

the quantity of excess capacity attributable to one circumstance rather than another. I can see no hope of precise solutions to this problem, but it should not be so difficult for reasonable men to reach a compromise appropriate to the particular circumstances of each case.

These considerations lead us to the question of the structural efficiency of an industry as a whole. Let us assume for example that it could be established, beyond reasonable doubt, that the number of, say, transformer makers was too great to permit full exploitation of all the available economies of scale. Were this the case, the firms would have an incentive to form larger units in order to reduce costs, but it could be that this incentive was not strong enough to counter the effect of inertia and the desire to maintain independence. In these circumstances price competition does offer some remedy. Firms that did merge would strive, by price reductions, to enlarge their share of the market and would thereby force rivals to follow their example; even the threat that this might happen might encourage firms to exploit such scale economies as became available. A general fall in prices, produced by competition in conditions of excess capacity, would at least help to concentrate the minds of manufacturers on the need to improve their position.

Under these conditions, it would be hard to justify any agreement that left firms, on average, with a normal return on capital employed and thereby prevented an unsatisfactory structure from registering itself in the way most likely to lead to its improvement. It ought to be understood that an industry is not entitled to enjoy the legal right to operate a restrictive agreement that serves to perpetuate inefficiency. But it would be wrong to turn to price competition as the sure way of bringing about desired rationalisation. No doubt poor returns, in the long run, will reduce an excessive number of producers, but they may also weaken the incentive and the ability, even for the most efficient firms, to invest in the development and installation of up-to-date productive equipment. It is conceivable that general impoverishment might prove the only way, in practice, of forcing the required changes, but I should hope that a less costly and more rapid method might be found in cooperative action in which both the manufacturers and the electricity supply authorities would take part.

A policy of agreed prices, based on a weighted average of the firms' costs, is open to the further objection that it ensures only that a company's profits are commensurate with its efficiency relative to rival producers as contrasted with its efficiency relative to industry as a whole. And the point could be made, in this connection, that three or four producers, as in both turbines and switchgear, represented a very small sample. The most obvious reply to an argument along these lines is that, given the difficulty of entering these markets and the objections to buying from abroad, competition would do no better; each firm would fare according to its efficiency relative to its two rivals irrespective of the level of efficiency of three firms as a whole. It is conceivable that, in fixing agreed prices, one might even do better, in that the buyer might be able to produce evidence of costs in other countries or to make his own estimates of what costs, employing the latest equipment and techniques, ought to be.¹

¹ Sir Robert Shone, in a comment on an earlier version of this article, pointed to the steel industry's experience of price control based on calculations of this kind.