

# Lawson hints at tax cuts in return for spending curbs

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By Frances Williams, Economics Correspondent

Mr Nigel Lawson, the Chancellor, will tell his Cabinet colleagues tomorrow that there could be significant tax cuts in the next Budget if they agree to hold down public spending to its original planned level.

At the moment government departments want to spend £5,000m above published plans, but eliminating them could create scope for perhaps £2,000m of tax reductions next spring, he will argue.

Such reductions would be equivalent to knocking 2p off the basic rate of income tax from 30p to 28p in the pound.

By holding out the hope of tax cuts, Mr Lawson will be aiming to smooth the ruffled feathers of spending ministers angered by what they saw as the Chancellor's "bully-boy" tactics in forcing through his £500m emergency cuts package two weeks ago.

The Budget last March suggested that if public spending in 1984-85 remained at the planned £126,400m this would leave room for about £500m of tax cuts. But Mr Lawson has another card up his sleeve.

He will ask the Cabinet to agree to leave untouched the £3,000m contingency reserve included in next year's plans. This would normally be used to accommodate some of the extra spending bids from government departments, leaving a reserve for unexpected spending during

the year of about £1,500m to £2,000m.

By keeping it intact at this stage the Chancellor gives himself an additional £1,000m to £1,500m to use for tax cuts in the spring.

At worst, if government revenues look less buoyant than expected it gives Mr Lawson a cushion allowing him to continue cutting state borrowing, a key element in the battle against inflation, without having to raise taxes as Sir Geoffrey Howe, his predecessor, was forced.

The Chancellor, strongly backed by the Prime Minister, will tomorrow seek Cabinet agreement in principle on both the 1984-85 spending totals and the contingency reserve, before the battle between the Treasury and the spending departments is joined in earnest after the summer recess.

Mrs Thatcher said yesterday in the Commons that the Government expected to adhere to published spending plans for this year and next.

This leaves Mr Peter Rees, Chief Secretary to the Treasury in charge of public spending, with the thankless task of whittling away the £5000m in excess bids.

Though some of the excess typically reflects proposals for new programmes and "padding" which can be eliminated fairly easily, some will eventu-

ally be deemed essential. If the contingency reserve is to remain sacrosanct that means a fresh squeeze on other programmes, entailing yet more cuts in services and jobs losses.

With departments still smarting from the latest round of cuts - Mr Rees is due to announce their revised cash limits next week - there are some bruising battles ahead before the Cabinet approves in November the final total and departmental allocations for next year.

The Chancellor will also be concerned to refute suggestions that he "jumped the gun" on spending cuts this year.

These have been prompted by expectations that figures out tomorrow covering the first three months of the 1983-84 financial year will show public borrowing broadly in line with this year's £8,200m target set out in the Budget, despite a huge surge in central government borrowing alone over the same period.

Mr Lawson will argue that his measures were designed to tackle clear evidence of overspending by government departments, and were not primarily influenced by the borrowing figures.

Central government borrowing has been inflated by lending to local councils and state industries which have used the proceeds to pay off other debts.

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