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Ref: A03460



SECRET

PRIME MINISTER

Prime Minister.

1

If you are ready to see the  
Chief of Staff, Friday would be a  
better day than Monday when you will  
be encountering very many on the  
Hansard House speech. But we should  
first need to confirm that X/John is  
not held Mr. Pym's position. I could do  
this by seeing him before Cabinet tomorrow  
if you wish.  
R.A.S.

Proposed Reductions in Defence Expenditure

Since the meeting of the Cabinet yesterday, I have been in touch with the Treasury and the Ministry of Defence at top official level.

2. As to the conditions attached to Mr. Pym's offer of £152 million, it should be possible to reach agreement on formulations that are reasonably satisfactory both for the Chancellor of the Exchequer and for the Secretary of State for Defence. Positions are not rigid on either side.

3. As to the amount, the Treasury are clearly prepared to come down to something like £250 million, which would be on top of the overspend from this year which the Secretary of State for Defence has agreed to absorb next year. That could amount to as much as £125 million, over and above the £250 million from whatever cut is agreed.

X

4. The Secretary of State for Defence will be prepared to come up to £188 million. But there are no signs of his being prepared to move further than that, and I judge that he will not do so unless and until you have seen the Chiefs of Staff.

5. The Chief of the Defence Staff will be back in this country tomorrow afternoon. You could see the Chiefs on Friday or on Monday. Thereafter I think that the Secretary of State for Defence may be prepared to move a little further. I would judge that agreement might eventually be reached between £225 million and £250 million.

6. I do not think that any useful purpose would be served by another discussion on defence in Cabinet tomorrow. I suggest that you should simply say that you understand that discussions are still continuing and suggest that the Cabinet return to this programme next week.

(Robert Armstrong)

5th November 1980

SECRET