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MO 25/2/88/1

Prime Minister

Agree with the draft letter at Flag A. Do you also agree that we should not say anything about the Defence Budget in the Queen's Speech?

10/5

PRIME MINISTER

THE DEFENCE BUDGET AND CASH LIMIT

The draft Queen's Speech which we are now considering reaffirms our commitment to improve the security of the nation and strengthen our contribution to NATO. We have always recognised that this will cost money.

2. I shall be in Brussels next week for a meeting of NATO Defence Ministers to discuss among other things the draft Ministerial Guidance for 1979. This is a document which provides broad strategic and political guidance for the Alliance as a whole, including the question of resources for defence. The latest version will cover the period up to 1986. Decisions on it cannot be deferred, since it is a key part of the two-year planning cycle.

3. On resources, the 1977 Guidance called on member countries to aim at an annual increase of 3% in real terms up to 1984. Our predecessors subscribed to this (as did other members of the Alliance), and their last White Paper on public expenditure showed 3% year-on-year real increases in the defence budget in 1979-80 and 1980-81, but not beyond. The White Paper stated that no decision had been taken about the defence budget for subsequent years.

4. The draft of the new Ministerial Guidance from NATO proposes reaffirming the aim of 3% a year real growth, rolled forward to

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1986. In my view we must support this. Believing as we do that this country, and the West as a whole, need to increase their defence effort, we should play our part in setting the Alliance a challenging target from which back-sliding is difficult. I regard it as unthinkable that we should open our account in NATO by stepping back from something which our predecessors signed on for last time round.

5. Subject to your agreement, therefore, I propose to give strong support to the proposed renewal of the call for 3% a year real increases in defence spending by NATO members, for the years to 1986. This will not constitute a formal commitment, by us or any other Alliance member. But we must recognise that it will intensify expectations that the United Kingdom will come through with 3% for the years after 1980/81. There is a compelling case for this in the interest of our security, and I shall be proposing in our forthcoming PESC discussions that we should decide accordingly.

6. I am sending copies of this note to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to Sir John Hunt.

10th May 1979