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MO 8/2/12

PRIME MINISTER

DEFENCE CASH LIMITS 1979-80

I must make a short comment on the Chief Secretary's minute on Defence Cash Limits 1979-80.

✓ 4.7

2. It is quite wrong to suppose that our Allies will think of the tax increases as a small debit factor offset by the credits of the Forces' pay increases and the £100m.

3. The Germans and Americans can do the calculations as well as we can. They will know that, if VAT has to be absorbed (as well as 3% of the civilian pay bill, which I have accepted) there is no way in which the 3% NATO target could be met. In fact, on the figures and prices to date, we shall be making a 3% cut. We cannot ensure our political standing by dishonouring an undertaking given little over a month ago. To fail to stand by the commitments we have so recently made would dismay our friends and give comfort to our opponents both domestically and internationally.

4. I am sending copies of this minute to the Chief Secretary, to other members of the OD Committee, the Lord President and Sir John Hunt.

5th July 1979

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