



Prime Minister

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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

DEFENCE EXPENDITURE

I have two comments on the Defence Secretary's minute of 12th October, which deals with points which are largely covered in Annex E to John Biffen's paper C(79)42 which we shall be discussing in Cabinet on Thursday.

2. First, I cannot accept that John Biffen's proposals are 'a technical device for cutting back planned defence expenditure'. Lest there be any misunderstanding, I confirm that the Chief Secretary's proposals:-

- (a) add £700m to the previous government's published figures for the last three years of the PESC period: the point at issue is the Defence Secretary's wish to raise the addition to over £1bn;
- (b) mean that in the five years to 1983/84 defence spending, measured (as traditionally) in volume terms, will rise by 3 per cent a year on average.

3. Secondly, I cannot accept that John Biffen's proposals will be widely seen as 'a piece of sharp practice and as changing the rules while the game is in progress'. The facts are that:-

/(a) NATO has not



- (a) NATO has not decreed that the target of annual increases in defence spending 'in the region of 3 per cent' should be met in volume rather than cost terms: indeed few Allies publish, and NATO therefore does not collect, figures in volume terms;
- (b) by moving to cost terms we shall be coming into line with what the majority of our NATO Allies in practice do. I am not questioning the rules of the game, merely our previous idiosyncratic interpretation of them.

4. It will be for Cabinet to decide whether to accept the Treasury proposals, which involve Defence's share of GDP and total public expenditure rising from 4.9 per cent to over 5.5 per cent, and from 11 per cent to 13 per cent respectively. But it would be wrong for our decision to be affected by misunderstanding about their nature.

5. I am sending copies of this minute to the Defence Secretary, and other Cabinet colleagues, and Sir John Hunt.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

16th October 1979

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