

Battle in Cabinet likely as Lawson plans more cuts

11 JUL 1983

By Philip Webster, Political Reporter

A serious confrontation in Cabinet later this month between Mr Nigel Lawson, the Chancellor of the Exchequer, and ministers in charge of spending departments appears inevitable after the disclosure that a downward revision of the published public expenditure target for 1984-85 is in prospect.

The Cabinet is likely to be told that cuts to take public expenditure below the levels planned for next year are essential if its strategy of lower taxes and lower interest rates is to be maintained.

Mr Lawson last week introduced an emergency £1,000m package of spending and unspecified state asset sales in an attempt to put this year's expenditure plans back on course. The speed at which he conducted the operation has angered some of his colleagues.

The opening bids from the spending departments for 1984-85 are expected to be some £5,000m over the £126,400m envisaged in the February White Paper on public expenditure. However, it has now emerged that Mr Lawson may be seeking a reduction in that February projection.

Strong opposition is certain when the Cabinet has its first meeting on the annual review of advance public spending plans, known as PESC, before the summer recess, probably on Thursday, July 21, when the global totals for the next three years will be discussed.

Some ministers are still seething over the manner in which they feel Mr Lawson "bounced" them into agreeing to last week's package by informing them of his plans at very short notice. Their backbench colleagues believe that they will be better prepared next time.

One of the reasons behind the hints of a cut in the 1984-85 planned total, are forecasts of reductions in tax revenues, mainly the yield from value-added tax (VAT), because inflation is lower than was expected when those plans were formulated. That factor could be offset to some extent if the economy grows at a rate faster than forecast.

City editor, page 15

The Treasury does not deny that difficult decisions will have to be taken. Conservative "wets" are delighted that Mr Michael Heseltine, the Secretary of State for Defence, and possibly Mr Norman Fowler, the Secretary of State for Social Services, whose departments were hit by last week's package, appear likely to line up against the Treasury with Mr Peter Walker and Mr James Prior, who have opposed largescale spending cuts in the past.

Mr Heseltine, in particular, was said by MPs to be angry at not being told about Mr Lawson's plans before he published his defence White Paper. He is determined to fight his department's corner against any Treasury suggestion that

the commitment to increase defence spending by 3 per cent a year should be shelved.

After the Cabinet has agreed a broad approach to spending next year, the detailed argument will begin with a series of "bilateral" meetings between the individual spending ministers and Mr Peter Rees, the Chief Secretary to the Treasury.

Even before it became apparent that Mr Lawson might want to revise the overall total, the talks had promised to be tough.

Quite apart from the battle over the 1984-85 spending target, MPs are still expecting further "readjustments" this autumn.

Although Mr Lawson is said to regard last week's corrective measures as "adequate", the Treasury figures apparently show public borrowing at some £3,000m above the Budget figure of £8,200m.

There are growing signs of anxiety among the Conservative "wets" at the prospect of further cuts. Although there was no coordination of effort, a large number of Tory MPs spoke during the Queen's Speech debate about the need for the Government to make the reduction of unemployment a higher priority even than the reduction of inflation.

Mr Lawson's remark on television last weekend that a cut in the real value of unemployment benefit has not been ruled out led to immediate protest from some MPs.