



PRIME MINISTER

THE DEFENCE BUDGET AND CASH LIMIT: NATO MEETING

I have seen the Defence Secretary's minute of 10 May about the NATO 3% target and the forthcoming meeting of NATO Defence Ministers.

2. We can only address the question of the appropriate level of UK Defence Expenditure in the years after 1980-81 in the context of our forthcoming consideration of future public expenditure as a whole. We shall no doubt wish then to explore the implications which steady 3% annual increases in real terms would have for the share of national income allocated to defence, and our plans to reduce public expenditure.
3. If he felt that next week's discussion in NATO might in any way pre-empt our consideration of these questions I would wish the Defence Secretary to strike a note of caution. I am sure that his NATO colleagues would understand that, one week after taking office, we are not in a position to enter into commitments about the precise levels of particular programmes some years ahead.
4. Provided that it is understood that our room for manoeuvre in the public expenditure survey must not be prejudiced, and that the wording is not binding and allows for such exceptions as national economic circumstances may require, I am content that he should subscribe to the "Ministerial Guidance" document, thereby reaffirming our support for 3% increases as a desirable aim.
5. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Defence Secretary, and Sir John Hunt.

W.J.B.

JOHN BIFFEN
11th May 1979

11 MAY 1959

