

Prime Minister

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cc Mr Wotton
Mr Pyke

Just to note at this stage.
These issues will have to
be tackled in the cash
limits discussion and in
the PESC review.

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PRIME MINISTER

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I have seen the Defence Secretary's minute of 9th May on "Our Inheritance", which contains several bids for major additional expenditure on defence. I think we all accept that some increase is required. But it is important that we should not rush important decisions: we need to tackle the issues in an orderly manner and in the context of our overall financial objectives.

2. So far as expenditure in the current year is concerned, Cabinet have agreed that the full Armed Forces pay award should be implemented immediately, and that the cash limit should be increased accordingly. This means an increase of £269 million.

3. The Chief Secretary will shortly be circulating general proposals on Cash Limits in the current year and the Lord President specific proposals about the Civil Service. On the question of how we should cope with the impact on cash limits of the Civil Service pay award, the proposal will be for a uniform arrangement which would apply to all Departments. I see no reason to make an exception for Defence.

4. On the separate question of an increase in non-pay expenditure, I note that the Defence Secretary foresees a requirement for an additional £200-300 million this year. This is much larger than I had expected and would mean bigger cuts in



other programmes to accommodate it. There is also the question whether in practice it would be spent efficiently within the year. I recommend that the matter be discussed urgently by my officials and his.

5. As for the medium and longer term, we shall need to look at the Defence Budget in the context of our plans for public expenditure as a whole, and a collective judgement about the appropriate balance of our defence contribution to the Alliance. I hope it will not be assumed that whatever additional resources can be made available should only be incremental to programmes inherited from our predecessors. It may be that the balance should be adjusted, and greater spending on some parts of the programme offset by reductions in others or by utilising resources more efficiently. I cannot believe that there is no waste, of the kind we know exists in Central and Local Government, in the Services too.

6. I am sending copies of this minute to our Cabinet colleagues and Sir John Hunt.

A handwritten signature in cursive script, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

11th May, 1979