

that arrangements or conventions leading to short-run price stability fulfil just this shock-absorbing function.

But there is another side to this matter. Can one reasonably assume that price competition between firms, in these circumstances, will be suspended only in conditions of excess capacity? Is it not possible for mutual tolerance to be so developed that firms will refrain from use of the price weapon to compete for larger market shares even when demand rises above capacity? The force of rivalry might or might not be strong enough to ensure that abnormally high profits were rapidly removed by competition. In the case of large transformers, where there are a dozen producers, it may seem unlikely that a struggle for market shares could for long be in abeyance; but where there are only three or four companies—as with turbines and switchgear—mutual accommodation is less unlikely. Abnormally high profits might, in the long run, induce entry by new suppliers, but entry in these fields is not sufficiently easy for this to be an adequate discipline. My own view is that neither theory nor experience enables us to say, with certainty, whether the producers of heavy electrical equipment would or would not, in the absence of agreements between them, have the power consistently to maintain prices such as yielded abnormally high profits. What one can say is that the proscription of agreements cannot be relied upon always to give either the electricity authorities or the public at large the *assurance* of reasonable prices.

Here then we have a dilemma that those who advocate merely the abolition of agreements have to face. Either the abandonment of the agreements results in active price competition and flexibility of prices in response to the changing balance of demand and capacity, or it does not do so. In the former eventuality, prices are likely to be chronically depressed, thus leading to an undesirable shrinkage of capacity or to a movement towards further concentration. In the latter case, the purchasers and the public lack sufficient assurance that profits will not be unduly high. These are the considerations that lead me to conclude that the mere abolition of inter-firm agreements, whether or not it results in prices flexible in response to supply and demand, does not ensure suitable regulation of the markets for transformers. But before examining the available alternatives, let us turn to consider the working, in the absence of price agreements, of the markets for turbines and switchgear.

5. *Turbines.*

(i) *Special features of the market.*

Those features of the transformer market that made price competition unsuitable are to be found also in the market for turbines and in a much more marked degree.¹

The manufacture of turbines has of necessity to be on a very large scale. Very large investments are required in terms of research, design and training as well as

¹At the time of writing, there were three producers of turbines, each with its own design. But there has been talk of a desire, on behalf of the Generating Board, to have only two designs. This desire could achieve fulfilment only through structural change in the industry, but I lack the information required to discuss this matter. Whatever changes might be promoted seem likely to weaken the case for price competition yet further.