

*In box for ...*

*FM - please PA*

**SECRET**

29 June 1983

Policy Unit

PRIME MINISTER

*MCS 30/6*

*Top copy on Econ Pol Public Expend Pt 22 Defence Budget file  
Prime Minister*

DEFENCE AND PUBLIC EXPENDITURE

*in the folder for tomorrow's meeting with the Chancellor  
MCS 29/6*  
The Chancellor's paper on The 1983 Survey and The Longer Term leads, I think, to one overwhelming conclusion: that the prime candidate for reduction in expenditure, this year and for the foreseeable future, must be Defence. The overruns are bigger; the commitment up to 1985/86 is larger; the control of expenditure feeble; and the lack of collective discussion the most painfully felt.

All these defects are obvious in the way Michael Heseltine has presented the Harm/Alarm decision. You will not need the arguments rehearsed yet again. But there is no other area of Government expenditure where £150 million could be so easily saved and performance of the function actually improved. I know of your concern to keep high technology teams together and keep Britain in the forefront of that technology, but so long as defence is the most obvious "soft touch" in the public sector:

- (i) Our research effort will continue to be over-concentrated on Defence, to the detriment of our ability to compete in all other industries.
- (ii) The commercial aspects will continue to predominate over military priorities. I understand that not only the military but also the officials in the MOD are united, almost to a man, in preferring Harm.
- (iii) The MOD will continue to keep these issues in-house and try to avoid thorough collective discussion as far as possible, because they know how weak their case is.

There are other reasons for preferring Harm to Alarm, eg the difficulty of persuading the Americans to buy our advanced military hardware if we refuse to buy theirs, when it is evidently cheaper and superior. But I think the most crucial one for the future of this Government is that, at the outset of the second term, with all the public expenditure difficulties which we now face, we should show that we mean business in controlling expenditure in the Department where the need is greatest.

FERDINAND MOUNT *fm*

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