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Public Expenditure Pt 10



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PRIME MINISTERPUBLIC EXPENDITURE 1981/82 - 1983/84

I shall, as you know, be unable to attend Cabinet tomorrow. Had I been there, I would have been obliged to say that I cannot accept paragraph 14 of the Chief Secretary's paper, C(80)40.

2. We have only this week discussed in the Defence and Overseas Policy Committee (OD) ways of reshaping the defence programme to bring it into line with the last Public Expenditure White Paper (Cmnd 7841). Even taking account of the major economies in administration which I intend to secure, I have had to propose very considerable reductions in defence plans. The total reductions which I have made amount to £396M in 1981/82, £504M in 1982/83 and £568M in 1983/84.

3. The advice of the Chiefs of Staff has been made clear to OD. These reductions have no military justification. They act to lessen our security over the next few years at a time of mounting dangers and they bring us to the very edge of a crisis in our defence contribution to NATO. The reductions falling on British industry (90% of equipment bought by my Ministry is made in the UK) will cause serious difficulties, particularly in present economic conditions, for a number of firms both large and small.

4. I accepted these reductions in last year's Public Expenditure survey in the interests of our economic recovery. Our Allies were concerned that we were reducing expenditure below the plans left us by our predecessors but they accepted our good faith in our commitment to the Alliance and our determination to achieve the 3% real increases set out in our published PESC plans. Unrealistic cash limits frustrated our purpose last year when we underspent in volume terms (we achieved only a 2½% increase in our real defence effort, and even then there was a small overspend in cash as a result of the failure of Iranian orders). The Chief Secretary now



proposes that instead of making good this shortfall we should use it as a lower platform from which to calculate our 3% commitment. This is a transparent ploy which will fool no-one: we could not, as the Chief Secretary suggests, maintain that we are still meeting our obligations. We would not be believed, either by our friends abroad, or by the public and party at home. Neither will the lesson be lost on the Russians.

5. Our commitment as a Government to defence has become a vital anchor at a time of uncertainty and difficulty within the Atlantic Alliance. The cuts proposed by the Chief Secretary would take us over the safe limits of change.

6. At home I do not believe that further cuts in defence expenditure would be understood. The implications for industry would be very serious and we could see the disappearance of well-known names such as the Scott Lithgow and Cammell Laird shipyards as well as put in jeopardy the future viability of major elements of the aerospace and helicopter programmes. On the brink of a major recession it would be folly to inflict on industry damage of this magnitude.

7. I understand the reasons which have led the Chief Secretary to examine critically the public expenditure totals published in Cmnd 7841, but, as I made clear at OD yesterday, I believe that all the arguments point to sticking to our defence plans.

8. I am sending copies of this minute to our Cabinet colleagues, the Minister of Transport and the Chief Whip; and to Sir Robert Armstrong.

A handwritten signature, possibly 'R. J.', written in dark ink.

Ministry of Defence

9th July 1980