

1

Ref A09546

PRIME MINISTER

[Now received flag A]

Prime Minister

The Chief Secretary's letter has not yet arrived, but do you agree with para. 4 of this minute? If so, I shall act as suggested.

But 11/5

DEFENCE BUDGET AND CASH LIMIT

1. The Secretary of State for Defence has to attend the NATO Council meeting in Brussels next week, at which he wants to reaffirm the United Kingdom commitment to the 3 per cent growth target in national defence budgets. The timing of this Council is unfortunate. It means that he has to enter into this commitment before Ministers have had a chance to look at the forthcoming public expenditure survey. It would of course have been possible for him to plead that the new Government had not yet had time to consider its policy on this. But understandably he wants to be as forthcoming as possible.

2. However, there is a serious risk that in so doing, he will unilaterally pre-empt the claims of a number of other spending Ministers for exemption from the forthcoming public expenditure cuts. The Manifesto is quite clear that the Defence budget must be given priority, but the extent of that priority is still to be considered.

3. The Treasury is understandably worried about this. I believe the Chief Secretary is on the point of writing, to say that he is content with the line proposed, "provided 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." The text of the draft guidance is in fact in terms which allow this proviso to be met.

be really card-ruby this. It

in least amount to making no understanding of any kind. The

3/2 Commitment if I remember correctly was always subject to economic circumstances

4. I think you may wish to lend support to the Chief Secretary's reservation, saying that while of course defence must have top priority, we must not enter into any precise or irreversible commitment at this stage, until the Public Expenditure Survey as a whole has been studied by Ministers. Since the Secretary of State leaves for Brussels on Monday, it would be desirable that this message should, if you agree with it, go out as early as possible.

See memo on

*Some of the 32 in
with with P&L
checky?*

John

JOHN HUNT

11 May 1979