

eligibility rules, in addition to prevailing rates of pay, special, current, or deferred sums based on the profits of the business.⁷

HOW DEFERRED PROFIT SHARING SHOULD BE VIEWED

The furnishing of retirement benefits for employees is only one function of deferred profit-sharing programs in the United States. Another, and a much more important role for these plans, is to furnish incentives to all the factors of production; i.e., labor, management, and capital, to reach high levels of productivity.

The introduction of the computer and automation into our business world calls for new organizational techniques with new approaches to motivation. To use new technology most efficiently, a systems approach is required. Deferred profit-sharing plans can be classed as total systems incentives, because, unlike individual incentives, they not only motivate labor but also management and capital at the same time. Sharing approaches are very likely to become necessary if we are to effectively utilize computers and new technology to achieve high levels of productivity.

Russia, under the new economic approaches being put into operation (Liebermanism), is making use of the profit-sharing approach to increase their productivity. We must encourage, by whatever means possible, the spread of various kinds of sharing systems in the United States to simulate a continuing growth of our productivity.

Research indicates that management thinks of deferred profit sharing as a means to increase productivity as well as to provide retirement benefits. However, research also indicates that both management and labor often lack the understanding which is necessary if maximum results are to be obtained from sharing programs. *As a positive step, the Government could well consider encouraging educational programs for labor and management regarding the planning and operation of successful sharing programs.*

TAX BENEFITS FOR DEFERRED PROFIT SHARING

Special tax advantages were not given to deferred profit-sharing plans primarily because they were a means of furnishing retirement benefits for employees. Isadore Goodman, of the Internal Revenue Service, pointed out in a speech on the origin and development of the "Basic Tax Requisites Applicable to Pension and Profit-Sharing Trusts" that:

An interest in the employers' business and a sharing of profits through stock bonus and profit-sharing plans are important production spurs which help foster the general economy. Hence, exemption from income tax was granted as early as 1921 to an employees' trust which is part of a stock bonus or a profit-sharing plan of an employer for the exclusive benefit of his employees. Similar treatment was extended in 1926 to pension trusts.⁸

It is interesting to note that no mention was made of retirement benefits in this first law which gave tax advantages to deferred profit-sharing plans. The rationale was to encourage the use of such programs

⁷ Council of Profit-Sharing Industries, Joseph Meier (ed.), *Profit-Sharing Manual*, Chicago, 1957.

⁸ Speech, Oct. 18, 1962, to Western Pension Conference at San Francisco.