

Cabinet fails to agree cuts in public spending

By Julian Haviland, Political Editor

After three hours of difficult discussion, the Cabinet failed yesterday to agree on the overall amount of cuts required in next year's planned level of public expenditure.

The Treasury's request for total cuts of some £5,000m, to keep spending in line with the medium-term strategy, met firm resistance from the majority of the Cabinet. Ministers said afterwards that there was little chance of more than half that total being achieved.

A head count of those around the Cabinet table in Downing Street indicated that of 21 ministers present, only eight supported the Treasury, including Mrs Margaret Thatcher, the Prime Minister, and the two Treasury ministers, Sir Geoffrey Howe (Chancellor of the Exchequer) and Mr Leon Brittan (Secretary to the Treasury). Lord Hailsham, the Lord Chancellor, and Mr John Nott, Secretary of State for Defence, were absent.

At the end of the debate, the first attempt by the new Cabinet to find common ground on public expenditure levels, the Prime Minister was reported to have asked her colleagues to "go away and do the best you can".

Mrs Thatcher leaves today for the North-South summit in Mexico. Meanwhile, Mr Brittan is to resume at once his task of tackling one by one his colleagues who head the spending departments, in the hope of persuading them to reduce their demands. His prospects of success looked poor last night.

Collective discussion in Cabinet will be resumed a week on Thursday. The Treasury hopes that broad agreement will have been reached, for better or worse, by the third week of November.

Although little information was officially available after the meeting, several accounts said that support for the Treasury came from the new members promoted to the Cabinet last month—Mr Nigel Lawson (Energy), himself a former member of the Treasury team, Mr Norman Tebbit (Employment) (and Mr Cecil Parkinson) (Chairman of the Conservative Party)—as well as Sir Keith Joseph (Education) and Mr Norman Fowler (Social Services).

But a powerful speech against the Treasury case was made by Mr John Biffen, the former Chief Secretary to the Treasury and now Secretary of State for Trade.

Among the more established opponents of Treasury policy, Mr Peter Walker, Minister of Agriculture, Fisheries and Food, appears to have taken issue with the figures produced by the Chancellor which were

designed to show how many extra jobs—or rather how few—might be provided if extra funds were committed in public investment projects.

Mr Walker and others argued that the figures were misleading. The Treasury's economic model made assumptions, he said, about wage inflation which were probably too pessimistic. The Cabinet was, after all, committed to keeping public sector wages under firm restraint.

Sir Geoffrey apparently made it clear that, if his proposed cuts could not be obtained, direct taxation would have to be increased and there would be no scope for reducing the national insurance surcharge for which both industry, and critical Conservative backbenchers, have been pressing. This prospect did not seem to frighten the spending ministers.

There was relief at yesterday's meeting that the unemployment figures have not yet touched three million, and indeed have slightly improved. But extra provision for unemployment benefit in 1982-3 accounts for a large part of the "overshoot" in public expenditure which the Treasury wishes to curb.

British Leyland's expected demand for several hundred million pounds of new investment in the next financial year, provided they remain in business, was touched on by Mr Patrick Jenkin, Secretary of State for Industry, who also reminded his colleagues of the continuing needs of British Steel and British Shipbuilding.

On one thing, however, there seems to have been wide agreement: that capital spending should be protected as far as possible. But there is clearly no great willingness to find savings in current spending in order to make room for this.

At the end of a debate in which there was little discussion of what each department might contribute by way of cuts, ministers were saying last night that one thing was clear—that the Prime Minister, in spite of having last month promoted several loyal supporters to her Cabinet, is no nearer to commanding the support of a majority of her colleagues on the central question of economic strategy.

□ A National Opinion Poll survey published in the *Daily Mail* today gives Mr William Pitt, the Liberal-Social Democrat alliance candidate in tomorrow's Croydon, North West, by-election, 35 per cent of the poll. The survey gives the Conservative candidate 32 per cent and the Labour candidate 31 per cent of the vote.

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