although there were bottlenecks, it is difficult to envisage the Generating Board or even the Area Boards deliberately bidding up prices against themselves. No one has yet seen a one-man auction. Normal profits would be compatible with the conditions we are postulating only if excess capacity could be avoided at all times. This is unlikely to be assured and it is undesirable that it should be; the public interest requires that the investment programmes of the electricity authorities are not held up through bottlenecks in the capacity to supply equipment. If peak requirements are to be met, excess capacity must develop at normal times and must be tolerable to the industry.

There is a further circumstance that would make active price competition often incompatible with normal profits even in the absence of unused capacity. Part of the output of the larger transformers is exported and at prices below those ruling at home. It seems to be very generally the case that heavy electrical equipment is sold abroad by all the main manufacturing countries, at prices that approximate more to marginal than to full unit costs of production. The gap between home and export prices is of course evidence that price competition within the home markets of the manufacturing counties is somewhat attenuated. If producers were to fight for domestic contracts in the same way as they fight for foreign contracts, home prices would move down towards the export levels and the profitability of the total output would fall. Many see the differential between home and export prices as proof of our fallen state and would welcome its erosion under the stress of more active competition. But, as far as British manufacturers are concerned, the low level of the export prices of these capital goods is simply a fact of life which neither our industry nor our government has by itself the power to alter. Were our export quotations to move up to the level of home prices, we should fail to export; if our home prices were to move down to the level of export prices, the total business would not be remunerative. This is a conclusion that those most eager to promote price competition in the home market are rarely seen to draw.

Let us now return to the main course of our argument. Given fairly numerous independent manufacturers, faced with a totally inelastic home demand and in active price competition for orders, there will be chronic tendency to excess capacity and low returns. This tendency is unlikely, in the nature of things, to continue indefinitely, but an end to it could be brought, it seems to me, only as a result of change in the structure of the market. The logic of the situation is likely, sooner or later, to lead producers to concentrate production, in the hope that this will both limit the extent of excess capacity and reduce the likelihood that excess capacity will induce firms to cut prices. There is no telling how long this change would take to come about and no assurance that, once it had come about, it would not subsequently be reversed.[1]

[1] Of key importance in this connection is the magnitude of scale economies in the production of transformers. If these economies are insignificant then concentration within the industry might prove short lived; small firms would be attracted by the prospects of entering the business in the hope of prospering under the umbrella of the larger producers. Given, that is to say, the maintainence of relatively stable prices by the established firms, even in the face of some excess capacity, there would be a living to be made by the outsider willing to charge a slightly lower price in order to get a full load on this works. Assuming free entry therefore, the viability of a regime of concentrated production and stable prices would depend on the existence of significant scale economies.