



Lawson Plans Ahead

Nigel Lawson is doing something unusual on March 15. Most governments which win an extra term in a general election promptly change their chancellor. But this time last year, Mr Lawson had already made up his mind that, if the Conservatives won a third term, he would stay on at the Treasury.

The risks he runs in the coming budget, and the opportunities he enjoys, are thus almost entirely of his own making. Last year, he played a cunning game: instead of introducing an old-fashioned pre-election giveaway budget, he produced

one which was as cautious as any chancellor dares to be in his government's last year before an election. But he produced a forecast showing that in 1988-89 there would be room for a £3 billion 'fiscal adjustment': £3 billion, in other words, available for tax cuts or more public spending. Mr Lawson made clear in his budget speech what he wanted to do with this money. 'Elect us,' he hinted, 'and we will cut the basic rate of income tax to 25%.'

Mr Lawson's caution last year paid off. Indeed without it, the government would now be in the thick of an economic crisis. For Britain is now showing clear symptoms of post-election boom. Economists argue over whether the boom represents a once-and-for-all

change in the economy's productivity. There are some signs that it does.

That argument begins from the Tory government's abolition of exchange controls and trade-union reforms. As a result, it postulates, British firms are now free to use capital and labour more efficiently. Their profits have therefore soared by 150% since 1980. That bonanza has allowed British firms to step up investment: imports of capital equipment have grown by 120% since the start of the 1980s. The modern machinery British companies have installed has been operated by fewer workers, working more effectively. Output per worker in manufacturing barely changed between 1974 and 1980; in the following six years, it rose by 40%.

As a result, British firms can now produce more, per worker and per pound of machinery, than ever before and can work closer to capacity than they ever used to do. On this theory, the boom is sustainable at something not far from present levels for many months to come.

Perhaps, but other evidence suggests that a bit of old-fashioned overheating may be starting to take place. Suddenly, the workers are mutinous: industrial disputes are beginning to edge up, pay demands are getting more aggressive. House prices are still soaring, making people feel richer. Banks are lending money to anyone they can persuade to borrow it. Most telling of all, imports are starting to roar ahead of exports. In the fourth quarter of 1987, the volume of imports was 11% higher than it had been at the same time the previous year.

Which school of thought is right matters to Mr Lawson. If Britain's boom is here to stay, then so, more or less, are the massive tax revenues that it is pouring into the exchequer. For even though Mr Lawson has already earmarked that £3 billion 'fiscal adjustment' for higher public spending in the coming year, another £9-10 billion is still there. So buoyant are tax revenues, especially from

corporation tax, that the chancellor could theoretically afford the biggest bonanza for many years and still leave the public sector borrowing requirement unchanged.

In fact, the cautious Mr Lawson will do nothing of the sort. He will conveniently lose some of the £9 billion or so in the statistics - a bit of under-estimating revenues here, or over-estimating spending there, and perhaps £2 billion can be squirrelled away. He will use a lot of the rest to repay borrowing. Erstwhile Tory monetarists are sufficiently Keynesian to recognise that, at the peak of

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a boom, the government should be in budget surplus.

And the rest will be fed into tax reforms, but not any old tax reforms. Mr Lawson will have spent the past few months thinking of reforms which will not add too much stimulus to demand. He will try to do so in ways which encourage saving, not spending. What the City economist Gavin Davies calls 'fiscal activism' is back in fashion. The emphasis will be on giving cash to the rich (who save more than the poor), to companies (who invest) and to promote savings schemes.

Mr Lawson's continued caution is not just a desire to help the next chancellor. Last year, it was widely thought that he would only stay at the Treasury for another year or two and then leave - either to make money in the City, or to become foreign secretary. But fewer people are making money in the City these days, and Mr Lawson hates travel. More and more Tory ministers are beginning to wonder whether he will extend his stay for the full third Thatcher term. If he does, he will still be there to carry the can if he makes any mistakes on March 15. •

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