



TMP/JS
cc CO
17MT 6
Defence

10 DOWNING STREET

From the Principal Private Secretary

6 November 1979

Dear Tony,

DEFENCE EXPENDITURE 1981-82 to 1983-84

When the Prime Minister met the Chancellor of the Exchequer, the Secretary of State for Defence and the Chief Secretary at 2215 yesterday evening in her room at the House to discuss the Chancellor of the Exchequer's minute of 30 October about defence expenditure, the Chancellor of the Exchequer said that it had been only with the utmost reluctance that he had accepted the position set out in the note attached to his minute and he remained anxious about its implications. If the sentence in paragraph 5 of his note was incorporated in the Public Expenditure White Paper, it was bound to provoke comment in Cabinet when they considered the draft White Paper just before Christmas. By that time decisions on the replacement of Polaris might or might not have been taken but whether they had or not, he thought that the reply to any questions by Cabinet colleagues might follow the lines set out in paragraph 4(c) of his note. He thought it not unlikely that some members of the Cabinet would want to probe what was said in the White Paper. There was also bound to be comment on the sentence when the White Paper was eventually published. Looking further ahead, he hoped that the Defence Secretary understood that the economic battle over the forthcoming year was going to be extraordinarily difficult, and that, as part of the battle, it would continue to be essential to reduce public expenditure. It had to be understood that the formula which he proposed in paragraph 5 did not mean that the whole cost of the Polaris replacement programme would necessarily be found outside whatever levels Ministers otherwise approved for the defence budget.

The Chief Secretary said that the sentence in the White Paper was almost certain to cause other Cabinet Ministers to ask whether their programmes would be affected by the need to finance the Polaris replacement programme. He thought that some Ministers would want to take a hard look at the proposal to replace Polaris before the Government entered into any commitment. He believed himself that if developments in the economy necessitated further domestic retrenchment, the Polaris replacement programme would not be above re-examination.

/The Secretary of

SECRET AND PERSONAL

- 2 -

The Secretary of State for Defence said that he was ready to go along with the proposal in the Chancellor of the Exchequer's note. He accepted that what should be done about the cost of the successor to Polaris after the present PESC period was for subsequent consideration. How the programme should be financed was a question of the nation's priorities.

The Prime Minister said that she thought they could rest on the sentence in paragraph 5 of the Chancellor's note. This did not preclude the possibility that some of the cost of the Polaris replacement programme might be found from within existing levels of the defence budget. It safeguarded the positions of both the Chancellor of the Exchequer and the Secretary of State for Defence. The Defence Secretary had accepted that provision for the defence programme would in any case have to be reconsidered, like that for all other programmes, in a year's time in PESC 80. What levels of defence expenditure the Cabinet would agree upon would depend on the circumstances at the time. By then the decision on the replacement of Polaris would have been taken and to that extent the demands on the defence budget would be clearer than they were now. For present purposes the figures for the defence budget should remain as in the Chief Secretary's paper C(79)35 and the Public Expenditure White Paper should contain the sentence in paragraph 5 of the note by the Chancellor of the Exchequer. There was no need to raise the matter again in Cabinet before they considered the draft White Paper shortly before Christmas.

I am sending copies of this letter to Brian Norbury (Ministry of Defence) and Alistair Pirie (H.M. Treasury).

Yours ever,

John Whitman.

A.M.W. Battishill, Esq.,
H.M. Treasury.

SECRET AND PERSONAL