reducing the average quantities that have to be held in stock, and at the same time incorporate the best ideas of the four design teams. I am unable to estimate the gains from collaboration of this kind, but there seems little reason to doubt that the Generating Board, which took the chief initiative in this matter, regards them as valuable. What concerns us here is the compatibility between this exchange of ideas and the practice of price competition. Although it would be perfectly possible for firms to compete in terms of price while co-operating in development, I cannot believe that they would be likely to do so for long. There are bound to be times at which some firm is convinced that it has less to get from an exchange of ideas than it has to give and succumbs to the temptation to make use of this advantage in the competitive struggle. The temptation exists, of course, even under the price agreement, but abrogation, by obliging the companies to struggle for their share of the market, would greatly strengthen it. It is likely, moreover, that firms would seek some shelter from the full vigour of price competition by developing non-standard products which, by the very fact of being incapable of substitution, have a low cross-elasticity of demand.

7. *The Summary case against Price Competition.*

The unsuitability of price competition, for the three markets under discussion, seems to me the consequence of several quite particular circumstances taken in conjunction. It is certainly not my intention in this paper to offer a general apology for restrictive agreements; circumstances alter cases and, in this field, can do so decisively.

To sum up, the policy of promoting price competition, in the sale of heavy electrical equipment, is inappropriate for two main reasons.

In the first place, it will fail to attain its own objective. The size of single orders, the inelasticity of demand, the gap between marginal and average costs and the predominance of one buyer, all taken together, make it impossible to combine normal profitability with price flexibility and periodic excess of capacity over demand. Something has to give. Normal profitability must be assured, if the firms concerned are to stay in the business. Excess capacity could be completely avoided, if indeed at all, only at great social cost. Price flexibility is avoidable only if firms make an agreement or are able to refrain from active price competition even without one; in this latter eventuality, however, there will no longer be any guarantee that prices are not kept unduly high.

Secondly, price competition would prejudice the attainment of other objectives important in this context. It requires only a very limited faith in the principle of planning as such to recognise that the particular character of the markets which concern us offers a special opportunity for the deliberate co-ordination of plans. Such co-ordination is made difficult, in the generality of industry, by the number of firms on both sides of the market; but the domestic requirements for turbines, transformers and switchgear depend on programmes made by a single nationalised electricity authority and framed several years in advance. Co-operation between the suppliers and the Generating Board has developed furthest, I believe, in switchgear, where, as we have seen, there is a system of bulk allocation. The utility of such co-operation, in matters of design and devel-