



Told Mr Mountfield HWT
and decides to hold back this
comment until later HCS 30/3 PA
Prime Minister 2

See no reason

PM/83/29

PRIME MINISTER

to increase F.O. expenditure Mr Pym argues for an
increase in expenditure.
We have a good
engagement with the British I will resubmit with the
Council which I think I expect collection from other
honours. We have already added to them Departments.

Long Term Public Expenditure

budget for overseas HCS 29/3
from

1. In your minute of 4 February you asked Cabinet colleagues to consider how individual Departments can contribute to our aim of substantially reducing long term public expenditure.
2. Foreign policy expenditure must be seen in the round. Diplomacy, defence, intelligence and aid are inseparable, as the Falklands reminded us. Diplomacy accounts for about 3% of the cost of our total effort in all these fields and we should never forget that a pound spent wisely on diplomacy can save ten on defence later. Aid amounts to a further 7%, much of which returns to the UK in the form of spending on British goods and services. Further real cuts in expenditure on our overseas effort, at this of all moments, would send the wrong signal to friends and adversaries alike. It would also give a weapon to political opponents at home, and to the so-called peace movement, if we were seen to be cutting down on diplomacy and aid while spending more on conventional and nuclear defence.
3. The productivity of diplomacy is of course hard to measure. But it is a fact that our essential tasks have increased enormously in the last ten years, while our staff levels have dropped by nearly 20%. The number of sovereign states has increased from 141 to 166; our exports in real terms have gone up by 68%, and the

/number



number of British visitors abroad, which affect our consular work load, has more than doubled. All this takes no account of other factors such as the growth of multilateral and specialised diplomacy and the increasing expenditure on peace-keeping forces (which under present arrangements is charged to the FCO Vote).

4. We could of course make further savings, even on a small budget where the bone is close to the surface (the cost of the Diplomatic Service proper is £283 million out of the £554 million for the FCO Vote as a whole - see attached table). But I am more than ever convinced that such savings could not be made without damaging our national interests. There is no more scope for saving candle-ends. We have reached the point where we must decide whether or not effectively to pursue British interests worldwide. We could close more missions in Africa, Latin America or Asia; or we could withdraw from international organisations, or reduce expenditure on the Commonwealth. But I do not believe that British interests would be served by such changes, even where domestic opinion and our international obligations would allow it. Alternatively we could cut down further on the range of export promotion services offered, or even cut out export promotion altogether in certain markets; or we could radically reduce consular assistance to British citizens abroad. Any of these courses would cause political and public controversy and damage disproportionate to the savings achieved.

5. We should also take account of the overseas efforts made by our main friends in the West, not to speak of the communist countries. The French, for example, spend 10% more on diplomacy and export promotion than we do, and eight times more on cultural activities abroad.

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6. As far as aid is concerned, the current PES exercise shows the programme declining slightly in real terms over the period 1983/84 to 1986/87. In this period and beyond, the main feature is significant growth in the share of Community aid (the UK share of Community aid is debited against our aid programme) and other multilateral aid such as World Bank contributions. At the end of the decade multilateral aid will consume about half of the total programme compared with around 40% now. We shall do our best to resist the trend although in doing so we shall incur ill-will (and consequent loss of influence) with other main donor and Community partners. But, even allowing for this, growth in multilateral contributions of this order seems inescapable given our Community and other obligations.

7. The consequences are clear. With little growth in prospect for the total aid programme, our country programmes (which have already been reduced by more than 36% in real terms over the last three years) will decline further. The Aid and Trade Provision will also be squeezed, as will contributions from the aid programme to valuable institutions such as the Commonwealth Development Corporation and the British Council.

8. I do not regard these developments as acceptable. As we saw in the matter of overseas student fees, our bilateral relations with developing countries can be significantly damaged if we are not sensitive to their problems. Like you, I believe our interests - political and commercial - are best served by direct bilateral aid. Some multilateral agencies, such as the World Bank and IDA, are extremely effective and valuable and serve our broader interests. But unless we relieve the pressure on bilateral aid, our ability to pursue our national interests through the aid programme will be severely curtailed.



9. My conclusion from all this is that, far from scaling down our current overseas efforts, there is a strong case for a sensible increase in certain areas. In foreign affairs, results are notoriously difficult to quantify. But there are areas where we are clearly being hampered by inadequate resources. There is a strong case for increasing the amount we spend on the central tasks of diplomacy, from the basic study of foreign countries to the projection of British foreign policies abroad. My recent visit to the United States also reminded me of the value and importance of our work on export promotion given the UK's dependence on trade. (A recent survey by independent consultants concluded that the Export Intelligence Service operated by our posts abroad added some £1 billion per year to our exports.) The British Council and BBC Overseas broadcasting are two other areas where we are outstandingly effective and where we should invest in success: the English language gives us an advantage which we should exploit to the full. Aid is a vital component in our diplomatic, commercial and cultural policy and an increase would certainly allow us to pursue our aims more flexibly and effectively.

10. One thing we can be sure of is that foreign policy tasks will not decline. Indeed they are likely to increase. Britain is a force for sanity in the world, and to abdicate any of our international responsibilities would dismay our allies and gladden our adversaries. The yield from our present overseas efforts is out of all proportion to the expenditure and to our current international economic standing. I agree wholeheartedly that long-term public expenditure should be subject to rigorous scrutiny. But,

/in view



in view of the fact that vital British interests are at stake, I am convinced that this current exercise should not simply lead to cheese-paring cuts across the whole range of public expenditure. As I asked in Cabinet some months ago, a more discriminating approach is surely called for. In the case of the FCO, any financial savings would be short term, illusory and the opposite of cost-effective. A sensible increase in expenditure could reap significant rewards.

11. I am sending copies of this minute to the recipients of yours and to the Secretaries of State for Defence, for Trade and for Industry.

A handwritten signature in dark ink, appearing to be 'FP', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office

29 March 1983



FCO DIPLOMATIC WING

£ million

Financial provision: 1983/84 544.6

Of which: £ million

a. BBC External Services 77.2

Broadcasting Relay
Stations (on behalf of
the BBC) 9.6

British Council 40.2

Subscriptions to Inter-
national Organisations
and special payments 71.5

21.3

219.8

b. Passport Office 19.4

GCO Information Services 1.1

Grants to non-Govern-
mental Bodies and General
Services 8.0

Military Aid (courses
here and training teams
abroad) 13.4

41.9

c. Official and Residential
Accommodation at home and
abroad 79.8

282.9

d. The Diplomatic Service at
home and abroad (pay,
travel, allowances, etc) 203.1

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544.6