

Shadow Cabinet PaperA POLICY FOR PRICES.

(Incorporating the Report and Recommendations of
the Competition Policy Group)

Introduction: The Role of Prices Policy

The political reality is that prices are the single most important matter of concern to the electorate and one of the major influences affecting the way they vote at any election.

At present there is widespread public cynicism and disillusionment with the cosmetic, 'gimmicky' Prices Policies which the present Government have introduced, because they have so obviously failed.

However, it could be electorally disastrous to offer the immediate outright abolition of the symbols of price controls, and yet offer nothing in exchange to indicate our anxiety about rising prices.

It is crucial, therefore, that we should have a policy for prices that is distinctive and one which does not attempt to adapt or build on failed Socialist policies. It must be clearly shown to be an advance and not a retreat.

Such a policy must meet political needs, at the same time recognising that the defeat and containment of inflation must depend, above all, on the pursuit of prudent economic policies and vigorous competition.

Conservative Policy must also have regard to the fact that prices may appear to be, or may be cost dominated (e.g. by raw materials, pay, the value of currency, etc.) in spite of the corrective influence of the market place, and that while the effects of such costs on prices can be lessened by successful economic policies, there will always be political repercussions requiring attention by governments. Public anger over individual price rises tends to evaporate, to a certain extent, if they can be fully explained and vindicated.

The following principles should underwrite a new policy for prices:

- (a) Re-invigoration of competition to improve the operation of market forces.
- (b) The removal of distortions such as subsidies and restrictive practices. *As far as possible*
- (c) The removal of controls, which have little or no effect on price rises, but do immense damage to industrial expansion and jobs. *M.M. rule 2 - Banking Branch*
- (d) Justification of prices and profits (where this is feasible) by exposure and education. (It is particularly important to counteract myths such as 'it is the fault of the EEC', or 'the farmers' or 'profiteering').

The general objective of the new policy should be to establish a sense of fairness in prices and profits and a better understanding of the way the free enterprise system works.

PROPOSALS

Prices

1. The Department of Prices and Consumer Protection should be reduced in size and renamed the Department of Competition and Consumer Affairs - its terms of reference would be limited accordingly.
2. Five years of price controls have had little effect on prices, have seriously deterred investment and heaped unnecessary bureaucratic burdens on business and industry. The Price Commission, margin control and pre-notification should all be removed - but with some stealth (possibly in two stages during a period of declining inflation). There is no point in provoking political attack if this can be avoided. The saving would be approximately £7-8 million in the financial year 1978-9 and a reduction in staff of 600.
3. The Office of Fair Trading should be greatly strengthened with enhanced powers to investigate on two separate but related fronts, namely Prices and Competition.
4. The functions of the Office of Fair Trading in the COMPETITION sphere should include:-
 - (a) Investigation of specific cases where price abuse arises out of imperfect competition, monitoring of market trends in advance of monopoly and merger references, detection of conditions which give rise to these abuses and the preservation of conditions of fair competition.

(b) References to the Monopolies Commission where this is found to be necessary.

(c) Continuous monitoring of pricing practices where a monopoly already exists both in the Private Sector and in the Nationalised Industries.

5. New powers will need to be vested in the Office of Fair Trading to act against such practices where they are not already covered by existing monopoly and mergers legislation or to recommend that action be taken by the Secretary of State.

6. The functions of the Office of Fair Trading in the PRICES sphere should include:-

(a) The monitoring and investigation of prices either independently or where a special reference is made by the Secretary of State in areas of particular consumer concern and where the political pressures are irresistible. There will need to be provision against purely vexatious references.

(b) The publication of reports resulting from such investigations which would explain or justify prices by indicating those (supply or demand) factors which cause prices to rise or fall (costs, profits etc.). The main object of this would be to recognise consumer concern and to educate and reconcile the public to inevitable price increases.

7. However, if there were evidence of abuse and if no justification could be found, it would be up to the Secretary of State to negotiate with the company concerned and if possible obtain a voluntary agreement. Evidence of abuse would occur very rarely indeed and the likelihood of companies, subject to adverse publicity, entering into voluntary agreements is very high.

8. The object of the first (section 4) of the two new functions of the Office of Fair Trading is to meet a genuine need for improvement in competition policy and practices - it could have a not insignificant effect on prices.

The object of the second (section 6) is to meet the very important short and long term political requirements.

Neither would have an unfair or adverse effect on businesses and industry. Furthermore, bureaucratic interference would be greatly reduced.

In the very rare case of a price abuse giving rise to negotiation of a voluntary agreement or in the case of a sanction being imposed on the grounds of imperfect competition, we should not be afraid of provoking complaints from the industry concerned as there would be compensatory political dividends with consumers and Trade Unions.

Legislative Consequences

1. The eventual repeal of the Price Commission Act.
2. The introduction of a small Fair Trading (Amendment) Bill to provide for the new functions. The following changes to the Fair Trading Act 1973 would be considered:-
 - (a) The Consumer Protection Advisory Committee - part of the CPT, but attached to the DCCP would be given a more extensive remit to report on those price increases which are an outstanding source of public concern. (Amend Sections 14 and 17 of Fair Trading Act 1973).
 - (b) Commensurate with its greater responsibilities, the OFT should be reconstituted so that all the decisions are taken by a small board (3-5 persons) presided over by the Director General.
 - (c) The OFT already has a large Competition Unit. No legislative changes would be necessary here.
3. The Monopolies Commission should be strengthened (if sufficient candidates with the requisite expertise can be found) to speed up monopoly and merger investigations where it is practical to do so.
4. Existing Monopolies and Mergers legislation should be amended to provide for the automatic triggering of merger references in certain circumstances.
5. The Office of Nationalised Industries Ombudsman would have to be set up. At the same time it would be possible to make the requisite amendments to the various nationalised industries Acts governing the regional consumer councils (e.g. Electricity Act 1947, Transport Act 1962 etc.).
6. It may well be advisable to appoint a new Director General of Fair Trading and a new Chairman of the MCC.
7. Public Expenditure. Savings on the Price Commission would amount to £7-8 million in a full year. The total cost of the nationalised industries consumer councils in 1977/78 is £1,714,000, which would be substantially reduced by these proposals.

SC/ATH/L3A

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