result in competitive price-cutting, the second in which it may not. Very broadly, these alternative outcomes can be associated in this case with the markets for the smaller and for the larger transformers respectively, though it would be misleading to draw a sharp line. In the case of the so-called distribution transformers, which are sold by some fifty firms to a dozen Area Electricity Boards, conditions bear some resemblance to the text-book model of perfect competition, and prices have clearly fallen in response to the excess of capacity over demand. In the case of the larger transformers, sold to the Generating Board by a smaller number of firms, there has been a more obvious reluctance to 'spoil the market', but, given excess capacity and the practice of tendering for very large orders, more active price competition can readily develop.

(ii) *Prices Responsive to Excess Capacity.*

Let us take first the situation in which the abrogation of a price agreement does produce active competition in tendering. On the face of it, this may seem precisely what is required; the more efficient firms will be able to undercut their high cost rivals and the general level of profits will be kept low. Given excess capacity, it will be conceded, prices will fall to uneconomic levels, but, in doing so, they will help to bring about the contraction required and thus restore profits to a normal level. This, at any rate, is what the more elementary text book models would lead us to expect; a more careful examination of the situation points to conclusions less simple and less satisfactory.

In the first place, excess capacity is likely to be chronic. Each firm may see its salvation in expansion, which will enable it to reap more of the economies of scale. The fact that the demand for transformers is on a rising trend may give further countenance to this policy, with the result that the industry's total capacity may become even more excessive. Lest the reader consider this situation too perverse, let him bear in mind that the excess capacity with which the industry is at present afflicted, and which so far has shown no tendency to disappear, did in fact develop over a period of steadily rising demand. Nevertheless, it is reasonable to suppose that firms will not for ever persist in such unprofitable courses, that some will leave the industry and others cease to expand with the consequence that capacity will come to equal, or even fall short of demand. What chance is there that these developments would lead, in the long run, to a steady growth of capacity in balance with demand?

To my mind, very little. Losses are indeed likely to check investment and thus bring capacity, for a time, into rough equality with demand; but, given the continuing presence of a large number of competing firms, there would seem to be every reason to expect further bouts of excessive investment. Economists with faith in some kind of tendency to equilibrium may envisage a fluctuating balance between demand and capacity, firms gaining on the swings of excess demand what they lost on the roundabouts of excess capacity. But, in the special circumstances of this market, these conditions need not result in normal profits. Firms would certainly lose, through price competition, in times of slack, but it seems to me unlikely that they would be able to gain very high profits at other times. In the first place, supply conditions are likely to be fairly elastic, firms being able to take on extra work without much rise in marginal costs. But even