

# Lawson demanding £500m cut in public spending

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By Frances Williams, Economics Correspondent

An emergency plan for swingeing cuts in government spending this year is to be put to the Cabinet this morning by Mr Nigel Lawson, the Chancellor of the Exchequer, and an announcement is expected this afternoon in Parliament.

Mr Lawson wants immediate cuts of £500m to bring state spending back in line with government plans and a halt to further payouts from the contingency reserve which caters for unforeseen spending needs. New Treasury forecasts show public borrowing running well above target, pushing up money growth and undermining the credibility of the Government's commitment to firm financial policies to curb inflation.

Mr Lawson will also tell his Cabinet colleagues that urgent action is essential to reassure the City. Otherwise the Government may not be able to borrow what it needs to finance its spending without printing money.

Tuesday's poor money supply figures have dashed hopes that interest rates can fall further and convinced the markets that the Bank of England will need to sell a lot more government stocks to mop up excess money growth, making them a bad buy.

The Chancellor's axe is expected to fall most heavily on the health service, although this is likely to meet with fierce resistance both within the Cabinet and in Parliament.

Mr Lawson's options, how-

ever, are extremely constrained. Forty per cent of all public spending is "demand-determined" - such as social security benefits - where spending depends on the number of people entitled to claim them.

Another 20 per cent is local authority current spending where the Government has little control (despite the latest "fines" on overspending councils).

Mr Lawson must thus find his £500m savings from a relatively small number of

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The gloomier outlook for British interest rates encouraged steady buying of sterling yesterday. It closed up 1.1 cents at \$1.5390 and 0.6 up at 85.1 against the basket of currencies. But Government stocks closed up to  $\frac{3}{4}$  down because of worries that the Government badly needs to sell gilts to help control the money supply. Details, page 15

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programmes, including health, totalling about £40,000m out of overall spending of £120,000m.

The threatened overspend this year comes from four main areas apart from local authority current spending, which is broadly offset by underspending on their capital programmes: defence, social security, agricultural support and the EEC budget. Of these, only defence is a possible target for cuts. The others are demand-determined or out of the Government's hands.

The Treasury has become increasingly worried about government spending since immediately after the Budget when, instead of undershooting 1982-83 plans as expected, departments went on a big spending spree to use up all their unspent cash. This made plans for 1983-84, which included an allowance of £1,200m for underspending, look unrealistic from the start.

Without immediate cuts, public spending is likely to run at least £1,000m over plans, destroying government hopes of tax reductions in the next Budget, the Chancellor will tell the Cabinet.

In addition to the proposed cuts in existing programmes, Mr Lawson will argue that what is left of the contingency reserve for this year should remain largely untouched, at least until later in the year. About £480m of the £1,500m contingency reserve has been earmarked so far.

If Mr Lawson is successful in fighting off bids for the fund, which could mean denying departments money they urgently need to maintain programmes and services, this would "save" £1,000m.

Last week, the Chancellor said that if the money supply stayed out of line "then it may well be necessary to take action to bring public expenditure closer to the figures that we have already set out". He then had before him the latest Treasury forecast