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CABINET

PRICES POLICY

Memorandum by the Secretary of State for
Prices and Consumer Protection

1. Early legislation is needed to fulfil our undertakings to introduce stricter price controls, to make selective use of subsidies for items which are significant in the family budget, to improve price marking and to require unit pricing.
2. The price control system can also be improved by interim amendments to the existing Price Code and to the associated Orders. I intend to make urgent progress on all these heads.

LEGISLATION

3. The Price Commission should continue to operate as an independent agency to control prices in accordance with a general Price Code.
4. I seek the agreement of my colleagues to the urgent preparation of a Bill to cover:-
 - a. authority for expenditure on subsidies;
 - b. power for Ministers, by Order, to prescribe prices and margins in relation to subsidised goods;
 - c. power for Ministers, by Order, to prescribe prices and margins of other specified foods;
 - d. a power to vary decisions of the Price Commission;
 - e. power for Ministers, by Order, to require prices to be displayed and goods to be marked with unit prices.
5. The Bill might also deal with the abolition of the Pay Board and the unscrambling of the system established by the Counter-Inflation Act 1973 so that controls on prices, dividends and rents can continue without a Pay Code and without statutory pay controls; this will be the subject of separate proposals.

SUBSIDIES

6. Specific statutory cover is required for expenditure on subsidies on the scale we have in mind.
7. Our Manifesto promised subsidies of items "bearing most heavily on the family budget" and did not, in terms, limit this undertaking to foodstuffs. I have in mind payment of subsidies on a short list of selected foodstuffs (say milk, butter, cheese, sugar and bread).
8. If the milk subsidy continues to be dealt with separately, I suggest that the power should be for one year and limited to £500 million. It is for consideration whether there should be a power to increase this sum by Order. Our conclusion may depend on whether we expect to have to act on items outside the food field (eg on electricity).

PRICES AND MARGINS

9. Powers will certainly be needed to set prescribed prices and margins at any stage of distribution for subsidised commodities. (Such a power could carry with it a useful extension of Ministerial powers of control over nationalised industry prices if these are subsidised). I think it is desirable also to seek a power, by Order, to fix prices and margins for other foods which are especially sensitive in the household budget. The main manufactured foods are subject to the Price Commission controls but there are other important foods which are not, but under the profit margin control (eg frozen chickens).
10. As far as margins specifically are concerned, the main control on wholesalers and retailers under the Price Code is a requirement to limit their margins as a percentage of their sales. This allows for an increasing cash mark-up as prices rise.
11. After discussion with the Chairman of the Price Commission, I am satisfied that a general move to a cash margin control is not feasible - mainly because retailers have met and are continuing to meet heavy cost increases (equal pay affects them particularly). The Price Commission is already taking action to reduce gross percentage margins in the food trade and I propose early amendments to the Price Code (see paragraph 17) to apply similar reductions across the board to all retailers. But there may also be room for controlled margins on certain specified items not subject to subsidy.
12. I propose therefore that in addition to Price Control powers for subsidised goods, there should be additional powers to control prices and margins for specified non-subsidised foods; these additional powers should be available for a period of six to nine months capable of extension by Order.

VARIATION OF DECISIONS OF THE PRICE COMMISSION

13. The Counter-Inflation Act 1973 permits Ministers to intervene to give consent to a price rise which would otherwise be barred by the Price Commission as inconsistent with the Price Code. There is, however, no power for Ministers to intervene to set a price lower than the Price Code would permit but I believe that our commitments require us to have such a power in reserve.

PRICE MARKING

14. Where prices are prescribed, or margins are regulated, power will be needed to require the relevant information to be displayed in retail outlets. It would be attractive to take the opportunity of this Bill to secure a general power and such orders could be made about the display of prices and price lists.

15. The Bill could also confer power, by Order, to require goods to be marked with their "unit price". Such powers were contained in a Bill which commanded general support, but was lost in the last Parliament.

THE PRICE CODE

16. Under the 1973 Act, the Price and Pay Code is prepared by the Treasury and contained in a Treasury Order. I assume that my colleagues will agree that it would be appropriate for me to assume formal responsibility of what will become a Price Code only. In practice the expertise of officials in all Departments concerned will continue to be required.

17. I consider that the Price Commission should continue to operate the general rules of the existing Code. But there are some amendments to the existing rules and procedures which I consider urgently necessary to slow down the present unacceptable rate of price increases:

i. Retailers' gross percentage margins

The Code should be amended to impose a general reduction of 10 per cent on all distributors' gross margins (i. e. a 20 per cent margin reference would be reduced to 18 per cent, and a 40 per cent margin to 36 per cent): but the safeguards for distributors making small profits will need examination.

ii. A minimum time limit between price increases

The Code should be amended to impose a minimum period (e. g. 3 months) between price increases (but some exemption will be needed, e. g. where large or frequent raw material price rises have to be faced).

iii. Notification requirements

The notification periods should be extended so that medium-sized firms as well as large firms have to give the Price Commission 28 days advance notice before raising prices. (The present limit is 14 days).

iv. Price increases on existing stocks

This has caused much public annoyance and I am considering urgently whether the Code can be amended to deal with it.

18. The 1973 Act requires statutory consultation before the Code is amended. I invite my colleagues to agree that consultation on these changes should be put in hand right away, with a view to amending the Code as soon as possible (perhaps early in April, simultaneously with the introduction of the new Bill).

19. My colleagues will recognise that many of the proposed powers and changes in the Code described above will be very controversial. It will undoubtedly be contended that the present regime provides a fair and comprehensible system of control and that arbitrary intervention by Ministers will lessen confidence: We shall need to make it clear that these new powers will be used responsibly in the present critical situation.

20. A further revision of the Price Code on many points will probably prove necessary. I believe that we should press on urgently with the short list of important points and reserve a more complex package for later on when there will have been opportunity for more careful consideration. But I hope my colleagues will agree that the immediate measures I propose should be proceeded with at once.

S W

Department of Prices and Consumer Protection

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