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LORD PRESIDENT OF THE COUNCILTHE DEFENCE PROGRAMME

You invited me at the meeting of MISC 106 on 18th October to consider the following defence expenditure figures:

£ Million cash

<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>
18055	18514	18767

2. In 1981 (Cmnd 8288) the Government committed itself to plan to implement in full until 1985/86 the NATO aim of real growth of 3% a year in defence expenditure. The intention was stated of setting 1985/86 defence provision 21% higher in real terms than actual expenditure in 1978/79. Following the Falklands war, we further committed ourselves to providing a supplement to the defence budget, in addition to 3% annual growth, to meet the extra costs of the garrison and of replacing equipment lost during hostilities.

3. In last year's PES settlement, owing to reduced provision and higher than expected inflation on the defence programme, we fell short for the first time of our 1985/86 objective of 21% real growth (Falklands-exclusive) over 1978/79 (the figure was 19%), although we could, and did, represent the settlement as in line with our commitment to plan to implement 3% real growth a year. But the real growth rates implied by the cash provision shown above are (Falklands-exclusive):



	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>
Year-on-year	2.7	-0.8	-1.0
Over 1978/79	18.3	17.4	16.3

4. So far as 1985/86 is concerned this represents a further shortfall on earlier plans and could not be presented as in line with a commitment to plan to implement 3% annual growth in full.

5. For 1986/87 and 1987/88 the figures represent real decreases. I see very serious objections to this. The decision we took last year not to extend 3% real growth beyond 1985/86 has been criticised domestically and is the subject of a major forthcoming enquiry by the House of Commons Defence Committee. It has been received with great reluctance in NATO, on the basis that there will nevertheless be some continuing real growth. If we were now seen to be planning for a progressive real reduction in defence expenditure after 1985/86, I do not see how we could sustain our position domestically or internationally. At home we should be severely criticised by our own supporters and be vulnerable to criticism from our political opponents in the run up to the next election. We should have thrown away one of our strongest cards at the last election in order to save quite small sums of money. The need for greater investment in conventional force improvements is now generally accepted - yet we should be reducing expenditure at the very time that Trident expenditure builds up towards its peak with the potential problem, for which I have sought no compensation, of finding large additional sums because of sterling's weakness against the dollar. The effect on US sentiment, where burden-sharing is an increasingly live issue, could only be extremely damaging, and the repercussions in NATO very serious.

6. Against this background I am not able to accept the figures proposed which I regard as very damaging politically, in terms of defence capability, and for our international position. The minimum



that I should be prepared to contemplate would be full 3% growth in 1985/86 and level real provision thereafter.

*[Handwritten signature]*

[text approved by and signed on behalf of the Defence Secretary]

Ministry of Defence

24th October 1984