Peter Stothard on the problems facing Nigel Lawson at the Treasury

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The rise of a natural pugilist

For the first time in his life the new Chancellor of the Exchequer has cause to be grateful to the outgoing Home Secretary. Nigel Lawson was for many years the champion *bête noire* in William Whitelaw's select stable of unacceptable Tory hopefuls. Since Mr Whitelaw had a considerable veto on Cabinet progress, Mr Lawson's advances were slow and uphill. This weekend Mr Whitelaw had less than his erstwhile strength and needed all of it and more to fight for the general balance of the Cabinet and to keep his newer and fiercer *bête*, Norman Tebbit, out of the Home Office. Enter Mr Lawson to the Treasury – and with barely a word of protest.

Nigel Lawson was Financial Secretary to the Treasury in Mrs Thatcher's first government before becoming Energy Secretary in 1981. He returns this week to many old friends and old problems. And as nervous colleagues said yesterday, the way that he deals with both the people and the policy will be an important early guide to the whole style of the new government.

In 1979 he was abrasive, revolutionary and unpopular. For many a long evening he would sit on his office sofa drinking whisky with Peter Middleton, then Under Secretary and later Deputy Secretary in charge of monetary policy, while between them they worked on the medium term financial strategy (MTFS) – a new concept that would aim to control inflation by setting a five-year programme of money supply targets.

Most officials were sceptical. The Financial Secretary's office is outside the second-floor charmed circle of office suites from which the Treasury is run. Yet from this man at the back of the building was emerging the paperwork that seemed most cogently to embody the Government's policy. Its occupant was not even in the Cabinet and yet if he arrived late at a meeting the Chancellor would hold it up for him with the words, "We can't have Hamlet without the Prince".

This apparent disruption in the pecking order disturbed the Treasury almost as much as did the policy itself. By the time that he left, however, and Mr Whitelaw had finally aquiesced in his promotion to the Cabinet at the Energy department, Mr Lawson was warmly liked by officials. In an unusual accolade, the then Permanent Secretary, Sir Douglas Wass, said that he "had almost become one of us".

But so much is history. Will the old friends see their old problems in the same way the second time round? Inflation is now down. But the role of the MTFS in achieving this victory is contentious – and certainly had as much to do with its psychological impact as with the direct mechanics of the money supply. Many Treasury officials are tired of the mental gymnastics and mandarin prose that is required to prove otherwise. They will now argue that a newly elected government with a huge majority and a solid international reputation for making anti-inflation its top priority no longer needs to hide the simple methods by which it manipulates the exchange and interest rates. In short they are asking: do we need a new MTFS and a new set of targets to give such troublesome hostages to fortune?

The answer to this seemingly technical question could be a sign of something much more profound. Mr Lawson has been in the forefront of those ministers who argue that Margaret Thatcher has created a fundamental shift in British life. But that, as they say, is politics. When it comes to running the economy in these supposedly new circumstances, will he be able to tear himself away from his erstwhile obsession with a fixed set of money supply figures? Peter Middleton, now Permanent Secretary in succession to Sir Douglas Wass, has apparently shown considerable reluctance to leave his old monetary responsibilities behind. Will the man who shared the sofa in 1979 prove to share the same problem?

This question worries the Treasury, which like every big organization, knows the problems of the over-promoted executive who will not give up his old job and is slightly afraid of his new one. "Election predictions about a fall in unemployment, ideological fighting with other ministers – this is not the behaviour of a Chancellor", said one official yesterday, "but maybe he can change".

Nigel Lawson is one of nature's true pugilists, "a natural kicker", as one former colleague put it yesterday, "who has been frustrated at Energy because in that job there was no Cabinet minister he could kick". One reason, it is said, why the MTFS may stay is that the new Chancellor, unlike some officials and colleagues, has no qualms about taking up bitter battles and unnecessarily tortuous intellectual scraps for years on end. He positively enjoys them.

His previous Treasury job had another aspect which he may be

reluctant to give up – the almost daily fighting with the Bank of England. As Financial Secretary he had a series of famous rows with Gordon Richardson, the Bank's Governor. The bank resented Lawson's detailed interest in the gilt market. Nigel Lawson saw Gordon Richardson as opposed to his MTFS strategy – an opposition which will make it even less likely for Mr Lawson to abandon it now.

It is important for a new Chancellor to establish his independence – not only from the wishes of Threadneedle Street but from Downing Street, too. A nasty problem already confronts Mr Lawson in this regard with the perennial dilemma of interest rates and the supply of mortgage finance. Mrs Thatcher will certainly not want her return to power to be accompanied by an increase in the cost of home ownership. Yet building society deposit rates are well out of line with other rates. With funds drying up, the mortgage famine looks like getting worse. The Treasury's customary introduction note to a new Chancellor recommends rapid action to reduce interest rates and make the societies more competitive.

The Bank is likely to tell the new Chancellor that it will be able to manage this by itself. "Taking advantage of opportunities as they arise", is how the Governor likes to put it, always adding the rider that he has to be free to do it *his* way. Mr Lawson will be loth, however, to risk his early favour with the Prime Minister on the success of Gordon Richardson's "way". What if the "opportunities" do not arise?

On the other hand, if he is seen to be intervening more directly, he may look too much like a Prime Ministerial poodle. He knows that here are sound reasons for leaving rates where they are and would no doubt like the opportunity to have surveyed his new empire, decided the key presentational issues, and made a major policy speech in which a lowering of rates might be signalled. Not for the last time, he will not have such luxury.

Nigel Lawson's Chancellorship is unlikely to be much enjoyed by the rest of the Cabinet. He is likely to be much more aggressive than Sir Geoffrey Howe in extending Treasury control over the nationalized industries. The Prime Minister has already floated a scheme in which departments like Transport, Energy and the new Trade and Industry Ministry would give up their financial "sponsorship" of state owned businesses to the Treasury.

Mr Lawson agrees – probably rather more than Patrick Jenkin, the outgoing industry minister who was his closest rival for the job. The appointment of Cecil Parkinson to the merged Trade and Industry departments will help this change. His main concerns are promotion of trade and private industry. He has not yet the mentality of a major spending minister and is unlikely to cavil at the cutting away of a great part of his new empire.