

CONFIDENTIAL

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PRIME MINISTER

Defence and the Public Expenditure White Paper

I attach immediately below the Chief Secretary's response to Mr. Nott's minute to you about what should be said about defence in the Public Expenditure White Paper (Flag A).

I understand that Mr. Brittan's reply produced, predictably enough, a strong reaction from Mr. Nott who promptly drafted a very stiff answer himself. He has been dissuaded from sending it, and his officials are now preparing something more reasonable.

In the meantime discussion between Treasury and MOD officials has led to the Chief Secretary agreeing in the course of the day that the words "in full" which he had sought in his letter below to omit should be allowed to stand in the text.

His other reservation - about the words "the basis" - is not likely to cause any problem.

MOD officials will be reporting all this to Mr. Nott over the weekend. Subject to his concurrence, we now have an agreed text for the White Paper.

But I am afraid that this is not an end to the matter. Mr. Nott's officials expect that he will still insist on returning to the charge on the general points made by the Chief Secretary in the penultimate paragraph of his letter, and that is why they are drafting the minute to which I have referred in paragraph 2 above. It may be when we see this minute that we shall have to advise you to intervene in the correspondence to try to bring the exchange to a conclusion.

KAW.

12 February 1982

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Prime Minister

AD

JV.

This should, surely,
settle the dispute?

2 PPS

MUS 11/2

Treasury Chambers, Parliament Street, SW1P 3AG.

Rt Hon John Nott MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

11 February 1982

2 John,

Thank you for sending me a copy of your minute of 9 February to the Prime Minister about the problems you perceive in relation to the defence chapter of this year's draft Public Expenditure White Paper.

The form of words for the White Paper, annexed to your minute, omits a second sentence which I wished to include in the Part 2 piece; that is, "The cash provisions throughout the planning period are intended to reflect this commitment". But, in the interests of securing agreement, I am prepared to accept your drafts subject to the deletion of "in full" in line 2 of the Part 2 piece, and of "the basis" in the second sentence of the Part 1 piece. I would expect you to follow a similar line in dealing with this issue in the Statement on Defence Estimates.

The figures in the White Paper are of course those that were agreed in November; these formed the basis of Sir Robert Armstrong's minute of 2 December, and were quoted in paragraph 2 of my memorandum OD(82)4. These decisions should not be reopened now.

I do not share your view of the gravity of the arithmetical problem over the later years' figures. As Sir Robert's minute records, we agreed in November to additions to the defence budget totalling £1250m as follows:

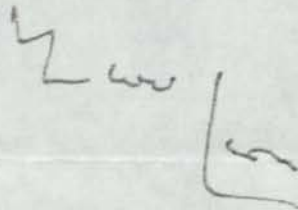
	1981-82	1982-83	1983-84	1984-85
£M	300	375	325	250

It was quite apparent when this agreement was reached that the additions for 1983-84 and 1984-85 were not 3% higher than the £375m increase agreed for 1982-83. But this was because the 1982-83 increase was disproportionately large. The 1982-83 increase was disproportionately large because the problem in that year was so acute; I accepted the need for higher expenditure in the estimates year because of the understandable transitional difficulties being

encountered in reshaping the defence programme. It would indeed be unfortunate if the particularly favourable treatment enjoyed by defence in 1982-83 were to be misconstrued by some of our supporters; but I would hope that, with proper presentation, this problem can be overcome. By any criteria, the defence effort postulated by expenditure plans rising from £14bn in 1982-83 to £16.5bn in 1984-85 has to be an impressive one.

More generally, it has to be recognised that there are inevitable difficulties in seeking to reconcile fully our decision to plan to implement the NATO 3% aim with the Government's commitment to cash planning and cash limits; the former is a "volume" target, whereas programmes have to be planned and managed in cash. Once cash totals have been agreed, however, programmes have to live within them. The cardinal principle of cash planning is that levels of service must be determined in the light of the finance available; and this principle must apply to defence as much as to other programmes.

I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Chief Whip and to Sir Robert Armstrong.



LEON BRITTAN

1.1. FEB 1962



1.1.1962