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PRIME MINISTERPUBLIC EXPENDITURE WHITE PAPER: DEFENCE

The Defence Chapter of the draft Public Expenditure White Paper is likely to cause the Government a major problem.

2. In July Cabinet agreed a forward Defence Programme based on a 3% volume growth until 1985-86. The programme was framed in volume terms in accordance with the methods prevailing at that time and it was accepted that it should be sustained in volume terms until 1985-86 by a "fair translation of the volume figures into cash". The Public Expenditure White Paper now proposes publishing "provisional" figures involving only 2.3% real growth in the later PESC years. If this is now to be the planning assumption for the later years - provisional or not - then the basis of the Defence Review has been undermined and equally important, the central feature which led to the Party's acceptance of the defence cuts will seem to have been abandoned.

3. This is a major issue of substance which I believe I must bring to your personal attention. The points which concern me are well brought out in the enclosed letter which my Permanent Secretary sent to Sir Anthony Rawlinson. I believe that the Chief Whip may communicate to you separately giving his view, which I share, of the impact of this question on the Party.

4. If the figures are to be put right then additions are needed of £100M in 1983-84 and £214M in 1984-85. Such figures would, of course, not represent a final commitment by the Government since they would be subject to review in the next Public Expenditure Survey but they would allow us to say that the cash provision for



defence was enabling us to plan to implement the NATO 3% aim. If, however, the figures were to remain as currently proposed in the draft White Paper then we certainly could not describe them as fulfilling the 3% commitment, which is what the present text says.

5. Since Sir Frank Cooper wrote his letter, MOD and Treasury officials have looked again at the text to try and find a way of making it consistent with the figures. Copies are enclosed of their revised wording of the two paragraphs in the PEWP which cause me most concern - paragraph 14 of Part I and paragraph 3 of the Defence Chapter. I have to say that even stressing the provisional nature of the figures in this way does no more than try to conceal the major issue of substance.

6. I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, the Chief Whip and to Sir Robert Armstrong.

FW

Ministry of Defence
9th February 1982

REVISION OF PARAGRAPH 3, CHAPTER 1 TO PEWP PART 2

The Government adheres to its commitment to plan to implement in full the NATO aim of real increases in defence spending in the region of 3% a year. The figures for 1983-84 and 1984-85, as for all other programmes, are provisional and will be reviewed in the 1982 Survey in the light of this commitment, the economic circumstances and prospects at the time and all other relevant factors.

NEW DRAFT PARAGRAPH 14 TO PEWP PART 1

Provision for defence is intended to reflect the Government's firm decision to aim for real increases in the region of 3% a year in line with the NATO target. Additional provision has been made for 1982-83 and the subsequent two years to cover the cost of carrying forward the 1981 Armed Forces Pay Award and to provide the basis for the restructuring of the defence programme described in "The Way Forward" (Cmnd 8288).