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CHIEF SECRETARY, TREASURY

PUBLIC EXPENDITURE SURVEY 1984

File with AT

In your minute of 21st March to the Prime Minister you invited comments on your proposed guidelines for this year's Public Expenditure Survey. I am content subject to the following two points.

2. As you acknowledge, adoption of a 2½% allowance for inflation in 1987/88 will mean a volume reduction on the basis of the MTFIS inflation forecasts. Despite your assurance to the contrary I think this is bound to prejudice discussion by placing Departments seeking simply to maintain a level programme in the position of "demandeurs". I believe a more realistic factor would promote more orderly consideration of options.

3. Secondly, your proposal that I should identify options for a 3% reduction in defence spending in 1986/87 and 1987/88 is not consistent with Government policy to give priority to national security. We could not conduct a sufficiently thorough examination of the options for such reductions without this becoming publicly known, with political and international consequences which would wholly outweigh the value of such an exercise. I do not therefore intend to identify options for reductions below the baseline in these years.

WJH

copy: Mr Turnbull (No 10 Downing Street)

3 APR 1984

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