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*Seen by PM
Defence*

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MO 8/2/12

PRIME MINISTER

DEFENCE EXPENDITURE

I have seen the Chancellor of the Exchequer's minute to you of 16th October. Let me say three things.

2. First I accept the basic necessity to constrain public expenditure as a central pillar of our policy, just as we all equally accepted the need to give priority to defence and law and order.

3. Second, the issue on which the Chancellor comments is a technical matter of presentation. We could go on debating it; but we must recognise it for what it is, namely a technical device which would be unique to defence.

4. Third, if we seek to use this device to justify increases lower than 3% in defence expenditure we are bound to be seen to be changing the rules in the middle of the game, and to be criticised accordingly. If the device were to be used for all our programmes and to become the basis of presentation in the Public Expenditure White Paper as a whole, then our hand would be stronger. But this is not the case.

5. Whatever increases we agree upon at Cabinet - and I shall argue in support of the bids I have made - we must be ready to explain them in the same terms as have been used in the past and which will be understood both in the Alliance and by our supporters, Parliament and the country at large.

6. I am sending copies of this minute to the Chancellor of the Exchequer, our other Cabinet colleagues and to Sir John Hunt.

J.P.

17th October 1979

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MINISTRY OF DEFENSE AND MILITARY AFFAIRS



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