Topic 8. Profit Sharing Regulation

What is profit sharing and how does it work?

A profit-sharing plan is a retirement plan that gives employees a share in the profits of a company. Under this type of plan, also known as a deferred profit-sharing plan (DPSP), an employee receives a percentage of a company's profits based on its quarterly or annual earnings.

What is profit sharing and is it a benefit?

A profit sharing plan is a type of plan that gives employers flexibility in designing key features. It allows the employer to choose how much to contribute to the plan (out of profits or otherwise) each year, including making no contribution for a year.

What is the basis of profit sharing?

Profit sharing is an incentivized compensation program that awards employees a percentage of the company's profits. The amount awarded is based on the company's earnings over a set period of time, usually once a year. Unlike employee bonuses, profit sharing is only applied when the company sees a profit.

RPI minus X regulation is in principle designed to give high-powered incentives and to encourage profit-seeking behaviour. In practice, however, profits in excess of some limit are subject to heavy popular criticism and this has led to suggestions for incorporating an explicit element of profit sharing into regulatory contracts. A simple tax on the profits of otherwise unregulated utilities would transfer some monopoly profits to the government but would do nothing to change pricing and output decisions. More complex 'sliding scale' profits taxes in which the tax rate falls as the output of the monopolist rises can be devised to induce firms to lower prices or increase output. Alternatively, a system of price regulation might be modified to incorporate profit sharing with consumers through automatic price adjustments. Such schemes are in the tradition of 'public interest' regulation in the sense that efficiency and distributional objectives are explicitly being pursued by the designers, but the work of public choice and institutional economists is recognized by the introduction of political and other constraints on the policy process.