

Red. exp. chushan

Ref: A05100 94-5

Redundancies 17

Navy

Army

Chips of Staff

SECRET

PRIME MINISTER

20 major workyn

£2000 -  
BACKGROUND

The Defence Programme  
(C(81) 31 and 33)

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Adm' - Political

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The Secretary of State for Defence has circulated C(81) 31 to the Cabinet in accordance with the conclusions reached by OD at their meeting on 8th June. As agreed at that meeting he has discussed the presentation of the figures with the Chancellor of the Exchequer and these are set out in agreed terms in Appendix J to C(81) 31. The Cabinet is invited to choose between the Secretary of State for Defence's preferred option (defence line II) and the Chancellor of the Exchequer's proposals, as set out in Annex A to C(81) 31.

2. In C(81) 33 the Chancellor of the Exchequer deploys the same arguments he set out for OD on why the Defence Programme should be based on constant defence expenditure after the Survey Period, and within the Survey Period kept in line with the Command 8175 figures, subject to bearing its share of any further reductions in public expenditure upon which the Government may decide. He concedes that defence's Cmnd 8175 figures need not be reduced, provided that other colleagues are prepared to bear a proportionately greater share of any overall cuts which are agreed on for the Survey Period.

3. This discussion by the Cabinet provides an opportunity for non-OD Ministers to consider the implications of the Secretary of State for Defence's proposals in relation to their own departmental programme, as well as to form a view on the overall political balance of advantage. On this latter point it was recognised by OD that the Secretary of State for Defence's reshaping proposals in their slower version (line II) ought to be saleable to the Government's supporters and to Britain's allies. But it was argued that there was no possibility of selling the more severe proposals which must inevitably flow from the Chancellor of the Exchequer's alternative financial basis; and in particular that these would probably put the Trident programme at risk. You will wish to establish whether the Cabinet as a whole accept this political judgment.

1) Professionals go with it - CD next.  
2) Option 2.



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4. If the Cabinet do for this reason accept what the Secretary of State for Defence proposes, there will be inevitable consequences for other fields of public expenditure and the future level of taxation. These implications cannot be quantified with any precision at this stage. The background to this whole problem will be much in the minds of the Cabinet following today's discussion on economic strategy.

5. In these circumstances, any Cabinet acceptance of the Secretary of State for Defence's proposals seems almost certain to need qualification. Even if the Chancellor of the Exchequer were content with the forward figures today, no-one could guarantee that they will not need looking at again in the light of changing circumstances both at home and abroad.

6. The Secretary of State for Defence's proposals give rise to a number of detailed issues which OD did not consider in detail. The Foreign and Commonwealth Secretary identified his share of these points in his minute to the Secretary of State for Defence of 5th June; they concern Belize, Gibraltar, Cyprus and the Falklands, and he has since underlined his worries about Gibraltar in his further minute to the Secretary of State for Defence of 16th June. The Secretary of State for Trade has since put down a marker concerning civil hydrography. This is a particularly difficult point, since when OD discussed the matter on 19th March, 1980 it was actually agreed to make a marginal increase to the Defence Budget to provide a coastal survey vessel to undertake civil hydrographic work. The Secretary of State for Defence's latest proposals appear to envisage keeping the money but giving up the commitment. There is no need for the Cabinet to discuss these points in detail; but it is important that the minutes should reflect the need to get them properly sorted out.

HANDLING

7. You will wish to ask the Secretary of State for Defence and the Chancellor of the Exchequer to introduce their papers. The points to establish in subsequent discussion are:-

- (a) Is it agreed that the Defence Programme needs radical reshaping to bring commitments into a proper relationship with resources?

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- (b) Is it agreed that the priorities in such a reshaping, and therefore the main victims, must be broadly as suggested by the Secretary of State for Defence?
- (c) As regards figures, are the Cabinet prepared to face the probable consequences, at home and abroad, of basing the reshaping on the expenditure line proposed by the Chancellor of the Exchequer?
- (d) If not, do they (as things now stand) accept the Secretary of State for Defence's recommendation that his "slow" alternative (defence line II) is to be preferred?
- (e) If so, is it agreed that the translation from volume to cash should take account of the relative price effect, whatever it may be? To that extent, therefore, there would be nothing sacred about the actual figures in the Secretary of State for Defence's line II, which illustratively assume a 2 per cent RPE.
- (f) Do the Secretary of State for Defence's proposals give rise to any particularly difficult regional problems? The major locations affected by proposed changes are set out in Appendix I of C(81) 31. The areas affected are predominantly in England.
- (g) Is it agreed that where particular proposals by the Secretary of State for Defence are unacceptable to interested colleagues (e. g. the Foreign and Commonwealth Secretary and the Secretary of State for Trade) they should be handled as follows? The complainant and the Secretary of State for Defence should seek to reach agreement whereby either the complaint is dropped or the cost of upholding it is balanced by a further cut elsewhere in the Defence Programme. If this proves impossible, OD should arbitrate. In no circumstances would the size of the Programme be increased. But pending decisions, if necessary in OD, no public mention should be made of cuts in these areas.



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- (h) Is it agreed that the Secretary of State for Defence should press ahead with consultations with Allies with the aim of making an announcement on Thursday, 25th June? Would the advantage of a longer period of consultation and deliberation be outweighed by the more prolonged period of uncertainty and the probable development of pressure groups?

CONCLUSION

8. Subject to the discussion, the Cabinet might be guided:-

- (i) to confirm OD's endorsement of the broad thrust of the Secretary of State for Defence's proposals set out in C(81) 31;
- (ii) to choose the second resource option as set out in Annex A and Appendix J to C(81) 31, as recommended by the Secretary of State for Defence, but subject to the RPE point at (e) above;
- (iii) to recognise that these decisions in relation to the Defence Programme will increase the pressure to make reductions in other fields of public expenditure, although this cannot be quantified at this stage;
- (iv) to recognise that there are a number of points of detail which the Secretary of State for Defence will need to discuss bilaterally with colleagues, as indicated in (g) above;
- (v) to note that the Secretary of State for Defence may have to announce the imposition of cash rationing on industry to curb this year's overspend;
- (vi) to recognise that, despite the desirability of establishing a firm core Defence Programme, no guarantee can possibly be given now that the future level of defence expenditure beyond the Survey Period may not need to be reconsidered at a future date in the light of developing economic and political circumstances.

(vii) Usl. to Cash  
bilaterally  
(viii) Redundancy

REA

(Robert Armstrong)

17th June, 1981