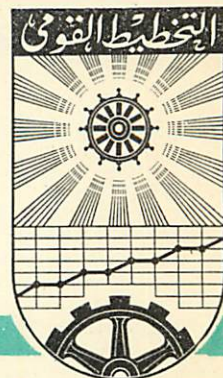


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Some Pricing Problems of National
Industry in the United Kingdom.

by

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In common with nationalised industries in other countries, those of the U.K. have onerous economic and financial obligations to observe. They are enjoined to produce their commodities and services in an economically efficient manner, in the sense that they are expected to operate in exact conformity with consumer wishes and minimize the costs of the outputs they provide. Moreover, the industries under public ownership are required to operate in the 'public interest', however that term is defined and interpreted by the Government of the day and the managers of these public undertakings. Since, moreover, the nationalised industries produce in conditions of monopoly or quasi-monopoly, all these requirements taken together pose complex problems in economic policy.

The Acts creating the nationalised industries conferred a statutory monopoly upon them, but, of course a de jure monopoly is one thing, an economic, or de facto monopoly is quite another. It is true that the statutory monopoly given to the Coal Board, for example, was backed up by the virtual prohibition of coal imports, which can only be made by virtue of an Order from the proper Minister. In addition, private production of coal is limited to small mines employing no more than 10 individuals, who must be licensed. On the other hand, from an economic standpoint there are at least two sources of competition to the supply of the Coal Board. First there is competition from large and powerful private interests producing substitutable products in the form of oil, and although this competition does not involve the same competitive threat over all varieties of coal output, it is very strong in the major field of the supply of energy. However the pressure of this competition is reduced because certain oil fractions, particularly deisel oil is taxed, and since this is a joint product with other fractions of oil, the tax tends to limit the supply both of deisel oil and of the other fractions. Indeed this tax is one of the major contributory reasons why the substitution of oil for coal has not developed further than it has in the U.K., and serves to explain, partially at least, why, the extent of this competition is nevertheless severe. It tends to vary with the price level of oil, and with the cost of ancilliary equipment required to make the transfer from one source of energy to the other.

In addition there is much competition to the coal industry in terms of the mode of use of the energy-source concerned. Gas made from coal, electricity from coal, and coal itself compete in regard to specific uses. In some areas, the demand for electrical power is very price inelastic, whereas for heating purposes gas, coal and electricity compete, as well as oil. In this line the relative prices of each medium are the paramount consideration within the limitations of technical feasibility, together with the prices of capital equipment needed to make the switch. Each heating medium, has of course its own merits and demerits, but there is a critical range of relative prices outside which substitution would be very elastic. This in turn has significant consequences for the producers of capital equipment suitable to each medium, which may have important repercussions in both the capital goods industries and those producing consumer durables. Hence the relative prices of various types of heating agent affects private industry and the other nationalised industries, both as significant elements of cost and in conditioning the demand for their outputs.

The Pricing Rule:

Accepting that relative prices of energy sources have widespread repercussions for the economy as a whole, it is now necessary to examine the principle by which the prices of the outputs of a nationalised industry are determined. In order to simplify matters, it is useful to confine the discussion to the problems of pricing coal alone. Since coal is produced in many different varieties and in many geographical areas, it will be simpler if the 'price' of coal is understood as the weighted average price of all kinds and varieties, excluding for the time being the transport costs of coal to the customer. The transport costs of coal are an important element in the delivered price, though the proportion of the transport costs to the delivered price has been falling because pit head prices have, on the whole been rising faster than the costs of transport.

Given these distinctions, it may be said that the statutory obligations placed upon all the nationalised industries by Act state and prescribe that their revenues should on the average of good and bad years be not less than sufficient to meet all items properly chargeable to revenue, including

interest, depreciation, the redemption of capital, and provision of reserves. This may be understood as the pricing rule. It means that the statutes prescribe what has been termed a minimum rather than a maximum performance, for reasons which will be clearer later. It has to be noted that the standard of performance prescribed is stated in terms which clearly differ from the ordinary idea of profits, in the sense that the revenue obtained from productive operations is supposed to cover all the items mentioned before a surplus is struck. It follows that the nationalised undertakings were expected to accumulate some profits in the usual sense, so as to accumulate reserves.

The rule also implies that it was expected that there would be surpluses in some years and deficits in others, depending upon the fluctuations in trade. But the deficits of some years had to be covered by the surpluses of other years, and, although no time limit was designated at which to strike the balance, it was envisaged that the period would not be unduly long. However, the fact that no limit in time was prescribed makes the rule somewhat vaguer than it needed to be.

The tendency in practice has been to interpret the 'not less than' phrase as 'not more than', and it is in this sense that the statutory prescription has become interpreted as a minimum one. This meant that the volume of reserves built up tended to be very small, one consequence of which has been that the nationalised sector has been a large, steady net borrower from other sectors of the economy. This standpoint could (and was) justified on the grounds that to require the rule to be interpreted in maximum terms would have involved the nationalised industries operating contrary to the public interest i.e. that it would be exercising a degree of monopoly power such that the prices charged to industrial and domestic consumers would become a medium for raising capital by compelling saving. This contingency was presumably obviated by resorting to the minimum interpretation of the rule.

Whatever merits adherence to this interpretation of the rule had in precluding sectoral forced saving, it soon became a question as to whether

it also led to the efficient conduct of the industries concerned. For, it may be argued with some force, that the dangers of statutory (and private) monopoly action energe not so much as a consequence of an attempt to maximise net monopoly revenue, but as a failure to minimise costs, or at least, as a less than vigilant attitude towards the need for cost stabilisation. In this way inflated costs could become a substitute for forced savings. Since the rule implies that costs should determine prices, the failure to control costs would imply rising prices. The rule meanwhile could be happily observed, but at the expense of widespread economic inefficiency, for resources would be devoted to the nationalised sector at the expense of other sectors which could not be justified in terms of relative value productivity. If the rule was to be interpreted in the minimum sense, the major requirement was for the costs to be reduced to the technogogically efficient level as Scitovsky would put it. Moreover, even where the maximum interpretation was called for, such additions to surplus as could be made, would imply adherence to the same fundamental idea.

In order to examine the dimensions of this problem it is necessary to investigate more closely the major components of costs, more particularly the capital costs of the nationalised industries concerned.

The nationalised industry Acts require not only that the public industries should pay interest at the relevant rate, but also that they should make adequate provision for depreciation and for the redemption of capital. This last requirement implies that the public undertakings would after a stated time period (which varied from industry to industry) get rid of their original capital liabilities. This meant that the terms of the take-over from private industry enters as an element of cost, and because of the rule, affects the prices of the outputs concerned. Given the original valuation (which was estimated on different bases for different industries) the main factor was the time period for redemption (which also varied from industry to industry). As a matter of practice, this condition is less onerous than would first appear partially because inflationary conditions benefit the borrower to the extent that his prices keep up with the general level of prices. But in addition to this, the requirement has been

interpreted liberally by successive Governments, so that in effect, the redemption dates have been pushed further into the future than the dates nominated in the Acts, thus calling upon future generations to take up part of the cost at take-over.

For by far the greater number of years since take-over, depreciation has been fixed on an historical rather than replacement cost basis, and the widening gap between the two conventions, caused by the inflation, has meant that insufficient funds have been mobilised for the maintenance of capital intact, and provide for obsolescence. Certainly the general reserves set aside under the rule have not been sufficient for these purposes. This entailed that the prices charged to consumers were lower, so that while the redemption provisions tended to raise prices, the depreciation convention tended to lower them. On balance, the tendency has been to lower prices, which increased the level of consumption or savings in other sectors, at the cost of eating into capital. Unfortunately it is not possible to give an indication of the net investment position. But the extent of capital consumption must have been considerable because of the high capital intensity of publicly owned industries.

As could be expected the most contentious item has to do with the rate of interest, particularly as the minimum interpretation of the rule implies that investment funds have to be sought in large amounts outside the publicly owned industries. Since 1956, funds for fixed investment in the nationalised sector have been obtained only from the Central Government sector., ordinary day to day advances coming from the banking system. Previously some, though by no means all of the public undertakings could proceed directly to the capital market, but experience with this showed that the large financial institutions and the public had little enthusiasm for such long term bond issues, with the result that large quantities of bonds (which naturally carried the Government Guarantee) choked the Issue Department at the Bank of England. Since the Government had no desire to hold back the investment projects of the public industries, it was forced to buy the bonds, recouping itself through the issue of ordinary Gov. bonds., or by Transury Bills. It was felt that in the interests of a more orderly market that it was better

for the Govt. to finance the public undertakings directly, meeting requirements in the ordinary way by the sale of undesignated (from the standpoint of the public industries) bonds.

Either way, it could be argued that since the nationalised undertakings borrowed at the Government rate of interest, they were obtaining capital funds much more cheaply than private industry., so that, in effect the managers of the undertaking were invited to consider a lower cut off point on their marginal efficiency function than was the case in private industry, so attracting a greater volume of investible funds towards themselves than the conditions warranted. This was and is an important consideration as the nationalised industries are very heavy demanders of such funds. In addition there was the artificial stimulation of the demand of the products of nationalised industries to be considered. Though this was a matter which producers of equipment used with nationalised industry goods and services could console themselves about, it was much criticised by private producer not in a position to take advantage of the situation, and by rival potential private borrowers seeking the available fund of saving. Recent studies have shown that the average return on capital in private industry was about 15% at the time when the return on capital in private industry was only between 5% and 8%.

It is a question however whether crude comparisons of this kind have the merits which are usually implied to them. For it can be argued in rebuttal the rate of return on capital comparison does not tell the whole story. It might be suggested the industries in the nationalised sector partake of the general characteristics of public utilities, in which rates of return on capital have been traditionally low. Also it could be argued that the Treasury Guarantee emerged in the long run as a form of subsidy to private industry, not only by inducing a higher level of effective demand for ancilliary capital equipment to service nationalised industry output, but also in the form of reduced energy costs.

Moreover it was suggested that the nationalised industries undertook obligations which increased their costs, but which either immediately or eventually conferred what have been termed public service benefits and

'public interest' benefits upon the community, or least allowed the community to avoid public service disbenefits and public interest commitments.

Public service benefits and public interest actions by the nationalised industries tended to increase the fixed or variable costs of the goods and services provided in various ways.

By a public service obligation is meant the obligation to provide a commodity or a service irrespective of whether or not there is an effective demand for it. That is to say it is the provision of a commodity or service to meet what is considered to be a need which is not backed by an effective demand. It may be compared to the position of a innkeeper under English law, who is required to offer a service to bona fide travellers at any time, provided that the traveller fulfills certain minimum conditions. Thus it is argued by many that the rail transport industry (which is nationalised) should provide a service as between two points irrespective of the traffic generated, or the condition might attach to the frequency or the quality of the service. This condition is of course not very onerous where the facilities for providing the service are available anyway, and are already fairly intensively used. Thus, to provide an extra train in between peaks involves little extra cost because of the indivisibilities inherent in railway transport operation. But the matter is otherwise where tracks are lightly used anyway, and where but for the provision of the public service element, all or at least the major capital and running costs could be saved.

In practice, it is part of the public service concept that the service should be provided at the same price as those which are undertaken for purely commercial reasons. It is this unwillingness to allow any discrimination which makes the public service element in costs such an important consideration., particularly at a time when so many of the public prefer to travel in their own motors.

On the other hand, it has been argued that the deliberate undertaking of public service obligations may avoid incurring alternative public disbenefits, or create public benefits, which should be brought into the calculation as an offset against the extra costs incurred by the

nationalised industries. Indeed, some writers have argued that the nationalised industries should incur additional costs under the heading of public service costs in order to fulfill either one or other of these desiderata. Thus it is urged that the public service costs be accepted in the case of the railways in order to reduce overcrowding on the roads.

Public interest consideration again often imply undertaking costly decisions by the public enterprise. Unlike the public service elements, public interest decisions are often of an ad hoc character, less vague in scope and meaning, and are less open to interpretation by the managers of the public enterprises concerned. They may range from a requirement imposed on the nationalised industry to buy electrical generators at home, to policies designed to encourage rural electrification. Clearly much may be said for a policy of taking both the public interest and public service considerations from the scope of the cost and price policies of nationalised industries. Unfortunately it is difficult to assess their full effects, and it was only comparatively recently that social benefit studies were introduced to attempt to offer some measure of the balance of circumstances.

Whatever the merits of these contentions, if the 'minimum' interpretation of the rule is adhered to, clearly all the investments funds of the nationalised undertaking must come from the state as a consequence of the desire to ensure that it cannot impose forced saving. If it is then desired to ensure that no excessive investment takes place, several possible policies might be introduced. First, the nationalised undertaking might be forced to consider a minimum rate of return somewhat above the interest rate in fashioning its investment policy. The second possibility is to require the nationalised undertakings to resort to the capital market for their funds, but to issue a particular type of bond with an equity consideration attached to it. Or again the nationalised undertaking might seek its funds from the capital market direct, but each branch or division of the undertaking going to the market individually and separately of the others. There are difficulties attached to both the second and third proposals, which arise mainly because the capital market would accept that in the end all funds obtained would carry the Government guarantee. An equity type of bond, the equity being, based on sales might be feasible, but the same problem arises.

In fact it is the first of these proposals which has been incorporated into policy, but this has been done very cautiously and slowly. Simultaneously, there have been equally cautious attempts to move to the 'maximum' interpretation of the 'rule'. This change is however a reflection of the fact that, apart from the electricity supply industry, the increasingly severe competition from the private sector has led to the view that the surpluses earned by the nationalised industries would be the result of a measure of economic efficiency, and the fact of this competition is some assurance that any surpluses obtained are not entirely forced savings.

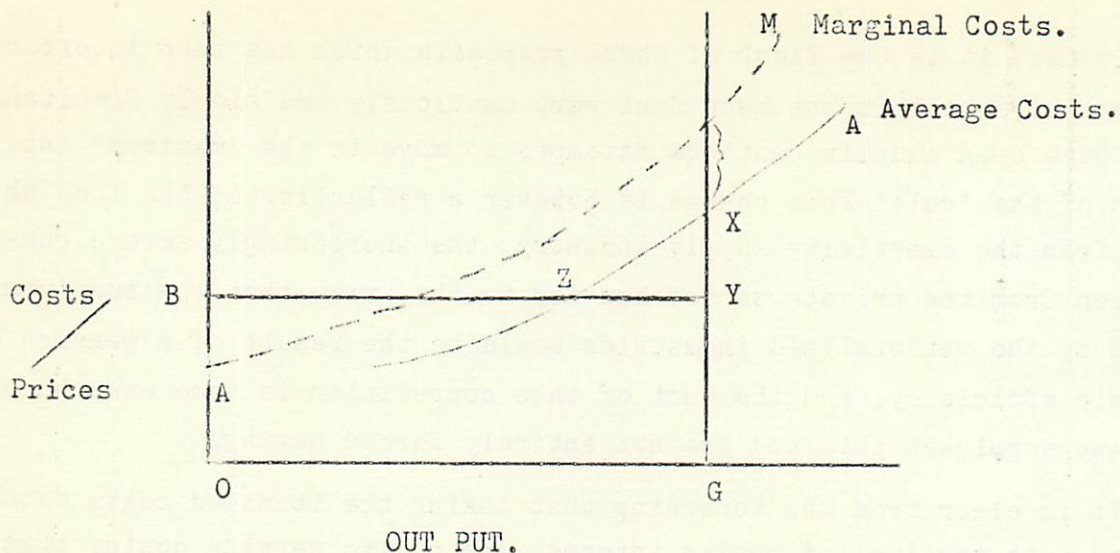
It is clear from the foregoing that taking the itemised costs discussed earlier with the implied public interest and public service costs, that a very wide flexibility exists in respect to the interpretation of the costs of a nationalised industry., so that the price actually charged could be expected to vary widely according to the narrowness of interpretation. This is of course one of the major elements of pricing where the political aspect is strong for a compromise formula may be used to justify widely varying practices.

The Pricing Consequences of the 'Rule.'

Having examined some of the more basic interpretation of cost, it is possible to deal with the pricing consequences of the rule. The cost items examined, together with wages and salaries and material input costs tend to govern the level of total and average costs at a point in time. Wages and materials prices paid by the nationalised industries can be expected in a market economy to be at or near the prices paid for the same resources in alternative uses., but both of these have tended to cause much greater fluctuation in average costs through time as compared with the capital and other costs examined in some detail earlier.

The effect of the rule on pricing may be illustrated graphically as follows

(10)



AA exemplifies the average cost function for the industry as a whole. If applied to the coal industry, as an example of an increasing cost industry, it could be taken as a cost ladder composed of the average of the average pit costs for the output, the line being smoothed out. If we then take OG as the estimated output for the period, based upon estimated total demand and supply, then a rigid adoption of the minimum interpretation of the rule would imply choosing the average of the average costs up to the point of estimated output, such that the 'surplus' area BAZ is equal to the 'loss' area ZYK. By may be said to be such a cost that will deter mine the price.

It does not of course necessarily follow that BY will by such as to fulfill the condition of equilibrium i.e. that quantity demanded should be equal to quantity supplied at the nominated price. In fact it is quite consistent with a situation of excess demand or excess supply. Assuming that correct price were charged however it is obvious that the main factors causing differences between the planned production and the actual outcome would be unanticipated changes in the cost conditions or more likely, in demand conditions. Changes in cost conditions can be accommodated for by assuming that the AA function will move in sympathy, bodily upwards or downwards assuming that the impact of of cost changes will be about the same irrespective of the level of production. Rises in costs would be followed by rises in price, and if it were decided to maintain the same level of output as was planned, an excess supply of coal would emerge assuming the average demand to be of some elasticity in the relevant range. The same result would emerge

if there were a leftward shift of the demand. On the other hand if it were decided to hold to the same output target, and to hold to a stable price (the planned price), the rise in costs would start to cause deficits, which would be all the larger depending on the extent of the lag before the adjustment in the price takes place. Clearly, the stock position, and the income-expenditure flow are the critical indicators.

Usually there are pressures both to maintain the price (in order to stabilize costs of coal to private industry, and thus to hold down its prices) and to stabilize the rate of production. In regard to this latter aspect, changes in the rate of production in the pits is regarded as quite tolerable, provided that no pit closures are contemplated. Clearly however in order to prevent an excessive run up of finished stocks of coal, this policy has to be considered.

It is also possible to attempt to offset the effects of rising costs and thus maintain a measure of price stability, by switching output from the so called high cost pits to the lower cost ones. This of course is a long run measure requiring the transfer of miners (who tend to be a non-competing group). This helps to direct investment within the trade. In the shorter run, reliance has to be placed upon other measures, such as differential bonus payments in favour of the more efficient pits (in average cost terms). However regard has to be paid to the quality of the coal emerging from the more and less efficient pits.

These and other policies will tend to affect the surpluses and deficits of the trade, invoking the need for compensatory action to meet the long run fulfillment of the rule conditions. Obviously there are limits of toleration in all these possible policies.

Other Pricing Rules:

As is well known, decision-makers in nationalised industries are invited to consider a very different rule to the one whose effects have been very broadly outlined: such for example is the so called marginal cost pricing rule, and advocates of this are at odds with the average cost practitioners, as to what ought to be the proper basis for pricing: so that their divisions can only be compared to that of the Montagus and Capulets.

The marginal costpricers argue that in comparing the value of resources used in one industry with the value of the same resources to some other industry, it is necessary to think only in terms of the little more or the little less. It is the value effects of the marginal decrement compared with the marginal increment that matters. This means that it should be possible to single out in practice the value consequences of the increment and decrement. Moreover the rule seems to imply that the situation is not much off equilibrium, because a marginal shift in resources serves to attain the equilibrium.

This proposition poses several very important practical issues. The first of these is which marginal cost is deemed relevant to price at? The answer appears to be that particular marginal cost which is consonant with a long run equilibrium i.e. the one which is equal to long run marginal costs and which equates long run supply with long run demand. at that price. This in turn requires the fulfillment of long run general equilibrium conditions.

This rule has great advantages in pointing to the optimum allocative ideal, if one accepts that the long run position when it is fulfilled is the ideal for allocative purposes. But it poses enormous practical issues. There is first the problem of choosing the administrative point of reference i.e. whether the marginal output refers to the most costly ton of coal, or the most costly millionth ton, or again whether it refers to the marginal pit. There are considerable differences in the marginal costs concerned, which have consequences for pricing. It is of course true that the same problems apply to the administrative point of reference in respect of average costs but, since marginal costing is supposed to be a nicer, more exact basis the problem is of greater relevance there. Secondly there is the question of the time period over which the marginal costs are to be measured. As is well known the shorter the prospective period contemplated the more sharply marginal costs rise, so that in the very short run their elasticity is zero. Since by definition, marginal costs tend to rise much faster than average costs, it may well be that the range of possible costs (and therefore prices) that might have to be considered in applying the marginal cost rule would be much wider. Thirdly there is the point the the precision

of marginal costs in measuring forgone opportunities in the private or the public sectors is vitiated by the fact that they have monopoly elements so that the marginal cost does not measure the true forgone opportunity.

It is difficult to avoid the conclusion that, in practical terms, many of the proponents of marginal costing, are (in the case of an increasing cost industry), merely arguing the case for a higher price than would be the case under the application of the average cost rule. In diagram offered earlier, it is clear that out the price for the output OG would be M if the marginal cost rule were observed. This higher price would of course have merits if at the price of BY, there were a large excess demand for the product. Then by choosing that particular marginal cost where supply were equal to demand, the excess would be dissipated., by rationing the demand by the higher price. From this point of view a price of X which is the highest of the average costs would be less objectionable., as the extent of the excess demand would be less.

Another point to consider in this context is the likely response in terms of supply to a higher price as would be involved by accepting the marginal cost price rule. If the responsiveness of supply per period of time were great, then charging the higher price could be defended on that ground. This might be an important matter in those cases where it were decided to charge the longer run marginal cost price (which would be lower than the shorter run marginal cost price), but where in the interests of stability in pricing, the longer run price would be adhered to. Then if the elasticity of supply over the longer run were considerable, it could be expected that the excess demand involved in this policy would be got rid of comparatively quickly. But the excess demand would of course persist for a very long time if the conditions were the converse of those assumed.

One important effect of charging the marginal cost price which cleared the market would be to increase the size of the surplus to its maximum. If the price chosen were the highest of the average costs, then the surplus would be reduced because of the reduced price, but in this case there would of course be an excess demand. This would be near to the maximum interpretation mentioned earlier. Also in the case of the BY price, there would be

no surplus. The existence of such a surplus would of course be an important matter for the managers of the public undertaking. It has been argued that it would have several effects: for example, it might make the managers of the undertaking less cost conscious. More important is the possibility that the existence of the surplus might attract wage demands from the trades unions of the trade. This is an important possibility in full employment conditions such as those that pertain in the U.K. at the present time. It is recognised that the Government directly or indirectly plays a part in any wage negotiations, and if the employees were granted a wage increase on the basis of the surplus, it might be taken as a signal in the other public sectors as well as by the private sector of business., thus contributing to a cost push inflationary wage spiral.

The proponents of marginal cost pricing have usually accepted this possibility but suggest that not all the surplus need be absorbed in money wage increases. An excise duty might be imposed to cream off this a surplus, and devoted to specified uses or contribute to government income. It was suggested that part of the surplus might be used to subsidise coal saving equipment both for domestic and industrial users. Of course, an unspecified subsidy of this sort would merely increase the demand for coal; but if it were applied to the particular objects mentioned this need not happen. Much would depend upon the reaction of consumers to such a policy. If it were to succeed, it would have the effect of decreasing the demand for coal (which would be used more efficiently) thus conserving an important national resource. But the success of this policy would imply some reduction in the demand for coal, and if the marginal cost price were adhered to, so excess supply would emerge, before the price were reduced. In the long run there would be the important gain emerging from the fact that the saved resources could be reallocated to alternative uses where the net yield were greater, say to a declining cost or constant cost industry.

The Price Structure.

So far the problem of pricing the commodity produced by an increasing cost public undertaking has been considered from the standpoint of a single price. But it is seldom the case that a single price could be applied,

because usually the general type of commodity sold is differentiated as to kinds and qualities. There are two important bases for differentiation in the coal industry. First is the fact that there are many different types and grades of coal, and also the coal is mined at widely varying geographical points, so that the different types incur different transport costs. Initially the managers of the coal industry attempted to reduce the number of recognised types, and also re-grade coal types in terms of thermal efficiency. This was supported by the argument that coal consumers were not really 'aware' of the differences, and anyway based choice on 'unscientific' principles. Subsequently the managers retracted from this position, realising (at a cost) that consumer choice was a factor to be reckoned with.

The second basis of differentiation-transport costs-is very important for it is usually accepted that probably about 50% of the delivered price of coal consists of transport costs.

But these factors taken singly or together serve to enhance or offset the physical productivity advantages with a pit or group of pits may have. Indeed a ranking of pits by productive efficiency (such as the cost ladder mentioned earlier) need not give the same ranking as where the two factors are taken into the account, if any particular large consuming centre were nominated as the delivery point. Clearly the smaller the splay of prices which reflect these factors, the more significant are relative pithead costs as a test of economic efficiency.

Policy in regard to the proper pricing of different types of coal from different geographical locations naturally poses the same sorts of questions as those just discussed i.e. whether the price structure should be based on the marginal or the average cost principles. In theory, the extra costs of transport would be reflected in marginal costs, and pits allowed to produce and deliver coal to the point where marginal costs equalled the price which cleared the market. The differential qualities of coal would be reflected in the price structure, the better qualities receiving the higher price. Each pit would then tend to have a market area which would be consistent with this policy., with fringe competition taking place in respect of particular qualities of coal.

In fact the averaging principle is used. That is to say, within a particular division of the Coal Board, the policy is to charge the same transport price per ton mile irrespective of the source of the coal within that division and irrespective of the destination of the same coal within that division. This means that a standard charge is applied and added to the pithead price. It is therefore a matter of indifference to heavy coal users in industry where they locate their plants within the division., and the policy tends to destroy any locational advantages of siting close to the pithead. This means that the more technologically efficient in terms of pit production costs have their advantage confirmed. The consequence is that greater footlooseness is offered in terms of location to heavy coal using plants. On the other hand their coal costs might not so be significant and it is very difficult to decide to what extent location is affected by the policy..

There is another effect that follows from this which might not be so obvious. It is highly likely that, to the extent that coal using plants do locate away from pithead sites that the average length of journey per ton of coal is increased. This places an extra strain upon already overcrowded roads. Since the coal industry merely pays the private costs of transport, it could be argued that the policy leads to a situation where there is a deviation between private and social costs, the extent of the deviation being in a sense some measure of the failure to charge marginal cost price from this particular standpoint. Possibly the social losses from this source tend to offset the value of the public interest and other obligations accepted by this nationalised industry.

It might be concluded that the pricing problems of nationalised industry in a mixed economy are very complicated. It is true that the market processes do offer an overall price structure within which the nationalised industry can operate, so that there is no need to introduce a rational pricing system 'de novo' as it were. If there is much competition, these prices might be said to reflect fairly adequately opportunity costs. The problem which arise are those caused by the fact that a statutory monopoly which is devoted to meeting the requirements of the general interest may still not operate efficiently. It is not helped in fulfilling this task by being

required to accept vague public interest and service obligations. Indeed much might be said for the view that nationalised industries cannot be easily incorporated into a market economy, and their special advantages could be more easily obtained by a combination of tax and subsidy policies.