

① Defence & Foreign Policy
must be discussed together
(you only or) members
and don't mind - Ray

1. Prime Minister.
This seems to me a sensible
way of proceeding (content with
the arrangements suggested in
paragraph 7?)

Ref. A01836

MR. WHITMORE

② Etc strategy
idea - Will you look to
prepare - say early July?
3rd
MB

Discussion on Future United Kingdom Defence Policy

After the OD meeting on 20th March we had a brief word with the Prime Minister on the question of a further discussion of defence matters before the Secretary of State for Defence brings his proposals back to OD in June. The purpose of this minute is to make some suggestions.

2. I think that the further discussions should be confined to members of OD plus the Secretaries of State for Industry and Northern Ireland. It should take place long enough before the Secretary of State for Defence frames his final proposals for him to take into account points made in the discussion, but not so long before that the memory of it will have faded before OD considers his recommendations. This points to a date in early or mid May.

3. On form and duration I suggest that the occasion might start with a presentation, perhaps by the Chiefs of Staff and senior officials with visual aids, followed by discussion.

4. On substance I believe that what would be most helpful in the presentation is a description, in plain language, on how the Ministry of Defence plans to spend the defence budget over the next few years, the assumptions on which those plans are based, the scope for making alternative plans and the penalties which are likely to be incurred by making changes. Clearly we shall need to discuss the details of such a presentation with the Ministry of Defence, but something along these lines would allow members of OD to form a better view of the practical policy options between which the Secretary of State for Defence has now to choose, and hence lead to a more deeply considered discussion of his proposals when they come to OD in June.

5. Perhaps we could talk about the relationship of this to other possible "Chequers days" or half-days. When we discussed this with the Prime Minister, we were thinking about combining the defence discussion, to last for about 1½ hours, with a discussion of economic strategy, to last for about 2 hours,



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and packing all that into one morning, to be followed by a late buffet lunch, after which Ministers would go their ways. There is also the question whether we need a similar discussion on foreign policy after Afghanistan, on which the Foreign Secretary is preparing a paper.

6. My own views are:

- (1) Though we ought not to make up our minds about the discussion of foreign policy until we have seen the Foreign Secretary's paper, I incline to the view that it probably does not need a "Chequers day": it could well be done at a regular meeting of OD for which we had a clear run of $1\frac{1}{2}$ to 2 hours and no other business. That ought ideally to come before the defence discussion.
- (2) If we try to pack defence and economic strategy into a single morning, we may end up rushing both and doing neither justice.
- (3) The best time for the discussion of economic strategy may now be in the second half of June or even early July, when the Budget has been digested, and we have the next round of short-term forecasts. There would be something to be said for having this after rather than before the Summit meetings in June.

7. So my inclination is to favour separating the defence and economic strategy discussions; and to think in terms of a programme as follows:

- (1) An OD meeting in London in late April or very early May on foreign policy.
- (2) A defence discussion at Chequers on a Friday in the first half of May, to last for 2 to $2\frac{1}{2}$ hours (so starting at 10.00 am or 10.30 am), confined to members of OD, plus the Secretaries of State for Industry and Northern Ireland and the Chiefs of Staff.
- (3) An economic strategy discussion at Chequers towards the end of June or early in July, to start at 10.00 am and last all morning, and continue after lunch if Ministers want to; to include certainly all members of E and perhaps all members of the Cabinet; with participation by the Government's Chief Economic Adviser (Terry Burns) and by the CPRS.



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8. Perhaps we could discuss.

RTA

(Robert Armstrong)

31st March, 1980



31 MAR 1980

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COMMUNICATIONS
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DEFENCE PROGRAMME AND BUDGET

- PUBLIC LINE TO TAKE

1. We have now announced our plans for the Defence Budget over the next four years. These are firm decisions, and what they show is our determination to meet right through this period - a period bound to be difficult for us economically - the collective NATO aim of 3% annual growth, in real terms, in spending on our defence.
2. These decisions had to be taken amid two hard and conflicting realities. In security terms, it would be easy to make a case for a lot more than 3%. In economic terms it would be easy to make a case for a lot less.
3. The security facts are that we, with our Allies, are confronted by an immense and constantly growing Soviet military build-up, in both quantity and quality; and Afghanistan has just reminded the world that this is not just for show. The capability is vast, and the resources put into it are going up at a lot more than 3% a year. In face of this, and with the inexorable growth in the sophistication and cost of adequate modern equipment - and also with the backlog of deferment and omission which the Government inherited - I wish we could find more than 3%. We could certainly put it to good use in deepening the assurance of our security and freedom.
4. But defence effort does not exist in a vacuum. We must gear our Alliance contribution in part to what our economy can afford; in the long run, defence will be the stronger for doing so. We have had to put before our people some sombre economic realities, and a long haul before inflation is beaten and steady growth with declining unemployment can be achieved. Defence planning cannot be conducted as if these realities did not exist.
5. The decisions we have taken signal clearly the priorities to which we cleave. Defence is, even in hard economic times, something special, and our decisions on 3% growth show that we are acting on that principle even when the going is very tough. 3% annual increase is a hard thing for any Government to promise in such circumstances. It means that we shall continue to spend a significantly higher proportion of our national income upon defence

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than any of our partners in the European Community does, even though they are almost all wealthier than we are; and the proportion will actually go steadily further upwards in the period when we are getting the economy right. Our defence decisions stand moreover alongside extremely painful measures of cutback - real cutback, not just restraint in growth - in social and other expenditures of far greater immediate appeal to our people. And they are made at a time when we have yet to secure assured relief from the unreasonable burden which present Community arrangements impose upon our hard-pressed economy. In all, they represent the clearest possible signal and proof of where defence stands in our national priorities in the setting of today's difficult and threatening world.

6. With that secure and crucial foundation we are now engaging in shaping our forward programme so as to be taut, realistic and relevant to its key future tasks, including tasks which may reflect new international circumstances. The process of re-shaping cannot be painless. 3% annual increase is not boundless riches; it will not fund an all-round bonanza for defence; it will not even fund every paper plan we inherited. We face a Soviet effort of huge and growing scale, which ideally should be met by major improvements across the board; yet we cannot afford everything. We must be ready for hard choices. But we are resolved to approach the choices on the basis of realism, of absolute commitment to the Alliance, and of conviction that defence must come first as the bedrock of our national safety and well-being.

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Q.1. How can you possibly find room for a new strategic nuclear force?

A.1. Obviously ~~enough~~, money spent on a Polaris replacement system, of whatever kind is chosen, is money not spent on some other component of our defence capability. But let us remember some key facts. Firstly, as I explained fully on 24 January to the House of Commons - which backed the Government's approach by a majority of over five to one - this is a key element of what we do, not some kind of luxury or frill at the margin. Secondly, it makes a contribution to NATO which in practice no other European member can make; and we know our allies value it accordingly. Thirdly, the question is not whether to acquire a new role but whether to discard an existing one; and it would be bizarre to do so in today's world circumstances. And finally, this is a role which costs us far less, even at peak, than any of our other major roles. The notion that it is some kind of enormous cuckoo in the defence nest, whose ejection would leave vast room for other efforts, is absurd on every ground. We are determined to maintain it, and we and Parliament are convinced it is essential to do so.

Q.2. How do the plans contained in the Labour Government's PEWP of January 1979 (Cmnd 7439) compare, at constant 1979 Survey prices, with the plans now announced by the Conservative Government in their PEWP?

A.2. The figures are as follows:

	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>£m 1979 Survey Prices</u>		
					<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
Labour Plan	7550 ⁽¹⁾	7573 ⁽²⁾	7914	8177	8219 ⁽³⁾	8227 ⁽³⁾	
PEWP	7550 ⁽¹⁾	7502 ⁽¹⁾	7723 ⁽²⁾	7997	8240	8490	8740

(1) Out-turn

(2) Forecast out-turn

(3) Provisional

Q.3. How does the Defence Secretary reconcile his words with the facts - a reduction of £370M, on the expenditure planned by the

Labour Government in the years 1979/80 and 1980/81?

A.3. By comparison with the last Government's plans savings were made in 1979/80. These reflect the part my Department has played in the drive for the elimination of waste and measures to keep expenditure within the cash limit. Some slippage in the equipment programme also occurred.

It ill becomes the Opposition to criticise. Our 1980/81 figure provides for an increase in the volume of expenditure of $3\frac{1}{2}\%$ over the latest forecast of out-turn for 1979/80. The Rt Hon Member for Leeds East (Mr Healey) has said that a 3% increase is no longer justified. The Rt Hon Member for Heywood and Royton (Mr Barnett) has pointed out that a Labour Government would have had to cut public expenditure; would he deny that planned defence expenditure would have been substantially reduced? Would anyone, hearing statements like these, believe it probable that Labour would actually have implemented planning figures which would have increased real defence spending $5\frac{1}{2}\%$ in 1979/80 and then a further $3\frac{1}{3}\%$ in 1980/81?

For 1981/82 and 1982/83 the Labour Government took no decisions. Their figures were simply a revaluation of the figure for 1981/82 in their previous PEWP. Our figures represent firm decisions; show 3% annual increases in the volume of defence spending; and project the 3% increase forward into 1983/84.