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Prime Minister

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PRIME MINISTERLONG TERM PUBLIC EXPENDITURE

I should like to make one or two comments on the Chief Secretary's minute to you of 12th April.

2. He suggests that we should look for more meaningful measures of defence contribution than the 3% real growth calculation. There are, of course, a variety of ways of comparing nations' defence efforts and some of these are included in Chapter 5 of the draft Statement on the Defence Estimates which we discussed in OD last Monday. The United Kingdom comes out well from these comparisons - though this partly reflects the relative strength of sterling against the dollar in 1982 - and full credit is taken for this in the text. The measurement of achievement against the 3% aim allows an assessment to be made of the year-on-year increase in nations' defence efforts. It is not by any means a perfect tool for this purpose: in particular - like the SDE comparisons - it measures inputs rather than outputs. But output measurement in defence is a notably difficult art and although NATO puts a lot of efforts into seeking to devise measures of output - to which the UK actively contributes - no satisfactory form of measurement has yet been identified. There is therefore no sensible alternative to using input measures as the basis of comparison.

3. It should not be thought, however, that because the 3% aim is a less than perfect basis for measurement it is therefore of no utility. In the first place, it rests on an assessment made in 1978 that if NATO was to stem the deterioration in the balance of forces between





East and West real increases in defence expenditure of at least 3% a year over a sustained period would be needed. Nothing that has happened since 1978 calls into question the validity of this assessment - indeed there is a case for aiming higher, as SACEUR has repeatedly observed. Secondly, without the discipline of a form of measurement that is widely understood and easy to apply, it would have been much more difficult to achieve the growth in Allies' expenditure that we have seen and the Alliance's capability would thereby have been diminished.

4. The Chief Secretary says that very few nations take the 3% aim conscientiously, if their plans and achievements are any criterion. I cannot agree - the table at paragraph 7 of John Nott's paper C(82)33 indicates that in the period 1979-81 our three major European allies as well as the United States performed better against the aim than us: and it is not suggested that we do not take it conscientiously. As to the level of defence spending in 1982/83, we shall seek to take full credit in NATO for our overall level of achievement including Falklands expenditure. But we decided last year - and so informed NATO - that we would fund the cost of the Falklands campaign and garrison in addition to the 3% aim. We shall therefore, also need to identify our achievement on a Falklands - exclusive basis - and this falls some way short of 3%.

5. I am, however, encouraged by the fact the the Chief Secretary does not seek reductions in defence expenditure after 1985/86 but confines himself to questioning how long it should go on increasing. That is my position also and I am expecting to address this issue in this year's PES discussions. In doing so I shall of course wish to consider principally the requirements imposed on us by the continuing growth in the threat and not be sidetracked by the peripheral

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"the garrison."





issues of NATO 'league tables'. Let us by all means take due credit for our achievements; but there is more to ensuring the nations's security than that.

*West*

Ministry of Defence

25th April 1983

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Public Exp.  
Pt 22



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3 May 1983

Long Term Public Expenditure

The Prime Minister has seen your Secretary of State's minute of 25 April commenting on the Chief Secretary's minute of 12 April.

The Prime Minister has commented that the decision to fund the cost of the Falklands garrison over and above the 3 per cent aim was a decision in respect of the extra cost of the garrison.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office).

MS

Richard Mottram Esq  
Ministry of Defence.

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9th May 1983

*Prime*

*Dear Michael,*

The Secretary of State for Defence has seen your letter to me of 3rd May. He has asked me to confirm that his minute of 25th April was naturally referring to the extra costs of the Falklands garrison and campaign, in accordance with last year's agreement.

I am copying this letter to John Gieve (Treasury).

*Yours etc,*

*Richard Mottram*

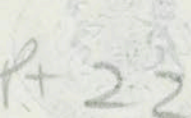
(R C MOTTRAM)

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