CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Monday, 14th February, 1966,
at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P.,
First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORDFORD GARDINER,
Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P.,
Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY,
M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P.,
Secretary of State for Scotland
The Right Hon. THE EARC OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY GREENWOOD,
M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN,
M.P., Minister of Housing and Local Government
The Right Hon. DOUGLAS HOUTON,
M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUNSE, M.P.,
Minister of Technology
The Right Hon. FREDERICK LEE, M.P.,
Minister of Power

The Right Hon. HERBERT BOWDEN, M.P.,
Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P.,
Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P.,
Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P.,
Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P.,
Secretary of State for Wales
The Right Hon. DOUGLAS JAY, M.P.,
President of the Board of Trade
The Right Hon. ANTHONY CROSLAND,
M.P., Secretary of State for Education and Science
The Right Hon. SIR FRANK SOSKICE, Q.C.,
M.P., Lord Privy Seal
The Right Hon. R. J. GUNTER, M.P.,
Minister of Labour
The Right Hon. FRED PEART, M.P.,
Minister of Agriculture, Fisheries and Food
The Right Hon. BARBARA CASTLE, M.P.,
Minister of Transport

Also present:
The Right Hon. FREDERICK MULLEY,
M.P., Minister of Aviation

Secretariat:
SIR BURKE TREND
Mr. P. ROGERS
Mr. D. S. LASKEY

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Subject

DEFENCE REVIEW:

The Cabinet considered a memorandum by the Secretary of State for Defence (C(66) 33), to which was appended the draft of a Statement on the Defence Estimates, 1966: Part I.

The Secretary of State for Defence said that he had set three targets for the review of our defence expenditure. The first was to reduce the burden on resources by some 16 per cent as compared with the plans of the previous Administration: the second to reduce the burden on foreign exchange: and the third to reduce the excessive strain upon our military resources. £1,200 million over a 10-year period had already been saved by the decisions which the Government had taken on the aircraft programme. Defence expenditure in the following year would be just below the ceiling of £2,000 million at 1964 prices, but because of certain expenditure had inevitably been deferred while decisions were being taken on the Defence Review, there would be a slight increase thereafter until the target figure was met in 1969-70. The economies which had so far been achieved had been on equipment and without any diminution of our military capability, i.e., solely by getting better value for money. There still remained, however, a gap of £100 million between the target figure and the expenditure which would be incurred on existing plans in 1969-70 and this gap could only be closed by reducing commitments. The Defence Review had achieved certain major reductions, primarily in the Mediterranean and the Middle East, in relation to Malta, Cyprus, Libya and Aden. A small increase of facilities was necessary in the Persian Gulf in order to compensate for the loss of Aden. In the Far East we planned a substantial reduction of our forces as soon as confrontation came to an end. The Ministers in charge of the oversea Departments did not believe that it would be politically possible for us to stay in Singapore for any considerable period thereafter and if no alternative facilities were provided in Australia it would no longer be practicable for us to station substantial forces in the Far East. This would result in substantial savings in foreign exchange and resources.

The total reductions which would result from these proposals still left a gap of some £50 million between the target and the estimate in 1969-70. If this could be reduced to £25 million, the target could then be achieved by a number of minor savings. It should, however, be borne in mind that the existing estimate included provision of £50 million for contingencies. Such provision was not normally made in estimates, but it would be prudent to include it in the present instance. The necessary savings of £50 million might be achieved in a number of ways; by failure, owing to difficulties in recruitment, to maintain the carriers in service for as long as was proposed; by the further reduction of commitments which was likely to occur, whether in the Far East through the ending of confrontation and our withdrawal from Singapore, in the Middle East through the ending of the Kuwait commitment as a result of the actions of the present Kuwaiti Government, or by the reduction of

* Previously recorded as a Confidential Annex.
our forces in Germany if our requirements for offsetting foreign exchange were not met; or finally by cutting out the PI 127.

As regards foreign exchange the proposals provided for a cut of £75 million (from £350 million to £275 million a year) in the total which was involved on the plans as they stood a year ago. This latter figure, which would amount to about 6 per cent of our total imports, did not, moreover, take into account the very substantial offsets which should be achieved through our agreements with the United States and Federal German Governments. The proposals also provided for a reduction in the present overstrain of the Services.

The largest reductions in our forces would be effected in respect of the Royal Navy, primarily through the carriers being phased out by 1975 at the latest. The Royal Air Force would remain about the same size as at present, but it should be borne in mind that it would have to take over certain of the tasks which at present were performed by the Royal Navy and that very large savings had already been achieved. The Army would be reduced from some 195,000 men, including the Gurkhas, to 176,000 men, including the disbandment of the Gurkhas. In considering the equipment of the forces it was important to recognise that the carriers and the F-111A were in no sense alternatives. All the Chiefs of Staff and all the Service Boards agreed that the F-111A was essential to enable the forces to carry out the tasks which would be laid upon them over the next decade. The Chief of the Naval Staff and the Admiralty Board were alone in believing that the maintenance of the carriers was necessary for this task.

The Foreign Secretary said that we had two major aims. The first was to be in a position to defend the United Kingdom and our freedom. The Atlantic Alliance was of primary importance in this regard and it would be important that we should not disrupt it by decisions relating to the stationing of our forces in Europe. The steps which were envisaged were, however, acceptable from this point of view and the United States Government were fully aware of what we proposed. The second aim was to play in an unstable world a proper part, commensurate with our resources, in the preservation of world peace. The large cut envisaged in our commitments in the Mediterranean and the Middle East would involve certain risks which could nevertheless be accepted, but further cuts at the present stage would be impracticable, though the Kuwait commitment might well wither away over the next few years. It would, however, be imprudent for us to abandon it unilaterally. The course of events in the Far East was difficult to foresee. The cost of our forces in this area was very high and the relationship between our interests and our defence expenditure was much less favourable than in the Middle East. Such expenditure was inevitable as long as confrontation continued, but it was hoped that this might, at least tacitly, be abandoned before long. We had made it clear to our allies that thereafter we believed that it was unlikely that we should be able to remain in Singapore for any considerable period.
In considering the appropriate balance between what the United Kingdom could afford and what part she should play in world affairs neither aspect could be regarded as overriding. Our capacity to carry out certain commitments was inevitably limited by the strain on our resources, but to cut our commitments beyond a certain point might have consequences for world stability which would cause even greater damage to our economic position.

The Chancellor of the Exchequer said that the target of £2,000 million at 1964 prices for defence expenditure in 1969–70 had been taken as a starting point for the review of governmental expenditure as a whole by the Public Expenditure Committee. The excess of £50 million which was at present estimated would inevitably affect other programmes of expenditure and it would be imprudent to seek to meet this point by making no allowance for contingencies. He accepted the view put forward by the Secretary of State for Defence on the desirability of our maintaining a military presence in the Far East, but the question was whether we were at present proposing to play too large a part in relation to our resources. There might also be further scope for economies in the Middle East, particularly in relation to the building up of our facilities at Sharjah and the level of forces which it was proposed to retain in Cyprus.

The excess of expenditure over the target might also be cut by not continuing the P-1127. This expenditure was not justified on military grounds on a balance of priorities in relation to other defence expenditure and the cost involved was high in relation to the political and industrial advantages. Alternatively, the money could be found by a further reduction in commitments and there was in any event cause for concern at the wide range of commitments which it was still proposed to retain, since these might at any time involve the escalation of our military tasks. It might be that in the event the target of £2,000 million could be met by the withering away of certain commitments in the Middle East and Far East but the plan as it stood did not contain a guarantee that we should succeed in achieving it.

The Prime Minister said that in comparing future expenditure by the Home Departments and by the Ministry of Defence it must be borne in mind that our plans provided for the expansion of civil expenditure at the rate of 4½ per cent a year, whereas defence expenditure had to be heavily cut, with all the implications which this involved for our position overseas. In considering the excess of £50 million it was questionable whether the present allowance for contingencies might not be excessive, having regard to the extent to which work on research and development, which was the main cause of the escalation in expenditure, had already been cut by the change in our aircraft programme. In considering the future of the P-1127 the Cabinet would wish to have in mind not only the implications for our military capacity but also those for the future of the United Kingdom aircraft industry if this aircraft were abandoned. It would in any event be necessary to review the future of this aircraft the
following October in the light of the progress then made and it would be desirable at that time to consider what prospect there was for sales to foreign countries.

More broadly, in considering the burden of defence on our resources, due regard must be had to the importance of our maintenance of a world role in relation to the willingness of overseas countries to support sterling. No specific connection had ever been made by overseas Governments between these two aspects, but we could not expect that if we cut our oversea commitments more drastically other countries would necessarily be so readily prepared to assist us in other respects. A further factor of major importance in considering our role East of Suez was that it was primarily in this area that the real danger of a world war now lay and in our own interests we must be prepared to play a part in seeking to maintain stability.

The following main points were made in discussion:

(a) Defence expenditure represented a little over 7 per cent of our Gross National Product; by 1969-70 it would be about 6 per cent. A comparable figure for the United States was at present 8½ per cent and this might well rise while the war in Vietnam lasted. For France the figure was 6-5 per cent and was likely to go up owing to the cost of the French nuclear deterrent. The German figure was about 5 per cent and this would strengthen our position in negotiating the offset of our foreign exchange costs. It was difficult to attribute defence expenditure as a whole to the different theatres, owing to the impossibility of allocating precisely expenditure in the United Kingdom, but in 1969-70 defence expenditure overseas could be roughly divided between NATO (50 per cent), Indo/Pacific (40 per cent) and Mediterranean/Middle East (10 per cent).

(b) Paragraph 22 of the White Paper would be strengthened to make clear that our ground forces in Germany would only be maintained at about their existing level provided that some means could be found of meeting the foreign exchange cost. At present our forces in Germany formed, in effect, part of the Strategic Reserve on which we needed to draw in order to meet emergencies outside Europe; if we brought forces back to the United Kingdom, we should save some foreign exchange but would incur heavy capital costs for accommodation. If, however, we could reduce our commitments outside Europe, a reduction in the size of the Army might be possible and we should then be able to withdraw some forces from Germany if we wished to do so. An arms control agreement in Europe might also make possible a general reduction in the level of NATO forces.

(c) It was suggested in discussion of paragraph 28 that it would be unwise to publish our intention to reduce our forces in Malta; this could affect the result of the Maltese elections to be held this year and would make more difficult the negotiations to which we were committed by the Defence Agreement. It was, however, the
general view that the White Paper should not be less specific than
was now proposed about the decision to reduce our defence
establishment in Malta.

(d) The decision to leave Aden when South Arabia became
independent represented a major reduction in commitments and
paragraph 29 would be expanded to bring this out more clearly. The
question was, however, raised whether we need maintain our
commitment to CENTO and a military presence in the Persian Gulf.
It was pointed out that future developments might relieve us of the
CENTO commitment, but if we now took the initiative in abrogating
it this might well cause the Shah of Iran to change his pro-Western
alignment. In the Persian Gulf we intended to reduce the
commitment to Kuwait and it seemed likely that the Kuwait
Government would either wish to end the Defence Agreement or
would increase their support for our opponents in the area so that
the Agreement could no longer be maintained. It would, however,
be disadvantageous for us to initiate its termination. Termination
would enable us to make substantial savings in expenditure on the
Gulf: a total and abrupt withdrawal from the area would, however,
leave a vacuum which might lead to war between Iraq, Iran and
Saudi Arabia, with a consequent grave disruption of the oil supplies
for the West. Our aim must be to phase out our withdrawal slowly
in order to leave behind a stable situation. Moreover, without the
existence of such bases in the Middle East as Aden or Masirah
intervention in Africa, such as the recent despatch of RAF aircraft
to Zambia, would be more difficult, if not impossible.

(e) It was suggested that once confrontation was over there
would be no justification for maintaining large military forces in
the Far East, since this was an area in which we had little direct
concern; the White Paper indeed implied that we should welcome
conditions which made it impossible for us to remain in Singapore
and Malaysia since this would enable us to make large savings. It
was, however, pointed out that the Indo/Pacific was the area of
greatest uncertainty and the risk of a major war starting there was
far higher than it now was in Europe. It was impossible to say how
the situation in Vietnam or confrontation would develop. We hoped
that confrontation would end and that it would be possible to build
up a block of neutral States in South-East Asia. If, however, we
announced now our intention to leave Malaysia and Singapore when
confrontation ended, there was a risk that others, including the
People's Republic of China, might try to take over our position and
this could lead to a complete breakdown of stability which our
continued presence could prevent. If, however, as we thought likely,
political developments in Malaysia and Singapore after the end of
confrontation made it impossible for us to remain there, we could
only establish forces in Australia to the extent that facilities were
available. It was clear that within the next three years facilities
could not be constructed for more than about half the forces which
we had planned to keep in the Far East, and the Australian
Government were opposed to the stationing of substantial United

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Kingdom ground forces in Australia. They would probably welcome United Kingdom air forces and might be able to make facilities available for some naval forces. It seemed probable therefore that, if we had to leave Malaysia and Singapore in a few years' time, the level of our forces in the Far East would then be substantially lower than was now envisaged, with consequent savings in foreign exchange and perhaps in total budgetary cost.

(f) It was suggested that paragraph 12 of the White Paper should make clear not only the Government's intention to internationalise our nuclear strategic forces but also to undertake no further development of nuclear weapons. It was confirmed that no development or expenditure was currently being undertaken on the next generation of nuclear weapons; and the resources devoted to the military nuclear programme were now very small. It was agreed that this paragraph of the White Paper should be further considered in the light of the discussion.

(g) The military reductions which we intended to make would have economic consequences in a number of countries, such as Malta and Singapore. These were being studied, but it was clear that no further economic aid would be available within the present total allocation. If further aid were to be given, this could only be done by offsetting to some extent the savings in defence expenditure.

(h) The force structure proposed by the Secretary of State for Defence would not meet the figure of £2,000 million at 1964 prices unless further economies were made and even at the level of £2,000 million defence expenditure in 1969–70 would impose an undue strain on our resources. On the other hand there seemed a reasonable prospect that further economies could be made and that some of our commitments, particularly in the Middle East and the Far East, could be further reduced without our having to take the initiative in abrogating them. If, however, decisions were taken now involving major changes in regard to commitments or equipment, this would reopen the assumptions on which the proposed force structure had been based. If the force structure were, however, accepted, this should be on the understanding that a sustained effort would be made to achieve further economies and to this end defence expenditure should be subject to close annual review.

(i) Certain other amendments in the draft White Paper were agreed.

The Prime Minister, summing up the discussion, said that the Cabinet would wish to continue their consideration of the draft White Paper at a further meeting later that day. Meanwhile Ministers should send any drafting amendments to the Secretary of State for Defence and he would consider with the latter whether amendments could suitably be made to the White Paper in regard to our military nuclear programme. It was also agreed that a sustained effort would be required if the ceiling of £2,000 million at 1964 prices in 1969–70 were to be achieved and that to this end defence expenditure year by year should be subject to close scrutiny.
The Cabinet—

(1) Agreed to resume their consideration of the draft White Paper later that day.

(2) Took note that the Prime Minister would consider with the Secretary of State for Defence the passage in the draft White Paper dealing with our military nuclear programme.

(3) Agreed that, in order to achieve the ceiling of £2,000 million at 1964 prices in 1969–70, defence expenditure should be subject to close annual review.

Cabinet Office, S.W.1,
14th February, 1966.