

SECRET file bc: John Coles Bre



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10 DOWNING STREET

From the Private Secretary

1 February 1983

LONG-TERM PUBLIC EXPENDITURE: DEFENCE

The Prime Minister had a brief discussion this afternoon about the long-term prospect for defence expenditure. Apart from your Secretary of State, the Home Secretary, the Chancellor of the Exchequer, the Chief Secretary and Sir Robert Armstrong were present.

It was noted that the Government's existing commitment in the public expenditure plans was that the 3% annual rise in defence expenditure in real terms went up only to 1985/86. Thereafter, the expenditure plans showed the programme constant in real terms. The Government had indicated that it subscribed to the NATO guidance up to 1988 but it was noted that the terms of this guidance were vague at crucial points; that it was drafted in terms of aspiration; and that there was a proviso about countries' economic circumstances. It was a weakness in the NATO guidance that it was framed in terms of inputs - expenditure - and not of outputs. There was also some flexibility in what kinds of expenditure could be counted: although some of the Falklands expenditure could, clearly, not be so counted, some could.

Summing up the discussion, the Prime Minister said the Government must now present our defence spending plans in the most positive way, so as to make the most, in the eyes of our allies and the Government's supporters, of the substantial expenditure to which the Government was committed. Falklands apart, defence spending in 1985/6 might well be 20% higher in real terms than it was in 1978/9, taking up nearly 6% of GDP. If this growth rate continued, defence would grow further as a percentage of GDP, crossing over once more with other expenditure programmes, for example, health and education. She feared that such a growth would swing public opinion against defence, and in particular against the Trident programme. It would be important, in interpreting the NATO guidance to take full account of this factor.

I am sending copies of this letter to John Kerr (HM Treasury), John Gieve (Chief Secretary's Office) and Sir Robert Armstrong (Cabinet Office).

M. C. SCHOLAR

JB.

Richard Mottram, Esq.,
Ministry of Defence

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Prime Minister

Defence: Long Term Expenditure

This is a copy of Leon
Brittan's brief for this meeting.



MUS 31/1

see MCS to PM
13/12/82



Mr B. P. ...

To be aware (Sir R

Ref. A083/0376

MR SCHOLAR

Armstrong ~~said~~ asked me to submit a draft record to him; with some qualms, I readily agreed to

Thank you for showing me an advance copy of your letter (do so.) to Mr Mottram, recording yesterday's discussion about the long-term prospects of defence expenditure.

MUS 2/2

2. I think that your letter will do very well. You should, however, be aware that I had an exchange of manuscript notes with the Secretary of State after the meeting about its outcome; and that the Secretary of State took the notes away and is therefore liable to quote them in future. I had said to the Secretary of State that I thought that no decision had been taken by the meeting. He had no authority to plan beyond the existing commitment, as recorded in the first sentence of the second paragraph of your letter; on the other hand there was no explicit and positive decision that planning should be limited to the commitment. In that sense, the meeting had left all to play for.

REA

ROBERT ARMSTRONG

2nd February 1983

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Sir Robert Armstrong

I'd be grateful for any
comments on the attached
record.

MCS 1/2