

opment as well as the planning of investment, seems to me something no reasonable man could deny; in the nature of things, it would seem appropriate for the manufacturers and the Generating Board to work together as a team. I am indeed inclined to think, as an outsider, that co-operation might be closer, but even its maintenance would be threatened by the practice of price competition. Thus the real problem before us is to devise arrangements that permit the manufacturers and their customer to work together as a team without sacrificing the objectives for the attainment of which price competition, in other circumstances, is a useful device.

8. *The Alternative to Price Competition.*

The alternative to price competition is agreement, but I do not wish to suggest that we should be satisfied with agreements such as have been in force during the last few decades. The electricity supply authorities have surely a right—indeed, a duty—to insist that the price they pay for equipment is not such as provide the manufacturers either with abnormally high profits or with a shelter for inefficiency. The agreements in operation hitherto have not given this guarantee; quite apart from whether they did promote high prices and costs—and on this we need not express an opinion—they offered the buyer no assurance that they did not do so. Neither, I have argued, would price competition provide this guarantee; some other way has to be found of providing the purchaser and the public with the assurances to which they are entitled.

It might at first be supposed that the pricing policy of the firms operating an agreement would be subject to two forms of check or sanction, the first provided by the threat of new producers entering the market, the second by foreign competition. In fact, however, it is very difficult for new firms to enter the heavy end of the industry, in which much capital and experience is required. Nor would it be expedient for the Generating Board to purchase equipment from abroad. Obviously the balance of payments would suffer, and, in any case, the prices quoted by foreign suppliers would not provide a standard for home producers, as export prices seem generally to be below the level of full costs. We have to conclude, therefore, that there are no natural checks such as would prevent a price ring from abusing its power.

The need is clearly to devise an agreement to which both the Generating Board and the manufacturers are party and into which appropriate safeguards have been built. This could be done in a variety of ways, the details of which ought to be the subject of another paper. Clearly the level of price must be related to production costs, these being calculated as a weighted average for the firms concerned and set so as to provide a rate of return on capital comparable to that obtained in industry generally and not less than is required to finance expansion and provide a normal yield to shareholders. A fairly loose form of control would seem preferable, prices being set for a period of—say—three years and revised subsequently if they did not provide the agreed rate of return on capital. The firms would be obliged to employ the same accounting techniques and their calculations would have to be submitted to some independent body, neither the producers nor the purchaser being left as judge in their own cause.