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PRIME MINISTER

I hope that this note, which I am copying only to Geoffrey Howe, may be helpful before tomorrow's Cabinet.

2. As you know I am most anxious to avoid a disagreement in Cabinet between Geoffrey and myself on the Defence Programme. I told Geoffrey more than a week ago that I felt it might be possible for me to compromise with him on a 3% volume increase until 1985/86, (as against Geoffrey's proposal of a volume increase until 1983/84 and my own proposal of an increase until 1987/88). In my judgement the package which Cabinet will consider is the absolute limit that the Party will stand and I still have to persuade the Americans this weekend that our Naval reductions should not be vigorously opposed (possibly by a direct message from Reagan to yourself) or Trident called into question.

3. My main difficulty - although there will, of course, be many - in presenting this package to the Party will be that a host of backbenchers who are relatively uninformed about the details of the Defence Debate could well emerge to express their astonishment that at a time of 2½M unemployment we should be creating redundancies in our Armed Services and widespread further unemployment within the public and private sectors. Many constituencies will be affected and I must try to avoid the coming together of strange alliances which might imperil our vote in any subsequent debate. The situation in the House will be very finely balanced.



4. Since my arrival here I have done everything possible to achieve the maximum savings for Geoffrey in what is a very difficult time for him, but he knows that my programme has been heavily over committed and that it is simply impossible to make further major savings in the next 3 or 4 years without effectively bringing our forces to a halt. The whole thrust of my proposals - which Geoffrey supports - is that we must reduce the huge overhead costs of defence, but this will cause short term additional pressures and cannot open a window until 1985/86.

5. My main concern is that confusion should be avoided by an argument about cash. It is impossible to discuss my programme at the present time in cash terms simply because my review has not been prepared on this basis nor is the 3% NATO aim related to cash. I am most anxious not to get involved in a disagreement with Geoffrey about this year's cash provision and the following years'. Such a difference would be bound to be inconclusive in the absence of the facts. I therefore hope very much that our discussion on this year's cash arrangements and the forward cash projections can be handled in bilaterals between Geoffrey and myself and that you can conclude the Cabinet meeting (albeit on a compromise 3% to 1985/86 volume figure) on the basis that the bilaterals should support rather than undermine the agreement on volume otherwise this will merely re-open the whole debate in what might prove impossible political circumstances.

6. I can assure Geoffrey that whereas we are heavily over committed in the next few years I have created the maximum room in the programme in the latter period of the 80s. But to achieve this objective I need



the package of measures proposed to Cabinet in toto, and I have to get them accepted by the Americans, the Party and through the House. The key to the argument is being seen to be planning on 3% real increases, at least up until 1985/86. If I cannot have this, and we were to follow the line in Geoffrey's paper I see nothing but escalating costs and insuperable political problems with the Party.

S.W.

Ministry of Defence

17th June 1981