

CONFIDENTIAL



*Defence*

*NBIM - too late!  
R  
9/7*

PRIME MINISTER

DEFENCE CASH LIMITS 1979/80

In his minute of 5 July the Defence Secretary suggests that if the Defence Budget were not compensated for VAT we could be accused of making a 3% cut in defence spending, instead of a 3% increase.

2. Not so. It is true that the volume outturn in 1979/80 might show a shortfall against plan of around 3%. But some degree of shortfall is quite normal. In 1978/79, for example, the shortfall was 2.6%. The relevant comparison is between the expected outturn in 1979/80 and the outturn in 1978/79, and this looks likely to show an increase still of 2.2%.

3. There is a further point.

4. The paper on public expenditure which I am circulating to Cabinet today includes a proposal for a £300m reduction in the planned Defence Budget figure for 1980/81. This reduction, unpalatable as it would be, will still maintain a 3% increase on what we now expect to be the outturn in volume terms in the current year. If the Defence cash limits were now increased, this expected volume shortfall would not be achieved. We should lose the option of presenting the proposed reduction in 1980/81, which we certainly need to sustain the desired total of cuts, as consistent with the NATO target.

5. I am sending copies of this minute to the Defence Secretary, to other members of OD Committee, the Lord President and Sir John Hunt.

*Atkin*

P.P. JOHN BIFFEN  
9 July 1979

*(approved by the  
Chief Secretary and  
signed in his absence)*