

sketch out the general picture. The prices of the smaller transformers have fallen markedly and continue to fall; all or almost all the manufacturers appear to sell these transformers at a loss.¹ The prices of the large transformers—those which directly concern us—held up better, at least in the years immediately following abrogation.

These developments are very much what one would expect. In the first place, there is excess capacity in transformer production. A reliable measure of a firm's capacity is difficult to make, chiefly because the maximum volume of output that can be put through the works depends on the 'product-mix', this being the proportions of the total output formed by different sizes of transformers. Not all firms, moreover, make estimates of the capacity they have available. (All the members of the 'Power Transformer Conference' make returns on capacity but not all transformer manufacturers are members). Despite these difficulties it seems safe to say that the demands of the electricity authorities, together with any likely export demand, will leave a substantial margin of capacity unemployed.

In these circumstances, firms are continuously subject to the risk of getting little or no work. The magnitude of this risk varies with the number of firms making each type of transformer, being great for those making the smallest types and less for those making the larger types with which we are primarily concerned. An excess of capacity over demand of even one per cent would make it possible, in principle, for some of the smallest firms making the smaller transformers to be left without work. A 10 per cent excess would make it possible for even large firms to have no orders. Given the electricity supply authorities' system of tendering—which is such that a single order can make a great difference to a firm's annual turnover—it is clear that each manufacturer is under strong pressure to quote a price low enough to obtain some business. It is also clear that firms have an incentive to resist this pressure, because they realise that the total business available to the industry as a whole will not be increased by price reductions.

What we have, therefore, is a familiar oligopoly situation where the outcome depends on the relative strength of two opposing considerations. The larger the number of firms, the greater is the chance that one of them may be left without work; the more likely therefore is that prices will be driven down by the competitive struggle, a limit being set, in the last resort, about the level of variable costs. In the case of the smaller transformers, this is what has happened. With the larger transformers, which are made by fewer firms, prices are more likely to be sustained, if only precariously. Although the business available is insufficient to fill all the works, each producer may expect to get some of it. A sense of common interest may be sufficient to prevent price-cutting, especially if firms keep one another informed as to the terms on which contracts with them are actually placed.

In appraising the effects of proscribing agreements, therefore, it is important to distinguish between two situations, the first in which excess capacity will

¹ These smaller or 'distribution' transformers are made by about fifty firms and sold to Area Electricity Boards. The characteristics of their market create special problems distinct from those associated with the pricing of large transformers and it seemed appropriate to exclude them from discussion here.