



HOUSE OF COMMONS
LONDON SW1A 0AA

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Michael Heseltine

It may be helpful if, following our discussion with the Prime Minister and other colleagues at Central Office yesterday morning, I set out briefly the principal points we need to watch in handling the issue of defence cuts during the election campaign.

The central problem came up very clearly in 1978; and the line I agreed with Ian Gilmour at that time is still right. It boils down to this:

- (1) Switching spending between one activity or line of business and another does not of itself affect total employment; transitional problems apart, the jobs lost in some areas where demand is cut can be expected to be balanced by jobs created in others to which the marginal spending is switched.
- (2) We must therefore be very careful not to say or imply that cuts in defence spending would of themselves lead to higher unemployment.
- (3) Even more important, perhaps, we must not imply that unemployment is kept at bay by high defence expenditure. If defence, it will be argued, then why not, for example, local government?
- (4) What is clear is that defence spending, to the extent we can afford it, is virtuous, and so are the jobs that go with that. Defence cuts will certainly reduce business for supplying firms as well, perhaps, as leading to loss of jobs in the MoD, and the Forces. It is therefore entirely legitimate to warn that particular areas, firms, businesses and people will be put at risk by Labour's proposals.

I do hope we will all stick very firmly to this approach, and make sure that others do so too.

I am copying this letter to the Prime Minister and Cecil Parkinson.

Geoffrey Howe

GEOFFREY HOWE