

Mr Lawson attacks 'gloom mongers'

By Our Economics Staff

The toughest defence yet of the Chancellor's recent Budget was launched yesterday by Mr Nigel Lawson, Financial Secretary to the Treasury. Speaking at a conference of the Institute of Fiscal Studies, Mr Lawson denounced the "gloom-mongers" who had criticized the Budget for being too deflationary.

He asserted that the Budget was "not in any significant sense contradictory and that tentative signs of a recovery in output were beginning to appear. He was particularly scornful of the recent report by the Treasury Select Committee which was severely critical of the Government's handling of monetary policy.

The Government had reaffirmed its commitment to the medium term financial Strategy which provided the only way to fight inflation. It should now be possible to reduce the growth in money supply, while the new indexed bond would cut the cost of Government borrowing and give the authorities a way of influencing long-term interest rates directly rather than through short interest rates.

Most of Mr Lawson's speech was devo-

ted to arguing that the increased taxes announced in the Budget would not reduce the total level of output in the economy. Instead, Mr Lawson argued, they would redistribute a total level of output which would be unchanged. Companies would be better off and individuals would lose. Investment should benefit at the expense of consumption.

He argued that in an economy where there is a fixed money supply target, cutting the level of public borrowing does not significantly reduce output. This is because the Government can allow the private sector to borrow more.

He did concede that in the short term there would be a contractionary effect, but stressed that the Government expected output to be on a rising trend during 1981-82.

He reinforced this argument by saying that the monetary target for next year of 6 to 10 per cent growth in M3 left room for significant growth in output.

Mr Lawson, who is believed to have played an influential role in determining the Budget strategy, went into detail to try to knock down claims by the Treasury

committee and by some economic commentators that it was possible to show that the Budget would depress output by 2 per cent.

Such calculations, and others relating the planned reduction in inflation to an increase in unemployment were described as "nonsense".

They relied on an invalid use of the Treasury's model.

Mr Lawson also devoted some time to dealing with the worries which have recently been expressed that last year's sharp growth in the money supply would lead to higher inflation in 1982. This would not happen, he argued, because people had been rebuilding the value of the financial assets they have and would hold on to the money.

Mr Lawson also defended the decision not to increase personal income tax allowances. He claimed there was no inconsistency between this position and the prominent role which he played in Opposition in getting the Rooker-Wise amendment in favour of raising these allowances in line with inflation on to the statute book.