

Econ. Pol.

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Ref. A09540

PRIME MINISTER

Future of the Price Commission

(E(79) 2)

(A minute to you from Mr Nott of 7 May;
your Private Secretary's reply of 9 May;
and minutes to you from Sir Geoffrey Howe of 9 May
and Sir Keith Joseph of 10 May are also relevant)

BACKGROUND

The Conservative Manifesto said: "In order to ensure effective competition and fair pricing policies, we will review the working of the Monopolies Commission, the Office of Fair Trading and the Price Commission, with the legislation which governs their activities".

2. In his memorandum (E(79) 2) - which elaborates on his minute to you of 7th May, Mr. Nott proposes the very early introduction of a short Bill to abolish the Price Commission, whilst providing new powers for the Director General of Fair Trading to investigate price issues of major concern, and the retention of reserve powers of direction by the Secretary of State. These arrangements would be intended to provide means of restraining excessive price increases by nationalised industries - a matter about which Sir Keith Joseph is known to be concerned. And it is this course of action which Sir John Methven is known to favour.

3. Mr. Nott's Memorandum also considers the following alternatives:-

- Flag A
Flag B
- (a) The immediate abolition of the Price Commission, coupled with temporary powers for the Secretary of State to refer major price issues to ad hoc boards until the workings of the Office of Fair Trading and the Monopolies Commission have been reviewed.
 - (b) The retention of the Price Commission - for the time being at least - but abolishing its power to freeze prices during an investigation. The Secretary of State for Trade would however have new powers to roll back prices in the event of an adverse report on the Commission. This is the

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option preferred by Mrs. Oppenheim, and was your own original preference. But Sir Geoffrey Howe has said that he does not think it goes nearly far enough. However, in his paper Mr. Nott goes further than in his earlier minute in proposing substantial reductions in the Commission's staff (to reduce the number of enquiries they could tackle); and to stop references which he has the power to make for examinations of sectors of industry.

Flag C
Flag D
Sir Keith Joseph prefers immediate abolition of the Commission but without reserve powers for ad hoc investigations, whilst Sir Geoffrey Howe favours administrative action to curb the Commission's activities until its future can be decided in relation to the functions of the Monopolies Commission and the Office of Fair Trading.

HANDLING

4. You will want Mr. Nott to introduce his paper. After that, you might invite the Committee, starting with ^{Mr Biffen} [Sir Geoffrey Howe] and Sir Keith Joseph, to discuss the following three major issues in turn -

- The Chancellor will not be present - away in Brussels.
- (i) Do we know enough to abolish the Price Commission without waiting for the general review?
 - (ii) Options for immediate action.
 - (iii) Whether to stop investigations now in progress.

Do we know enough to abolish the Price Commission without waiting for the review?

Flag B
Flag C
5. Mr. Nott's minute to you of 7th May implied that this question has been discussed informally and received the answer "yes". This is certainly the answer given by Sir Keith Joseph in his minute to you of 10th May. If you know that the Committee are all agreed on this point, you may want simply to put it on the record. But it raises some important questions. Would the Monopolies Commission and the Secretary of State's reserve powers give sufficient powers to restrain monopolies (including nationalised industries) from reaching excessive pay settlements and simply passing the costs on to the consumer? If the general review suggested having a revamped Monopolies Commission, would you want it to be notified of proposed price increases by the larger

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companies? If so, might it not be a pity to abolish the Price Commission now only to reintroduce something rather like it later on? Even if the answer is that you are not sure, would it be prudent to go for immediate abolition? If you feel that this point has not been fully discussed already, you might ask Sir Geoffrey Howe to speak first, followed by Sir Keith Joseph in view of their minutes to you, and then see what other members of the Committee think.

Options for immediate action

6. In addition to Mr. Nott's three options (paragraph 5(a), (b) and (c), and Sir Keith Joseph's variant on 5(a), there is Sir Geoffrey Howe's preference for curbing the Commission's activities by administrative action pending the review, with a single piece of legislation thereafter.

7. Clearly the first two options (5(a) and (b)) apply only if the Committee is confident that it has all the information that it needs to decide to abolish the Price Commission without waiting for the general view. The other two options are available in any circumstances.

8. If you decide that you do not need the review first, there is a basic political choice between abolition now and abolition later. Mr. Nott and Sir Keith Joseph are on record as favouring abolition now. This is also Sir John Methven's preference. But Sir Geoffrey Howe favours deferring a decision until the functions of the Commission have been examined with those of the related bodies. You might ask what other members of the Committee think, starting with Mr. Whitelaw on the political reaction, and Mr. Prior on trade union attitudes.

9. If the Committee are in favour of immediate abolition, you will want to reach a decision on the choice between outright abolition and Mr. Nott's first two options. You might ask Sir Geoffrey Howe to take the lead.

10. If the Committee decide that they need the review before finally deciding whether to abolish the Commission, or if for any other reason they wish to defer abolition, the choice of options lies between Mr. Nott's third option and Sir Geoffrey Howe's proposal. You might ask Mr. Nott to say how long he would expect the general review to take, and also what could be achieved if we were to rely on administrative action alone during that period. It may be that administrative action would give satisfactory results on a case by case basis.

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If so, the decision whether or not to go for interim legislation may depend on how long the review is going to take. If it is a matter of a few months, administrative action followed by a single piece of legislation might be more satisfactory than having two Bills in quick succession. If Mr. Nott is thinking of six months or upwards, the positive action of having a quick interim Bill on the Statute Book may seem more attractive than the alternative low-profile approach.

Decisions on current investigations and examinations

11. The annex to Mr. Nott's paper lists the Commission's current investigations and examinations. Mr. Nott recommends stopping only two of them - the investigations of RHM Bakeries Ltd. and Allied Bakeries Ltd. You might take the Committee quickly through the list of investigations and examinations to check whether they agree with Mr. Nott's recommendations.

CONCLUSIONS

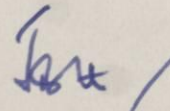
12. You will wish to record that the Committee have agreed -
either

to the preparation of legislation for the immediate abolition of the Price Commission, with or without new powers for the Director General of Fair Trading, or for the Secretary of State for Trade to set up ad hoc boards;

or

to defer a decision until after the general review of the field, and meanwhile to curb the powers of the Commission either by interim legislation or by administrative action alone.

13. You will also wish to record any individual decisions about directing the Commission to stop work on current cases.



JOHN HUNT

11th May, 1979