Prime Minister.

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Do you want defence expenditure to go first to the Whitelaw group? Or to an ad hoc meeting chaired by you (can have a time provisionally fixed for Monday 2 November)?

Agree that Carrington should be present at whatever meeting takes the matter?

23/x.

Ref: A05803

I think it should go to the MISC group first - or should it be referred to Cabinet?

SECRET

PRIME MINISTER

Defence Expenditure

attachment.

You have seen the Secretary of State for Defence's minute to you of 16th October and the Chief Secretary's comments in his minute to you of 19th October. The issues at stake here are important both for defence policy and for the overall public expenditure totals (£600 million in 1982-83 rising to £1.1 billion in 1984-85). You will wish to consider how best to make progress in settling these differences before public expenditure comes back to the Cabinet.

2. It had been assumed both by the Secretary of State for Defence and Treasury Ministers that the next step would be for you to take a small meeting yourself, and their minutes are written in this sense. Now that the Home Secretary's Group (MISC 62) has been set up, you will wish to consider whether the matter should be taken there.

3. Some other spending Ministers may think that the Secretary of State for Defence should be put on the same footing as other spending Ministers who cannot reach a settlement with the Treasury, and should be expected to go to the Home Secretary's group and not enjoy the unique favour of a bilateral with you and the Chancellor. Against that, it is unlikely that either the Secretary of State for Defence or the Chief Secretary would give ground in the Home Secretary's group. If that is right, requiring the group to consider this would simply take up time; and MISC 62 already has more than enough to do. If MISC 62 could not agree, the matter would in any case be referred to you to hold a small meeting later, unless you ruled that it should go straight to the Cabinet.

4. However the matter is handled, you will wish to consider whether the Foreign and Commonwealth Secretary should be invited to the discussion. In the case of MISC 62, where the spending Minister will be expected to make his case without supporting colleagues this would be unusual; but an exception could be made, if you thought fit, on the grounds that the Secretary of State for

Defence's case is argued partly in terms of our relations with our allies. If the Foreign and Commonwealth Secretary is to be involved, the discussi on, whether taken by you or in MISC 62, will have to be held on 2nd November because of his trip to Saudi Arabia and the public expenditure timetable.

5. The decision turns largely on the political question, whether you mind being seen apparently to discriminate in favour of the Secretary of State for Defence. If you do not mind, it would make sense for you to hold a meeting, and not to attempt a prior discussion in MISC 62. In that event, I would suggest that the invitees should be the Chancellor of the Exchequer, the Chief Secretary, the Secretary of State for Defence and the Foreign and Commonwealth Secretary.

RCA

Robert Armstrong

23rd October 1981