I find it very difficult to predict what the effects of abrogating the price agreement between the turbine makers might be. It is worth while, as with transformers, to distinguish between two possible outcomes, the one in which prices fall in response to excess capacity and the other in which they do not.

(ii) *Alternative effects of ending an agreement*

Prices could fall sharply, given the threat of some excess capacity, if the firms strove, by endeavouring to under-cut their rivals, to get work. The export trade, it should be noticed, could not be called upon to redress the balance caused by a falling off of demand at home, for the prices at which it is conducted are below full cost. Inevitably, if this were to happen, firms would suffer losses; investment would be checked and, if the situation were sufficiently grave, the currently available productive facilities might be contracted with an associated dispersal of design teams and other specially trained staff. Expenditure on research and development seems to me one of the forms of investment that would suffer a check or an absolute reduction, although the Restrictive Practices Court denied, in their judgment on the transformer case, that this kind of result would be likely to happen. The Court apparently took the view that, if conditions were to become more competitive, firms would be obliged to spend more rather than less on research. The superficial plausibility of this argument rests on an ambiguity in the term 'competitive'. The market for turbines, even with agreed prices, is already highly competitive, in that firms have to strive hard, with the help of sustained investment in research and development, to stay in the technological race. Were the price agreement to be given up, the market would not become more competitive in this sense; the chief effect would be for receipts to fluctuate more widely (given periods of excess capacity) at a lower level. The decision as to how much to invest in research and development (never easy) will rationally depend upon the magnitude of the expected yield. If the general profitability of turbine business is to fall, then the yield from investment in research, aimed at securing for the firm a larger share of this business, will fall likewise. The Restrictive Trade Practices Court, in arguing as they did, would seem to believe that a man could be induced to increase his stake in a lottery provided only the value of the prizes were lowered.

It is theoretically conceivable that the check to investment, occasioned by poor returns, could ultimately so reduce the volume of capacity relative to demand as to restore profitability. But, for reasons given in the discussion of transformers, this result, even if it could be assured, would not be in the public interest.

Let us now assume, alternatively, that the producers would not make competitive price reductions when capacity came to exceed demand. Their resistance to the temptation to use the price weapon might find strength merely in a keen sense of common interest, but might be further re-inforced by the belief that the buyer would in any case choose to allocate business in such a way as ensured the survival of all three firms. In this case the disturbances set up by price instability would be avoided, but it is still necessary to ask, as with transformers, whether the public interest would be sufficiently safe-guarded. The fact that we have here