

REPORT OF THEPRICE CODE ALTERNATIVES POLICY GROUPCovering Note by Sally Oppenheim

The attached report presents two recommendations which together would constitute a satisfactory alternative to the Price Code. A third recommendation allows for the possibility that the Code may have to continue for a short period.

The report is in six parts:-

- I - The present Price Code
- II - Our objectives
- III - Our three recommendations
- IV - Public presentation
- V - Public expenditure saving
- VI - Legislation required

Industry agreement?

*Tim
Food Industries.*

*Price levels 50-100
supplied code
Francis.*

John

Agnes.

Law.

7-72

Competition

REPORT OF THE
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I. The Price Code

1. The Price Code has depressed corporate profits to an unacceptably low level: the rate of return on capital in 1974 was only 2.2%. The Code should be abolished as soon as political and economic circumstances permit.

II. Objectives

(a) Rebuilding Profits

2. The central Conservative strategy of transferring activities from the public to the private sector requires a rebuilding of corporate profits by perhaps \$4,000m. Any general price controls would depress profits.

(b) Satisfying the public demand for action over price-increases

3. The public wants any Government to "do something about prices". There will always be unpopular price-increases and suspicions of profiteering, and no Government could fail to respond to the demand for concern and action.

(c) A Price Policy compatible with Pay Policy

4. A future Conservative Government may well need some kind of policy for incomes. The trade unions are likely to demand some form of price control or restraint in exchange for pay-restraint.

III. Recommendations

(a) Prices Review Board

5. We recommend that the Price Commission be abolished and replaced by a Prices Review Board.

6. The Board should have no power to regulate prices. It should have the power only to investigate individual price increases and publish reports. This would reconcile objectives (a) and (b): there would be no control of prices or profits, but the Board's investigations would satisfy the public demand for Governmental action on prices. The Board should investigate and report far more frequently and with much greater publicity, than the Price Commission.

7. The extent to which the Board satisfied the trade unions would depend on the way in which the Board's activities were understood by the public. The Board should be headed by a convincing figure who appeared independent of the Government.

8. The Board should be small and cost less to run than the Price Commission. It should be modelled on the highly successful Canadian Prices Review Board. The Board should publish a price index of its own in comprehensible "shopping-basket" form when inflation is falling. It should also publish the implications for prices of particularly large wage claims, and could help to educate the public about the role of profits.

9. The Board should report to the Secretary of State for Prices and Consumer Protection, who (if he felt this was warranted) could refer matters to the Office of Fair Trading or the Monopolies and Mergers Commission.

...../(b) Voluntary Restraint

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10. It is quite possible that the Prices Review Board would not be enough to satisfy the public or the trade unions that prices were being controlled. We therefore recommend that a Conservative Government should have ready for implementation, if necessary, a system of voluntary restraint based on the French *contrats d'industrie*. These are agreements with a single industry which commit that industry to keeping price increases within a certain limit for a short period

11. Cosmetic schemes have been used by both Government and trade unions as an example of price restraint obtained in exchange for wage restraint. This is largely because the Price Code is old and no longer newsworthy, and is additional evidence that a Government needs to appear to be "doing something about prices" rather than actually keep prices down.

(c) Interim Measures

12. If a Conservative Government takes office while the Price Code is still in force and if circumstances warrant the retention of the Code's sanction on pay increases, we should be ready with some quick reliefs for industry. Among desirable reliefs would be:

- (i) raising the turnover threshold to relieve smaller companies from control.
- (ii) higher investment relief of say 100% rather than 35%, and
- (iii) relaxation of gross margin control for distributors.

IV. Public Presentation

13. We recommend that our policies should not be set out clearly in the Policy Document or the Manifesto. There should instead be a general statement to the effect that we plan to replace the Price Code and the Price Commission by a new system of price-monitoring which will prove more satisfactory to both consumers and industry.

V. Public Expenditure Saving

14. The Price Commission is costing £4,894,000 in 1976-77. The budget of the Prices Review Board should be about £1m., so there would be a net saving of almost £4m. per annum as a result of our proposals.

VI. Legislation

15. A single amendment to existing legislation will replace the Price Commission by the Prices Review Board.

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