PRIME MINISTER

DEFENCE AND PUBLIC EXPENDITURE

The Chancellor's paper on The 1983 Survey and The Longer Term leads,
I think, to one overwhelming conclusion: that the prime candidate for
reduction in expenditure, this year and for the foreseeable future,
must be Defence. The overruns are bigger; the commitment up to
1985/86 is larger; the control of expenditure feebler; and the lack
of collective discussion the most painfully felt.

All these defects are obvious in the way Michael Heseltine has
presented the Harm/Alarm decision. You will not need the arguments
rehearsed yet again. But there is no other area of Government
expenditure where £150 million could be so easily saved and
performance of the function actually improved. I know of your
concern to keep high technology teams together and keep Britain in
the forefront of that technology, but so long as defence is the most
obvious "soft touch" in the public sector:

(i)   Our research effort will continue to be over-concentrated on
        Defence, to the detriment of our ability to compete in all
        other industries.

(ii)   The commercial aspects will continue to predominate over
        military priorities. I understand that not only the
        military, but also the officials in the MOD were united,
        almost to a man, in preferring Harm until compelled by
        departmental loyalty to fall in line.

(iii)   The MOD will continue to keep these issues in-house and try
        to avoid thorough collective discussion as far as possible,
        because they know how weak their case is.

There are other reasons for preferring Harm to Alarm, eg the
difficulty of persuading the Americans to buy our advanced military
hardware if we refuse to buy theirs, when it is evidently cheaper
and superior. But I think the most crucial one for the future of this
Government is that, at the outset of the second term, with all the
public expenditure difficulties which we now face, we should show
that we mean business in controlling expenditure in the Department
where the need is greatest.

FERDINAND MOUNT