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OD(81) 11th Meeting

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DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at  
10 Downing Street on  
MONDAY 8 JUNE 1981 at 4.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of  
Lancaster and Paymaster General

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

The Rt Hon John Biffen MP  
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

Admiral of the Fleet  
Sir Terence Lewin  
Chief of the Defence Staff

SECRETARIAT

Mr R L Wade-Gery  
Mr R M Hastie-Smith  
Mr W N Wenban-Smith

SUBJECT

THE DEFENCE PROGRAMME

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## THE DEFENCE PROGRAMME

Previous Reference: OD(81) 4th Meeting

The Committee considered a note by the Secretary of State for Defence (OD(81) 29) containing proposals for reshaping the Defence Programme and a note by the Chancellor of the Exchequer (OD(81) 31) suggesting an alternative financial basis for the revised programme.

THE SECRETARY OF STATE FOR DEFENCE said that the central problem for the Defence Programme was one of resources. The Government were committed by their Election Manifesto to strong defence. Public disappointment with current economic performance made it more essential than ever to honour this defence commitment, to which the Government's supporters attached major importance. But current forward plans for the Defence Programme went beyond what could be afforded. The Programme therefore needed radical reshaping, in order to provide room for manoeuvre and to prevent military capability being degraded through overstretch. He had costed a very wide range of possible options for this reshaping; and it was clear that many apparently attractive possibilities would in fact cost more than they would save, at least in the short and medium term. In some areas increased expenditure would be unavoidable; war stocks had to be increased, for example, and a central reserve fund established. This increased the need to cut back drastically on present plans in other areas. For the Army, his preferred proposals would involve reducing the British Army of the Rhine (BAOR) from 4 weak divisions to 3 strong ones, and cutting regular manpower by about 9,000. For the Royal Air Force the most far reaching of his proposals was the abandonment of plans for a replacement for the Jaguar, which meant that for the first time since the War Britain would no longer be developing a combat aircraft for the future. The main brunt of the cutback would fall on the Royal Navy. Chatham and Gibraltar dockyards would be closed and Portsmouth run right down. Naval manpower would be cut by 27,000, ie a 30 per cent reduction. The frigate fleet in the Atlantic would be cut by half, from 46 ships to 24. Other consequences of the overall reshaping would include the abolition of 50,000 civilian posts in the defence establishment and the loss of 20,000 job opportunities in industry. But much of the existing equipment programme would be maintained, with particular emphasis on new weapon systems, without which even the best launch platforms

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would be useless. A reshaping on these lines would enable the Defence Programme to be contained within a growth line of 3 per cent a year over the next 4 years, to 1985/86 inclusive, and of 1 per cent a year thereafter. But the shock of so drastic and rapid a reshaping would be considerable. The Government's supporters would be dismayed and the demands of the Trident programme might well be blamed. It would therefore be politically essential to provide extra funding, at an average of £200 million over each of the next 3 years, specifically for Trident. An alternative to this faster reshaping exercise would be a slower one based on continuing the 3 per cent growth line by a further 2 years to 1987/88. This would obviate the need for special Trident funding and might well be more acceptable to the Government's supporters. It would lessen the total cutback required in a number of key areas; naval manpower, in particular, could be reduced by less than 30 per cent and the frigate fleet to 37 rather than 24 ships. Whichever alternative were chosen, resource stability would be the key to the cost effective management of the future Programme. Additional reductions should not be sought later, eg in the next public expenditure round; and there should be no extra squeeze when volume increases were converted into cash. Either of the courses he had put forward would increase defence expenditure from about 5 per cent of Gross Domestic Product (GDP) to about 6 per cent. But that was no higher than had been normal in the 1960s, when the international scene was far less dangerous. An early decision, for one course or the other, was essential in the interests of morale and to avoid continuing expenditure on projects which were to be abandoned. He would like to cut short speculation by announcing the Government's decision by the end of June. This would make extensive international consultation impossible. But Britain's allies would of course be informed. He would himself explain the position to the United States and German Defence Ministers in particular; and despite the difficulties there should be a reasonable prospect of securing their support.

THE CHANCELLOR OF THE EXCHEQUER said that he recognised the magnitude of the problem confronting the Defence Programme. But taxation was now taking 39½ per cent of GDP, compared to 35 per cent in the last year of the previous Administration. Defence represented 13 per cent of total public expenditure.

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Financial assumptions for the Defence Secretary's faster reshaping proposals would mean defence spending rising by 16 per cent in volume over the next 4 years. The slower alternative would produce a 19 per cent volume increase over 6 years. Increases of this magnitude could not be reconciled with the Government's commitment to sustain the policies underlying other spending programmes and also to reduce the tax burden. The preferable approach would be to endorse the 3 per cent growth line only for the next 2 years (ie the 1982/83 and 1983/84 Command 8175 figures revalued using the general inflation factors), make no addition for Trident and accept constant real expenditure on defence in and after 1984/85. Such a proposal would be consistent with the Government's commitments to the electorate. It should be acceptable to Britain's allies, many of whom would be doing less. It represented the most that the country could afford.

THE CHIEF OF THE DEFENCE STAFF said that the Chiefs of Staff accepted that the allocation of resources to the Defence Programme was a matter for political decision. But it was their duty to advise on the military consequences involved. The Soviet Union's strength was continually increasing. There was no single area of military capability where the North Atlantic Treaty Organisation (NATO) was not relatively worse off than 5 or even 2 years ago. International instability was growing, particularly in the developing world, and there was a disturbing drift towards pacifism in Europe. The Chiefs of Staff did not feel that this was the time to be reducing the British contribution to NATO. He himself accepted the political judgement that it was essential, in any reshaping of the Defence Programme, to give priority to the Central Front, because changes here could threaten the cohesion of the Alliance. But the present reshaping proposals represented a dramatic reduction in forward plans, particularly as regards Britain's maritime capability from which two-thirds of the proposed savings were to be found; as the Prime Minister was aware, this was a matter of particular concern to the Chief of the Naval Staff. One sure result of the proposed changes would be a loss of flexibility which would diminish British ability to deal with the unexpected. The need for consultation with Britain's allies was very great. Many of them were reviewing the present level of their defence effort and failure to consult might deal a severe blow to the cohesion of the Alliance.

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In discussion the following points were made -

- a. The Defence Secretary's reshaping proposals, particularly in their slower version, might just be saleable to the Government's supporters and to Britain's allies. But there would be no possibility of selling the more severe proposals which must inevitably flow from the Chancellor of the Exchequer's alternative financial basis. They would probably lead to an American demand that the British Trident programme should be abandoned to preserve conventional forces.
- b. Failure to spend sufficient on defence in peacetime had been a contributory factor to the start of both World Wars. This mistake must not be repeated. In particular the Trident programme with its guarantee of "indestructible retaliation" must form part of the future programme. But the Trident programme would certainly become more controversial whatever reshaping was undertaken; it would be suspected of crowding out other deserving forms of defence expenditure.
- c. The Government's political commitment to give top priority to defence was very strong. The financial basis proposed by the Chancellor of the Exchequer would do no more for defence than the previous Government had already planned to do. But the Government were also firmly committed to the principle that Britain must not live beyond her means. If other programmes could not be cut, increased taxation might be the only answer.
- d. It was regrettable that Britain, as a maritime nation, could not give priority to her naval contribution to the Alliance. But the political cohesion of the Alliance would be better served by giving priority to the Central Front.
- e. The danger from the Soviet Union was very great. But public morale should not be undermined by describing it in terms which made resistance seem impossible. The Western countries were much richer than the Russians, and adequate defence measures should not be beyond their reach.

f. From the point of view of employment, the slower reshaping proposed by the Defence Secretary was very much to be preferred.

g. From an industrial point of view it would be very desirable to maintain a capability in this country to design future combat aircraft.

h. In view of the severe measures which were unavoidable at Chatham and Portsmouth, it would be difficult to retain the dockyard in Gibraltar, where there was no comparable unemployment problem. But Britain was committed to sustaining Gibraltar economically and would have to do so by one means or another. Dockyard closure would also strengthen the hand of those who were pressing for special treatment for the Gibraltarians in the Government's proposed Nationality Bill.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the broad thrust of the Defence Secretary's proposals for reshaping the Defence Programme. Particular problems for other Ministers which arose from these proposals should be pursued with him bilaterally; but care should be taken not to undermine the general shape and balance of his plans. The Committee were also agreed on the importance of devoting to defence the maximum of resources which the country could afford. This maximum had to be decided on in the light of the level of taxation which Parliament would be willing to support and of the possibility of subjecting other programmes to more drastic reductions than had hitherto seemed acceptable. It would be for the Cabinet to decide between the alternatives, including the two bases suggested by the Defence Secretary and the basis put forward by the Chancellor of the Exchequer. To enable this decision to be taken in its proper context, the order of Cabinet business on 17 and 18 June should be reversed, so that Economic Policy was considered at the first meeting and the Defence Programme at the second.

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The Committee -

Invited the Secretary of State for Defence

- i. to seek to resolve in bilateral discussion the particular problems arising from his proposals to which other members of the Committee had drawn attention;
- ii. to concert with the Chancellor of the Exchequer an agreed presentation of the figures involved in the alternative levels of defence spending canvassed in their papers OD(81) 29 and 31;
- iii. to circulate to the Cabinet, for their meeting on 18 June, his broad conclusions on the effects which these alternative financial bases would have on the reshaping of the Defence Programme, and his considered recommendations.

Cabinet Office

9 June 1981

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