reasonable that if you are not liable to pay tax, why do you deduct tax. Do not forget that you will not be able to sell your shares if you are getting only 6% return. The bonus formula allowed only 6%, and other dividends which you were paying. Therefore, when he gave this decision, an appeal was taken to the Labour Appellate Tribunal, which reversed the decision and said he is bound by our decision and said that it is none of our business or Tribunal's business to teach the income-tax authorities their duties. Let them perform the duties under the Act. The Labour Appellate Tribunal was abolished by a law, in 1957, this Bombay Tribunal gave a decision: I am no longer bound by the Labour Appellate Tribunal because the Tribunal has been abolished, and he invented his own formula which he applied in 15 cases in Bombay, and all those 15 cases were taken in appeal to the Supreme Court.

Prior to that, in 1955, there was a very unique argument advanced by the workers in U.P., in the case of Kanpur Mills. The company had made a loss, and the workers demanded bonus. The argument was that bonus should be paid out of the reserves of the company. When this matter went to the Supreme Court, to a certain extent it laid down the principle on which an employer would be liable to pay bonus. They said that bonus is no longer a gift. It is no longer a gratuitous payment at the "discretion" of the employer, but it becomes a "matter of right" provided two things are proved by the workers: (1) that they are not getting a wage which can be termed as a "fair wage" and (2) that the industry has made profits. If there are no profits, the question of bonus does not arise, and therefore, they negated the contention that bonus should be paid out of the reserves. When these 15 cases went to the Supreme Court, in 1959, the Supreme Court had an occasion to go through all the decisions on bonus, and they gave a decision saying that the Labour Appellate Tribunal formula had worked well, the bonus disputes are reduced to a very large extent and we are of the opinion that there should not be any change made by a judicial body in the formula. So, they confirmed the formula of the Labour Appellate Tribunal, but they suggested that if the parties think that there is necessity of revising the formula, then, let the government appoint a High Power Commission which should go into all the aspects of this issue, make recommendations to the government, and on the basis of the recommendations, let the government take a decision and pass a law. That was the recommendation of the Supreme Court, made in 1959 and also in 1961.

There was one more incident which added to this bonus problem. Around 1955, the textile employers in Bombay entered into an "agreement" with their workers, and a 5-year pact was signed for bonus, and there, for the first time, a provision was made that even if the company makes losses, bonus equal to a 4% would be paid by that firm. This was an agreement signed in Bombay by the textile employers, followed in Ahmedabad by textile employers, followed in



Coimbatore by the textile employers, and also followed in Indore by the textile employers. Therefore, when the Bonus Commission held deliberations, it was pointed out to them that the first and foremost industry of India, the textile industry, pays a 4% bonus to its employees, irrespective of the profits. Therefore, the recommendations of the Bonus Commission stipulated that you must pay a 4% bonus. The only difference between the agreement of the textile workers, and the Bonus Commission was that this 4% which was agreed to by the textile employers, was on the basic wage, while the 4% which has been given by the Bonus Commission is on "total wage". The basic wage in an engineering firm is Rs. 39.00 a month — Rs. 1.50 per day of 26 days, while the dearness allowance is Rs. 220.000 as on date. The result was that the 4% which was converged on a total wage resulted in getting a much larger bonus to the workers than they were getting before the Act was passed. Till the Bonus Commission submitted its report, payments of bonus were strictly on basic wages and the dearness allowance part of it was never taken into consideration. But, the Bonus Commission made an unique recommendation. When the Bonus Commission submitted its report to the government, the government on its own made certain changes in the report in favour of the industry, as the government realised that certain items which were disallowed by the Bonus Commission to be deducted from the profits were required to be deducted in the interest of the industry.

What the Bonus Commission did was: take the gross profits of the company, deduct depreciation, deduct tax, then deduct a dividend of 8% on the subscribed equity capital, and 6% return on reserves utilised as working capital. Whatever remains is "available surplus", and out of this available surplus, 60% should go to the workers, and 40% should remain with the employers for purposes of the industry, or for purposes of giving a larger dividend to the shareholders. Again, the government thought that in addition to this, there was also the necessity of adding a development rebate for the development of an industry. Under the Income-Tax Act,

in addition to depreciation, an industry is allowed to deduct development rebate provided 75% of it is utilised only for the development of the industry. So, the government said that this amount also should be deducted from the gross profits before you actually arrive at the bonus which is to be calculated, and the government passed the Act in the year 1965.

There were two important aspects of this Act. It said that a 4% minimum bonus has to be paid whether a particular unit makes a profit or loss, but, since a minimum was provided, they also considered that there should be ceiling on the maximum. There should be a maximum beyond which bonus should not be paid because if very large bonuses are paid to industrial workers only it was observed by the Bonus Commission, by the National Commission on Labour, by the Planning Commission and the Pay Commission it might result in creating a privileged class of employees, and it might also result in creating discontent amongst the other sectors of society, the government employees, farm labour, workers in shops and commercial establishments and self-employed persons. There were a large number of these, and so there should be a ceiling. Therefore, it was decided that the minimum bonus should be 4% and the maximum should be 20%. Out of the 60% bonus equal to a 20% of their annual earnings, that is, about 2½ months' salary was to be paid, and in spite of that, if there was any amount remaining in that 60%, then, an amount equal to 20% was to be carried over for four years so that if the profits dwindled in the four years, bonus could be paid out of this amount. So also, if there were losses and the employer paid 4%, he could carry over this amount of 4%, and suppose in the next year it came to 9%, he could deduct 4% and pay 5% only. They called this amount the 'set-on' or 'set-off'. This amount of set-on and set-off was to be carried over for a period of four years. Thus, 1966 set-on would be carried over to 1970, 1967 to 1971 and so on. If it was not utilised in four years, it lapsed. This formula worked pretty well right up to September 1971.

Companies which were making larger profits and were required to pay less bonus as per the Act, even supplemented bonus payment by giving an *ex-gratia* amount to the workers. If the bonus under the Act came to 8%, they would pay another 4% and make it 12%. So, by and large, there were no disputes, and the number of disputes on the question of bonus were the minimum till September 1971.

In most of the industries bonus was accepted as per the Bonus Act or by negotiation with the employers, or the employers themselves paid more than what the Act provided. But, only because in one industry there was discontent, the Central Labour Ministry came out saying that the Act needs to be amended, that the 4% minimum needed an amendment. That is how the whole issue was started. The issue was not started by workers, but by the Central Labour Ministry. It was a political move that started the whole Bonus Issue. When I had an occasion to meet in Poona the Deputy Labour Minister, and I asked him how many trade unions in Poona—Poona is a very fast growing industrial city—ask for more bonus than in the Act and how many strikes were there, he said: not even one because they accepted whatever was paid under the Act, or they negotiated with the management and if the management wanted to pay because they got some return in some other way, they should certainly do that.

What the Central Ministry did was that in addition to 4%, you pay them further 4%, which will be treated as “advance” given to the workers for Diwali, and then, we will appoint the Bonus Review Committee, and if the Committee decides that 4% is quite appropriate and there is no necessity of increasing the minimum, then, this advance should be recovered back from the workers. Otherwise, that goes to the workers as a further payment. Thus, the “Khadilkar formula” was evolved. This was the root-cause of reopening the bonus issue.

The result was that not only bonus was demanded in industrial undertakings, but also in the Bombay Municipal

Corporation. If the Corporation, which is a non-profit making body, pays 8% bonus, what is going to be the fate of the Bonus Commission recommendations? I think it is a foregone conclusion that the minimum bonus cannot be less than 8%. I am not against paying 8%—let the unions and managements negotiate. It does not matter if the employer gives more in order to run his industry or to increase productivity. Let it come through negotiations, but not through “pressures” from government, nor legislation.

It was promised in 1971, when this extra 4% was paid, that the Bonus Review Committee would be appointed, and again, as usual, a promise which was given in October 1971 was implemented in April 1972. What stopped the Ministry from appointing the Committee within a month or two is not understandable. The Bonus Review Committee has now been appointed, and it has started its deliberations, and the terms of reference to the Committee are: whether the 4% minimum should be increased; whether the 20% maximum also should be increased. The trade union demand is that there should be no ceiling at all. I will tell you what will happen if there is no ceiling. In one well-known case, the workers had demonstrated, and they said that for the last six years, right from 1965, the Company has paid 20% bonus. The set-on of 20% has been carried on, but, at no time they were required to touch that set-on amount, and the amount comes to Rs. 420 lakhs. The workers said that the whole amount should be paid to them as bonus.

Another problem which has arisen is that while making a reference to the Bonus Review Committee, one of the terms of reference says: whether bonus should be linked to productivity. This term “productivity” has been misused. There is no possibility of linking anything with productivity because productivity in industry cannot be “measured” at all. We have no means to measure productivity. There is no study in that respect. I will give you one concrete instance that there is one resolution adopted in one of the Indian Tripartite Conferences that if you have to rationalise an industry, the rationalisation must be

“without tears” and the gains of rationalisation must be shared between the employers and workers. When it came down for implementation, the problem arises: What percentage of it should be given to the workers? What percentage of increased productivity is due to modernisation of machinery? What percentage is due to automation and what percentage is due to workers? Nothing could be decided. So, the Government again appointed a High Power Commission—the National Productivity Commission, to decide and recommend how the gains of productivity should be shared. This Commission worked for 4 years, and came out ultimately with a report that there cannot be any unanimity amongst the members on any of the grounds. If that was the case, then, why talk of linking bonus to productivity now?

Another important feature of the Bonus dispute is that when the Bonus Committee was appointed, the inauguration of the committee by the Union Labour Minister took place. He has indicated that the minimum should not be less than 8%. The Labour Minister of Maharashtra has issued a statement that workers will not be satisfied if the minimum is anything less than 8%. If you have appointed a committee, let the committee function in an objective manner, without any “influences.”

Personally I do not think that this Bonus Review Committee is going to bring peace again, because if 8% is the minimum now, again, after 5 years, if 8% is going to be inadequate and perhaps it may be 12%, one does not know where it is going to end. If the workers demand that there should be no ceiling on bonus, the officers also will ask for benefits. As it is, the industrial sector is getting all the advantages compared to the other sectors of society, and whether we are going to give them more advantages in an era when we are talking of ceiling on land, ceiling on urban property, ceiling on incomes also, is a bigger issue which cannot be set aside.

Experienced labour advisers know how to tackle the bonus issue. They know that the bonus issue is solved

better across the table. They negotiate, if necessary fight; after the fight, they negotiate again, and come to a settlement. There is no doubt that they have, to a certain extent, to make adjustments and see that the industry runs. The best way of settling industrial disputes is negotiation across the table, and most of the times, both the employers and trade unions realise their rights, realise their responsibilities, and realise their obligations also. If they are free to do that, it would have been much better instead of imposing another 8%. There are several companies in Bombay who have paid in the past five years much more bonus than what was warranted under the Act. By imposing 8% on losing units, which are even incapable of paying wages, the question arises whether that would not retard the growth of industries.

## II

### AN ANARCHIC COMPENSATION METHOD

By

S. R. MOHAN DAS \*

The effectiveness of an industrial system lies in its organized and structured ways of operation. As a part and parcel of such ways, any compensation system that is devised in industrial working should also be organized and structured. The wage and salary systems are called such systems. Into such structured systems of wage and salary, various factors and influences could be brought to bear to affect the quantum of the wage or salary. No matter what are the diverse considerations that have to be taken into account, they are all channelised within the organized and structured framework of the wages or salaries system so that there could be efficient management of the wage or salary system. The structured wage or salary system is like a reinforced concrete foundation on which a complicated structure can be built.

---

\* The author is Director of the Industrial Relations Institute of India, and is a well-known independent commentator on labour affairs.

Unlike the earlier compensation systems of payment in kind which cannot be easily quantified, the wage and salary system provides enormous scope for quantification, computability and thus perceptability and thus perceptability to the giver as well as receiver. It imparts disciplines of management to both the receiver and giver in the proper utilisation and channelisation of the compensation system. Thus the wage and salaries system ought to have been structured better and better in a developing society like India.

By in reality the situation prevailing is something terrible. Not only is the wage and salary system kept in shambles, making administration costs terribly high, but to this jungle growth is now being added another poisonous growth called a bonus system as an *ad hoc* compensation arrangement to generate more troubles and conflicts among both the givers and receivers of the compensation.

Bonus first started as an *ex-gratia* payment given unilaterally by employers with their goodwill. The concept of *ex-gratia* was galling to the pride and status of citizens in a democratic system, so the concept had to be changed. An attempt to bring rationality to the concept of bonus was made when bonus was defined as "profit-sharing." This rationality could not however be lived with by those who provided the conceptual definition because profits had many claimants for sharing and workers alone could not be allowed by the other claimants to get the lion's share. This is the situation in the L.I.C. where no matter what happens, the Government shall not reduce its share of statutory return. Even if the business as well as premium income soars up, neither the policy-holders nor the employees could automatically expect shares from the increased working. The lion's share goes to the Government and all other constituents including labour have to be satisfied with secondary priorities.

There were other situations where workers worked well, but due to reasons beyond their control, profitability

was absent. Having been given a taste for an additional compensation apart from wages, the definition of profit-sharing given to bonus generated frustrations among such workers. Therefore, a new definition had to be improvised and some trade union leaders belonging to the INTUC started this semantic acrobatics. Bonus was sought to be defined as the gap between subsistence wage and fair wage in some respects, and fair wage and living wage in some respects. All these terms had only abstract meanings without any tangible or concrete meanings. The net result of all this exercise was not just "more and more" which is quite natural in all societies, but a totally unstructured and *ad hoc* "more and more" which produced some peculiar behavioural characteristics in both the giver and receiver of the "more and more."

It is because of the *ad hoc* character of bonus with illogical definitions, that it has become one single issue that now emerges as the cause of industrial conflict, work stoppage and inter-union rivalries. A high-powered Bonus Commission, the Bonus Act, numerous case laws and now a Bonus Review Committee, have all been made to go through an exercise within the rigid framework of the illogic of bonus and none of the opportunistic definitions could provide a fig leaf to cover the illogic of the bonus system in India that is fundamental.

This illogic is now inevitably going to lead to a situation where employees working in civil services such as State and Central Government offices, Municipal offices, Zilla Parishads, Municipal Councils will have the fullest justification in demanding bonus and if they fail to get it, equally justified in agitating for it, because after all they have been continuously encouraged and whipped into parasitical expectations.

The parasitic aspect of the Bonus system as existing can be seen from two contrasting situations. Recently in one firm, there has been an agitation by employees to give them additional bonus from the "set on" reserves of



bonus above 20% which the Bonus Act provides for. But the act also provides for a set off in relation to the minimum bonus of 4% that has to be paid irrespective of whether there is loss or capacity to pay. The "set off" is provided for so that after paying the minimum bonus even without the affordability, when the affordability comes about later, the "set off" could be taken advantage of. Though theoretically this has been possible, in reality, union leadership, for understandable reasons, can never accept compensatory adjustments in the "set off" and there has never been a case reported of such adjustments, though the law provides for it.

In such circumstances, we are now trying to take our society into even greater modernism during the 1970s with such an unstructured *ad hoc* system as the present bonus, which offers itself as a noisy rattling toy to our politicians to play around with. It has brought about a ruinous situation. The whimsicality displayed by the present Minister of State for Labour when playing around with bonus system has caused further havoc and respectability to this whimsicality is sought to be given through the recently set-up "Bonus Review Committee" where the union nominees are being encouraged to agitate within the committee intimidating and hustling the non-labour committee members. They will in all probability succumb because they will take the position, that if they will have to order payment of an unstructured compensation system at somebody else's cost and for which they could get some temporary popularity, why not do it by following the line of least resistance. Thus the Review Committee that has recently been established has already been pre-empted from autonomous functioning. In between all this, the whole country and its working people are continuously corrupted by the parasitism generated by *ad hoc* structures like bonus.

### III

## AN ECONOMIC ANALYSIS

By

DR. M. C. MUNSHI \*

It has now come to be recognised that Bonus Payments in India are a unique system of payments, indeed, such as would not be describable in the ordinary terminology of economic concepts.

The following are the six analytical stages through which the concept has grown :—

(i) From an *ex-gratia* payment to a compulsory payment, claimable by workers and, therefore, a justiciable issue in Labour Courts.

(ii) Profit-sharing : Here also from “extraordinary” profits such as during the war boom, to Profits (though the term “Profit” has not yet been properly defined).

(iii) Prosperity-sharing : as seen in the favourable annual company statements to compulsory payments in all years.

(iv) An opportunity to advance from a minimum (or need-based) wage to a living-wage, jettisoning the intermediate stage of a Fair Wage.

(v) If it is a compulsory payment in all cases, can we not call it a Deferred Wage?

(vi) On the other hand, both the Supreme Court and the National Commission on Labour have shown (the former in the Greaves Cotton Case 1954) that the Bonus

---

\* Dr. Munshi is a well-known economist. This text is based on a talk he delivered under the auspices of the Forum of Free Enterprise in Bombay on July 12, 1972.

does not figure in the costs of an enterprise, that it is not cost-based but surplus-based, and so it is not a deferred wage.

As regards the fifth stage (a deferred wage), it is interesting to note that the trade unions, including the Textile Labour Association of Ahmedabad (before the Bonus Commission in 1962) hastened to assert that it was a deferred wage. At this stage of economic thinking, anywhere, it is hardly necessary to show that by the last quarter of the nineteenth century, the Labour Theory of Value had to be given up and the Surplus Value Theory of Labour became an exploded doctrine. It is therefore not at all surprising that both the Supreme Court and the National Commission on Labour have ruled out such a claim.

Leaving this question of economic analysis aside, it is useful to remember that in all these stages of conceptual analysis two surprising things have occurred; (1) that basically elastic and non-quantifiable concepts like "a living wage" came to be bandied about in law courts and elastic concepts became juridical issues. A second extraordinary development is to be found in that an important caution in regard to our industrial relations set-up, uttered by the Supreme Court in the A.C.C. Case, 1959, has been simply thrown to the winds. The Supreme Court warned that in the grant of such payments care should be taken that no privileged class (even amongst the working class) should be created. But this is exactly what has come about. Workers in industry number about 6.7 million out of a total number of workers in the country of 183.62 million. Workers of the organized sector of Labour thus amount to 3.2 per cent of the working force.

All this is not to deny a rightful claim to the workers to share the "profits" of the enterprise of which they are such a significant part. Profit-sharing is a concept that is easily understood and cannot lead to complications of industrial relations which we have created for ourselves. So the next question is, "what is exactly the nature of this

Available Surplus—out of which the Bonus is computed.”

It will not be difficult to admit that most if not all available surpluses are not profits but adventitious gains arising out of inflationary trends in the economy and the continuance of sheltered markets. Further, they have so arisen because of the continuously rising prices which the producers have been able to charge the consumers. That this is so will be seen by the fact that some fair minded producers have found the need for establishing a Fair Trade Practices Association—though at the same time it is a grievous reflection on the supineness of the consumer in India in organising himself. In brief, therefore the analysis of the concept should show that the Available Surplus should be claimable as much by the consumers (in the form of lower prices)—as by the workers and entrepreneurs combined. It is necessary then for any review of the Bonus question to go into real nature of the Available Surplus and as to what really gives rise to it.

There is a further reason for emphasising the concept of Bonus as profit-sharing. It is now being increasingly realised in responsible circles that it is time we linked at least the extra payments to work or performance. This seems evidently to be the main reason why the third term of reference to the present Bonus Review Committee reads (iii) “Whether the entire bonus payment should be related in *some way* to production productivity in the undertaking”. (italics mine).

In reviewing the question of Bonus, let us also seek an answer to one or two larger issues with which it has been connected :—(1) One of the main objects to be achieved through the present system of bonus payment was in the words of the L.A.T. that “we should ensure industrial peace which is essential for the development and expansion of industry.” Thus a question naturally arises whether these payments have lessened industrial strife. As against this, it is now agreed in all hands that the Bonus has multiplied wage disputes and added one more frequent

cause to these disputes as will be seen from the following figures :—

**Percentage of Distribution of Industrial Disputes by Causes**

**1961 – 1969**

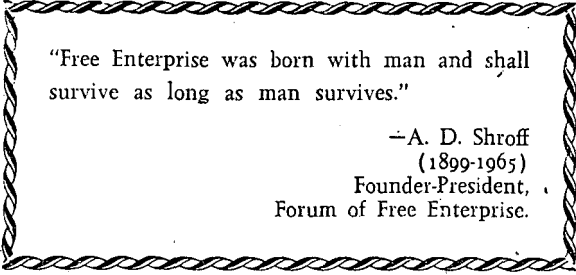
Causes	1961	1962	1963	1964	1965	1966	1967	1968	1969
Wages & Allowances	30.4	30.2	27.8	34.8	33.8	15.9	39.9	38.4	36.0
Bonus	6.9	12.3	10.0	7.9	9.9	13.2	10.9	9.4	10.0
Personnel & Retrenchment	29.3	25.2	25.9	27.4	27.3	25.3	23.6	28.2	26.6
Discipline & Violence.	30.4	31.6	31.7	27.8	26.8	23.3	24.6	18.9	21.4

Table 10.9 Indian Labour Statistics 1971 18.

1971 Total Pop. Millions	No. of Workers	P. C. of Workers to Total Pop.		Total No. of Workers. in Industry.
		1961	1971	
547.37	183.61	42.98	33.54	6.7 million

It is as yet imperfectly realised that the absence of a Wages Policy is the weakest link in the chain of our economic policy or that a price policy of which our Plans so eloquently emphasise the need (and rightly too) cannot be framed without a wages policy. And all that the Bonus formula has succeeded in achieving is to make the formulation of a rational wage policy all the more difficult.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.*



"Free Enterprise was born with man and shall  
survive as long as man survives."

—A. D. Shroff  
(1899-1965)  
Founder-President,  
Forum of Free Enterprise.

# Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). College students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.



Published by M. R. PAI for the Forum of Free Enterprise, "Sohrab House", 235, Dr. Dadabhai Naoroji Road, Bombay-400001, and printed by H. NARAYAN RAO at H. R. MOHAN & CO., (Press), 9-B, Cowasji Patel Street, Bombay-400001.