

*Econ Pol**Prime Minister**MUS 12/4*

PRIME MINISTER

## LONG TERM PUBLIC EXPENDITURE

I have seen the Defence Secretary's minute to you of 30 March.

2. I was disappointed that he has not complied with your request to all spending Ministers to review their programmes against the background of public expenditure in the longer term. It will be even more difficult to decide how to meet our commitment to reduce public expenditure if all the possible options are not duly displayed. In 1985-86, on present plans, defence will account for about 14% of all public expenditure.

3. What I had hoped to see from the Defence Secretary was the more radical sort of approach that the LTPE exercise was intended to promote and which we discussed at your meeting on 1 February. For example - though this is neither particularly new nor radical - the opportunity could usefully be taken to look for more meaningful measures of defence contribution than the simplistic and inaccurate 3% "real" growth calculation. We are all well aware of the deficiencies in the current NATO aim and in the way it is measured: inter alia it measures input, not output; all "defence" expenditure normally counts - whether on stationery or postage, or on non-NATO commitments like Belize and Hong Kong; different countries use different yardsticks for measuring achievement and in our own case the present method of measurement has been demonstrated to be unreliable.

4. Moreover, the simplistic year-on-year arithmetic is very vulnerable to distortion; in 1982-83, for example, we spent on defence nearly £14.5 billion (a higher proportion of GDP and more in absolute terms than any major European ally) but might well, I understand, be reporting to NATO "real growth" of less than half

a per cent (partly because, contrary to the normal practice mentioned above, direct Falklands expenditure will be excluded). To anybody mesmerised by the 3% aim - very few NATO countries take it conscientiously, if their plans and achievements are any criterion - the 1982-83 UK defence effort will appear a puny one; nothing could be further from the truth.

5. Hitherto, defence provision has been largely immune from the economic pressures that have constrained other public expenditure programmes. But it will not be possible for defence spending to increase indefinitely; sooner or later it will have to take account of our wider economic objectives and progress.

6. Meanwhile we can take justifiable pride in our record to date. Defence is now, once more, the second largest programme; and this year defence expenditure should be some 23% higher, in cost terms, than when we came into office. There ought to be no problem in securing due credit for our defence spending levels achieved in the face of severe economic difficulties - either domestically, or among our major NATO allies.

7. I am copying this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Defence, and Sir Robert Armstrong.

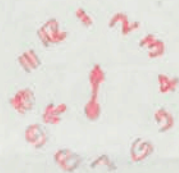
L. B.

LEON BRITTAN  
12 APRIL 1983

~~EST TO PM~~

ECON POL : Public expenditure: A 22.

12 APR 1983



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