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CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Friday, 12th January, 1968,
at 2.30 p.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALY, M.P., Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FEED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology
The Right Hon. REGINALD PRENTICE, M.P., Minister of Overseas Development
Mr. GORONWY ROBERTS, M.P., Minister of State for Foreign Affairs

The following were also present:
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury
Mr. GEORGE THOMAS, M.P., Minister of State for Commonwealth Affairs
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Mr. E. M. ROSE
Mr. H. L. LAWRENCE-WILSON
Mr. D. GRUFFYDD JONES

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SUBJECT

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

General
Reductions in Defence Expenditure Overseas
F-111
Visit of the Prime Minister of Singapore
The Cabinet resumed their discussion of the post-devaluation measures proposed by the Chancellor of the Exchequer in C (68) 5.

The Chancellor of the Exchequer, in response to a question about the relationship between his proposals for public expenditure and policy on taxation and on prices and incomes, said that his expenditure proposals assumed that the Government's incomes policy would be effective in preventing the increase in prices consequent upon devaluation from causing incomes to grow faster as a result of devaluation than they would otherwise have done. In so far as this assumption proved to be optimistic, it would be necessary to that extent to make greater use of taxation policy as a means of restraining the growth of demand. In response to further questions whether he was satisfied that the measures he was proposing in order to restrain public expenditure would, taken as a whole, prove sufficient to restore confidence in the stability of the economy, he said that the announcement of the measures before the publication of the Estimates should neutralise any adverse reactions to the latter and, while he would have liked to see a larger total reduction in public expenditure, the Cabinet's discussions had shown how difficult it would be to achieve this. He would of course be prepared to examine any further economies such as had been suggested, e.g., in respect of postponement of expenditure on decimalisation of the currency and of the expansion of Stansted Airport; but there was always a risk that such postponements might well lead to higher expenditure later. Perhaps the major points were that there was no absolute figure for reductions in public expenditure which would be just right and that the effect of the measures depended on their quality as well as on the total saving achieved. In other words, the measures must be such as would demonstrate that the Government were prepared to make changes in policy considerable enough to achieve their purpose; and in his view, the proposals before the Cabinet would do this. While, therefore, he would have preferred to make a larger total reduction in public expenditure programmes, he believed that his proposals, considering their nature as well as their scope, would prove adequate: he was accordingly prepared to face the somewhat larger budgetary problem which might result.

The Cabinet—
(1) Took note that the Chancellor of the Exchequer, in consultation with the Ministers concerned, would consider the further economies in public expenditure suggested in the discussion.

The Prime Minister recalled that at their meeting on 4th January the Cabinet had invited the Defence Secretary, if he so wished, to propose alternative economies with a view to securing defence savings no less than would be secured by cancelling the order for the F-111 aircraft. The Cabinet now had before them a memorandum by the Defence Secretary (see (68) 19). Before considering this memorandum the Cabinet might, however, wish to hear from the Foreign Secretary an account of his recent visit to Washington and
also to have a report from the Minister of State for Foreign Affairs on his tour of the Persian Gulf area.

The Foreign Secretary said that he had had a disturbing and distasteful discussion with the United States Secretary of State, Mr. Dean Rusk, in Washington on the previous day. He had also met the United States Secretary for Defense, Mr. McNamara, at lunch, and had had a telephone conversation with President Johnson. He had forcefully and faithfully presented to them the case for the Cabinet's decision to withdraw from the Far East and from the Persian Gulf by the end of the financial year 1970-71 and to cancel the order for F-111 aircraft. Mr. Rusk's reaction had been, as always, kindly and courteous. But he had not concealed that he was shocked and dismayed. He had used the phrase "For God's sake act like Britain". He clearly believed that we were opting out of our world responsibilities. He had said that it was the end of an era; and by that he had in particular implied that it was the end of the age of co-operation between the United States and ourselves. Confidence in us had been terribly shaken. An official of the State Department who had been present at his meeting with Mr. Rusk had asked what international role we thought we could play in future if we were planning to withdraw from the Far East and the Middle East and as he understood the Prime Minister to have implied in his recent conversation with the United States Under-Secretary, Mr. Katzenback, we planned to withdraw even from Europe if we did not secure 100 per cent offset for the foreign exchange costs of stationing our forces in Germany. We therefore faced a critical situation in our relations with the United States. What Mr. Rusk had called "the acrid aroma of a fait accompli" had hit them deeply and hard. The consequences of our decisions could be very grave; and their cost in the short run might be greater than the savings they were meant to achieve. It was possible that irreparable damage had already been done to our relations with the United States merely by communicating our decisions to them. But there was a chance that our change of policy would be grudgingly accepted by the United States if we (a) decided not to cancel the order for F-111 aircraft and (b) extended by a year, to 1972, the time limit for our withdrawal from the Far East and, consequently, from the Persian Gulf. On the first point it was only the possession of F-111 aircraft which would give credibility to the general capability which we claimed we should have available after our withdrawal from the Far East and Middle East for use in Europe and elsewhere in the world. On the second point there was no doubt that the United States Government were more concerned by our withdrawal from the Middle East than from the Far East. In the Far East they were hopeful of bringing the Viet-Nam war to a fairly early conclusion and thereafter of being able to exercise sufficient influence in the area from their island bases in the Pacific. They would therefore prefer us not to set any term for our withdrawal from the Middle East, let alone announce a date, and to postpone our withdrawal from the Far East until 1972. He had tried to explain to them that we could not stay in the Middle East after our withdrawal from the Far East; so long as we remained in the Persian Gulf, we could not make the savings that would result
from eliminating our carrier force. Although representatives of the Department of Defense had understood this, Mr. Rusk had not; nor had he understood that, once we had announced our withdrawal from the Middle East, we should probably not be able to stay there as long as we intended. The Foreign Secretary considered however that the arguments he had repeatedly deployed on these points would, on reflection, quickly become clear to the whole of the United States Administration; and he had made clear to them that the Cabinet’s decision was firm. But he had undertaken to report their views to his colleagues. In view of United States reaction he now recommended that we should postpone our withdrawal from the Far East by a year and then withdraw from the Far East and the Persian Gulf at the same time.

The Prime Minister said that the attitude of the United States Government was considerably affected by their fear of a swing to isolationism in America. This had been clear from his talk with Mr. Katzenbach. He had not implied to Mr. Katzenbach that we intended to withdraw from Germany. But he had made clear that arrangements whereby the United States pre-empted all Germany’s available foreign exchange to offset the stationing costs of their forces, leaving us to pay our own, would be unacceptable; and that in that event we might be forced to consider difficult policy decisions. But this did not affect the new principle in our defence policy, which was now to concentrate on Europe. He was not impressed by the American complaint that they had been faced with a fait accompli.

The economic decisions announced by President Johnson on 1st January would add an additional £100 million to the burden on our balance of payments; but they had been taken without consulting or warning us. It was important to our future relations that both we and the United States should recognise, especially now that we were both seeking to eliminate our external deficits, that we must each look after our own interests. They might be able to damage us economically if they wished; but it should not be thought that we were not in a position to reply in kind by, for example, withdrawing our investments from the United States. Our common interests were frequently frustrated by the United States Administration’s regard for their public opinion. He recognised that they had their domestic difficulties; they should also recognise that we had ours.

The Minister of State for Foreign Affairs said that in the last week he had visited all the countries of the Persian Gulf. He had seen the Shah of Iran, King Faisal of Saudi Arabia, and the Rulers of the various Persian Gulf States, and had communicated to them the decision of the Cabinet to withdraw our forces from the Persian Gulf not later than the end of the financial year 1970–71. Reactions had ranged from the practical readiness of the Shah and King Faisal to work out alternative arrangements for preserving stability in the area after our withdrawal to downright panic on the part of the Rulers of some of the smaller States. Some Rulers had urged that we should not withdraw at all; and there had been some suggestion that some of the wealthy oil States might offer to pay part of our
defence costs. All the Rulers had agreed that any public announcement of the date of withdrawal would be dangerous for the future stability of the area in that it would enable subversive elements to plan more effectively to exploit the situation following our withdrawal. On the timing of our withdrawal there were three main arguments for spreading it over four rather than three years. First, three years was a short time in which to complete all the arrangements which would be necessary, including the abrogation of existing Treaties. Secondly, in Bahrain at least, more time was needed to build up local industry. Thirdly, three years was too short a period to enable the various States to settle the numerous territorial disputes between themselves. As a result of his visit he was convinced that it was essential to allow ourselves more time for withdrawal and that, although we should have a fixed date for withdrawal in mind, we should not announce it publicly.

In discussion the view was expressed that we could not afford to disregard the views of the United States Government. Defence and foreign policy decisions could not be taken in a vacuum. If we acted in a way likely to provoke United States hostility, we risked grave financial and economic consequences. The United States did not need to take hostile action, but merely to refuse their help. Our future position and influence in the world were at stake. The United States were determined to reduce their own defence expenditure; and it was likely that, as we withdrew into Europe, they would withdraw from it to some extent. This could significantly disturb the equilibrium within Western Europe and between Western and Eastern Europe which had prevailed for the last 20 years. If we withdrew from the Far East and retained a sophisticated and general defence capability in Europe, we could still exercise a possibly decisive influence. The date of our withdrawal from the Far East was a matter of judgment. An extra year might make all the difference between an orderly withdrawal and a precipitate and dangerous rout. It would be an additional advantage if this delay helped to avoid prejudice to our relations with the United States.

On the other hand it was argued that the time had come for a decisive break with our previous policies. We should no longer adopt policies merely because the United States wished us to adopt them and out of fear for the economic consequences if we did not do so. The friendship of the United States had been valuable to us, but we had often paid a heavy price for it. Both countries now faced balance of payments difficulties. The United States were dealing with theirs by a policy based mainly on self-interest. They could not complain if we did the same. We were making a basic change of policy, which was bound to be painful. We had already told our allies of our decisions; and the inevitable damage was therefore already done. If we now modified those decisions we risked getting the worst of both worlds. World-wide commitments were not an essential condition of United States co-operation. Our policy was now to concentrate on Europe; and there was no reason why our relations with the United States should not be at least as good as, for example, those between the United States and Germany.
In discussion of our withdrawal from the Persian Gulf it was pointed out that damage had already been done now that the local Rulers had been informed of our decisions; and an extra year would make no significant difference. The threat to our oil installations did not come solely from the possibility of subversive or nationalist uprisings but also from clashes between States, such as an attack by Iraq on Kuwait or by Iran on Bahrain. On the other hand it was argued that time was needed for Iran and Saudi Arabia to agree on arrangements to ensure stability after our withdrawal and for the other States in the area to acquiesce in them. Iran had already promised not to attack Bahrain, and on that basis Saudi Arabia might exercise similar restraint. In view of the size of our investment in the area we had a strong interest in ensuring an orderly withdrawal and in leaving stable arrangements behind us. We should allow ourselves an extra year to organise this. It was possible that in practice we might be able to leave earlier. But, if we announced an earlier date, there would be the maximum risk of disorder and of damage to our oil installations.

The Prime Minister, summing up this part of the discussion, said that, in the light of the Foreign Secretary’s talks in Washington, of the visit of the Minister of State for Foreign Affairs to the Persian Gulf and of the Commonwealth Secretary’s conversations with the Governments of Malaysia, Singapore, Australia and New Zealand, the Cabinet would wish to consider whether their decision to withdraw our forces from Malaysia and Singapore and from the Persian Gulf by the end of the financial year 1970-71 should stand. Although it would not in practice be possible to remain in the Persian Gulf after we had withdrawn from the Far East, rather different considerations applied in the former case and individual members of the Cabinet held different views on what our policy should be in the two areas. A separate decision should therefore be taken in each case. Before these decisions were taken, it would be right for the Commonwealth Secretary to be able to report on his visit to the Far East, during which he had undertaken to convey the views of the Governments concerned to his colleagues. Final decisions should therefore be deferred until a meeting of the Cabinet on Monday, 15th January, at which the Commonwealth Secretary would be present and he himself would also be able to report on his forthcoming discussions with the Prime Minister of Singapore, Mr. Lee Kuan Yew.

The Cabinet—

(2) Agreed to defer a final decision on the dates of our withdrawal from the Far East and the Persian Gulf on the basis proposed by the Prime Minister in his summing up of their discussion.

The Prime Minister said that, before continuing their discussion of the economies to be made in defence policy and expenditure, the Cabinet should know of the representations which the Chiefs of Staff had made to him, as they were constitutionally entitled to do, about
the difficulties which would confront them in implementing a decision to complete our withdrawals from the Far East and the Persian Gulf as rapidly as was now contemplated. They had in no way sought to challenge either the decisions themselves or the need for them; indeed, in pointing out certain difficulties involved in the timing of the withdrawal from the Persian Gulf, they had referred to their responsibility to see that the withdrawals were carried out in the best possible way. Their concern had been rather that, whereas under the previous policy announced in the 1967 Defence Review White Paper our withdrawal from the areas East of Suez by the mid-1970s would allow those withdrawals to take place concurrently with the consequential reductions in the size and the changes in the structure of the Armed Forces, the more rapid withdrawal by 31st March, 1971, now envisaged would make that concurrence impracticable. This was because the corresponding reductions in the size of the Armed Forces could not be effected by that date without enforced redundancies, which would not be in accordance with the terms of service of the members of the Forces. Unless, therefore, the completion of the reduction in the size of the Armed Forces could be postponed somewhat beyond the date set for completion of the withdrawals from areas East of Suez, they would be faced, especially having regard to the scope and nature of the reductions now envisaged, with serious problems in maintaining the morale and discipline of the Forces. By way of illustration of this point, the Chiefs of Staff had outlined a number of specific problems which they would encounter, including notably those arising from the decisions taken in 1966, and now again in 1968, to phase out aircraft carriers.

He was satisfied that the representations made by the Chiefs were legitimate and reasonable; and he invited the Secretary of State for Defence, who had been present at his discussion with them, to supplement the report he had just made in any respect he felt necessary.

The Secretary of State for Defence endorsed the Prime Minister's summary of the representations made by the Chiefs of Staff, adding that they themselves had been properly concerned that there should be no publicity about their representations to the Prime Minister. The Chiefs had been rightly anxious about the problems of morale and discipline which would arise if they were required to demobilise as many as 75,000 men over a period of some three years, instead of over the period of some eight years which had been provided for under the previous policy. Such a rate of rundown would inevitably involve compulsory redundancies, the effect of which would be reinforced by the fact that accelerated withdrawals and rundown now under discussion followed successive reviews of defence policy involving reductions in the size of the Armed Forces. There was clear evidence that these reductions had affected recruiting for all three Services; the recruiting figures for the previous month, December 1967, had been particularly bad and an unusually high proportion of non-commissioned officers were now seeking to leave the Royal Air Force. The Chiefs of Staff were therefore anxious
that the statement of policy to be made to Parliament in the following week should provide for a measure of flexibility in respect of the rate of rundown of the Armed Forces; and the Cabinet would appreciate that it would be wrong for him, as Secretary of State for Defence, to disregard the advice of the Chiefs of the Services on questions of morale and discipline, for which they were responsible. In his judgment it would be possible to reach the targets set for a rundown of the Services in four years but extremely difficult to do so in three. In particular, as regards the Persian Gulf, the problems of withdrawal would not be exacerbated if the terminal date for withdrawal was the same as that set for the withdrawal from the Far East: moreover, because of the difficulties of rapid demobilisation, and because our forces stationed in the Gulf were in any event not large, an earlier withdrawal from that area would not produce any significant financial savings. These were issues of political, rather than financial, judgment; and in his view there would be advantage in not announcing that the withdrawal from the Gulf would be completed in 1971, though he considered that, if the Cabinet decided to complete the withdrawals from both the Middle and Far East in 1972, it would be right to announce that as the Government’s decision.

The Cabinet then turned to consideration of the memorandum by the Secretary of State for Defence on defence cuts and the F-111 (C (68) 19).

The Defence Secretary said that at their meeting on 4th January the Cabinet had favoured cancellation of the F-111 but had left it open to him to put forward alternative economies. If the proposals that he now put forward were accepted, the result would be a saving in defence expenditure of some £3,500 million in the five years 1967–68 to 1972–73 by comparison with the plans of the previous Administration. In addition to the saving of £114 million in planned defence expenditure following the defence expenditure studies which would result from the cuts made immediately following devaluation, there would be savings of £100 million each in 1969–70 and 1970–71 and £150 million in each of the following two years. These very large reductions in the defence programme had to be viewed against the risks to morale that would flow from the large and very rapid rundown in the manpower of the Services that would be involved, particularly if the date for final withdrawal from the Far East and Middle East was 31st March, 1971. It might not in fact prove possible to disband our forces at a rate which would keep pace with our withdrawal and thus achieve by March 1971 the service manpower target previously set for 1975; a still lower total strength for the forces might subsequently prove possible, although this could not yet be quantified. He believed that the risks to service morale that were involved in this rundown were acceptable; but, at the same time, it was vital to this morale, to our security and to our influence in the world, that the resources that we were still prepared to devote to defence should be spent on the most cost-effective programme that we could devise. Reductions in commitments...
would enable certain types of capability to be eliminated, replaced or reduced to the lowest viable level; but the programme must continue to provide the types of capability necessary for the levels of warfare in which our forces might become involved. He had therefore put forward proposals for cuts in the defence programme on the basis that the F-111 was retained. Given the commitments that we now planned to maintain, we could phase out the carrier force and sea-based fixed-wing aircraft when we left the Far East and the Persian Gulf, though it might be cheaper to complete the refit of HMS Ark Royal which was already in hand and phase out HMS Eagle instead; it would not now be worthwhile to cancel the order for naval Phantom aircraft. There would be a general slowing down in the rate of naval construction, including a 50 per cent reduction in the building rate of fleet submarines. Now that we had spent or committed 95 per cent of the capital cost of our Polaris submarines, this programme, which would involve running costs of only about £20 million a year, should continue. The progress which France and China were making with the development and production of nuclear weapons, the unlikelihood that our abandonment of nuclear weapons would influence the attitude of other countries towards non-proliferation and the probability that nuclear weapons would in fact proliferate pointed strongly to our retaining our nuclear capability, although we should seek to reduce expenditure at the Atomic Weapons Research Establishment. We would not need to decide until about 1975 whether or not to develop a further generation of nuclear weapons.

As regards the Army, it would not be possible to eliminate any specific capability; but economies would result from manpower reductions which would involve the elimination of 28 major units in four years and a reduction of 13,000 in supporting arms. There would also be a large number of small reductions in the equipment programme. The RAF would retain the Harrier aircraft; and it would not now be economic to cancel any RAF Phantoms. We should, however, decide not to develop an alternative to the Anglo-French variable geometry aircraft (AFVG), since no collaborative project seemed likely. We should cancel the Martel air-to-ground guided weapon, phase out the Bloodhound surface-to-air guided weapon more quickly, and probably not proceed with the planned Airborne Early Warning (AEW) aircraft. We should also make large reductions in the planned maritime reconnaissance and transport aircraft forces by eliminating older types of aircraft. There would also be large economies in research and development expenditure (particularly on aero-space) and in the general support of the forces; some details of these would be given in the Defence White Paper.

These proposals were made on the basis that the problem was to find alternative economies in defence expenditure that would enable the F-111 to be retained and that its cancellation was not being pressed for symbolic or presentational reasons. The case for retaining the aircraft on economic grounds was strong in view of the benefits which offset arrangements would bring in both the short
and the long term. On military grounds, the aircraft had the full support of the four Chiefs of Staff, although the economies which might have to be made in order to retain it would fall on the programmes of all three Services. Without the protection which the F-111 would provide the lives of our servicemen would be at risk. Moreover, it was an essential component of our contribution to NATO, particularly in view of the cancellation of the AFVG and of the revised strategy which NATO had now adopted, largely at our instance, of increasing conventional air power in order to delay the point at which the use of nuclear weapons might begin. The F-111 was irreplaceable as regards its range, low-level performance and reconnaissance capability. If, however, we were to do without it but not fall to the level of Holland and Belgium in our air contribution to NATO the best, though very inferior, alternative would be to purchase 75 additional Phantoms, which would reduce to £115 million the saving that would be made by cancelling the F-111. It was for this reason that, in the proposals before the Cabinet, he had suggested that from the financial point of view it would be right to seek additional savings of this amount and retain the F-111. This could be done by cancelling Martel and finding the balance of the economies from among the cancellation of the AEW aircraft and the earlier elimination of Bloodhound, the Argosy and the V-Bombers. He would guarantee that, if necessary, further economies would be made in the period 1972-77 to save the full cost of the F-111. This underlined the degree of priority which he and the Chiefs of Staff attributed to the F-111.

In reply to certain specific questions about the F-111, the Defence Secretary said that there was no reason to think that the United States Administration would cancel the version of the F-111 that we had ordered although they might cancel the other two versions; that the sideways-looking radar and cameras for the aircraft already existed; that anti-ballistic missiles and other air defences did not seem likely to constitute an undue risk to low-level aircraft in the next decade; and that the need for Martel would not necessarily increase if the F-111 were cancelled. If the F-111 were to be used for interdiction attacks against airfields in Eastern Europe, this would not involve any special risk of counter-action by the Soviet Union with nuclear weapons; nor was there any reason to think that the aircraft would not be able to return to base.

The Chancellor of the Exchequer said that experience with the Polaris and Phantom programmes demonstrated clearly the risks that were involved in becoming committed to very large projects. If these escalated in cost, or if it became necessary to make reductions in the defence programme, the cancellation of such projects did not produce large savings once they were well under way. The cost of the F-111 had already risen from £300 million to £425 million; and it was likely that there would be further cost increases, particularly as the provision for running costs in the Estimates was very low but costs, especially for spare engines, were likely to rise if, as seemed likely, the United States cancelled two of
the three versions of the aircraft. He did not accept that offset sales under the F-111 had any great merit, unless it could be clearly shown that the aircraft was an essential military requirement within our new overseas policy; but on this count he did not consider that a convincing case had been made. The F-111 had been ordered primarily in relation to the East of Suez strategy; in relation to Europe our contribution to NATO, assuming that we retained Polaris, would remain adequate by comparison with those of other European countries, particularly as it was not at all clear that France and Germany would in practice sustain the defence programme to which they were currently working. There had not been adequate time to examine the savings that had been suggested as alternatives to cancelling the F-111; but, in any event, it was essential for both presentational and financial reasons that the cuts in the defence programme as a whole should contain a major equipment item and not consist of a series of minor cuts. For these reasons we should cancel F-111.

The Foreign Secretary said that, although the time might come when we could with advantage give up Polaris, this would now only save running costs of £20 million a year and its surrender would bring us no advantage in the political or non-proliferation field; we should therefore retain it. As regards the F-111, we had assured our friends and allies outside Europe that, although we were withdrawing from East of Suez, we would retain a general military capability which would be useable at our discretion in that area. The F-111 was the key to the credibility of these assurances. No alternative to the aircraft was now available in the timescale required; and, without it, it would be evident that we lacked a relevant general capability. As regards Europe, and our foreign policy generally, it was essential that we should have the kind of military capability that would enable us to take political initiatives and play a part in shaping affairs, particularly in Europe, in the 1970s. The F-111 was an essential component of such a capability, which other countries would have to take into account and which would therefore give us the degree of influence that we ought to have; without it we should be opting out of any role in Europe and in the world generally.

In discussion there was support for the view that we should retain the F-111. In relation to Commonwealth countries in the Far East the consultations in which the Commonwealth Secretary was currently engaged had shown the importance which these countries attached to the aircraft as an earnest of our intention to maintain a general capability that would be relevant to their defence. For the United States also, it was a touchstone for our intentions. Although the aircraft had originally been ordered primarily in relation to our role in the Far East, in the intervening period NATO strategy had changed in a way which made conventional strike aircraft of greater importance and we had in the meantime not proceeded with the AFVG of which we had planned to order 150 mainly for use in Europe. It was not possible to devise a

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departmental programme, whether in the defence or in the civil field, which did not contain some large projects and long forward commitments; and the fact that the F-111 was of this type was not, therefore, a valid argument for cancelling it. Since so large a part of the cost of the F-111 programme was on a fixed price basis, the risk of cost escalation in continuing with it was less than would be involved if we were to proceed with the various projects that had been suggested as alternative cuts.

On the other hand it was argued that it was essential that the expenditure cuts should include the cancellation of the F-111 if they were to be acceptable as a whole and if it was to be made completely clear that we were making a major change of policy and abandoning our world-wide role. The capability provided by this aircraft was not essential for a role in Europe; and its retention would therefore be seen to conflict with our intention not to provide a special defence capability for use East of Suez. Our present economic difficulties were largely due to the growth in Government expenditure overseas. The cancellation of the F-111 would produce large savings in overseas expenditure; would release resources for the export drive and import-saving; and would also result in large budgetary savings. It was essential that there should be a major cut in the defence equipment programme which would balance the political effects of, for example, deferring the raising of the school-leaving age.

The Prime Minister, summing up this part of the discussion, said that the balance of opinion in the Cabinet was in favour of cancelling the F-111 and, in view of this and of other considerations, of retaining our nuclear capability. It was very important, however, that there should be no premature disclosure of this decision. It must be recognised that the cancellation of the F-111 would deprive our forces of a capability which the Chiefs of Staff regarded as of very high priority and that a full reappraisal of our defence programme, which would take some time, would be necessary in the light of this decision. A passage for the statement on the expenditure cuts should be drafted with this in mind. It should leave open for later decision the question whether we should retain a capability to develop and produce advanced combat aircraft.

The Cabinet—
(3) Confirmed their decision to cancel the order for the F-111 aircraft.
(4) Invited the Chancellor of the Exchequer, in consultation with the Foreign, Defence and Commonwealth Secretaries to consider the terms of a passage covering defence and overseas policy for the statement on the expenditure cuts to be made to the House of Commons on 16th January.
(5) Invited the Defence Secretary to consider the implications for the defence programme of the decision to cancel the F-111.
The First Secretary of State said that the Cabinet had not yet been able to discuss the recommendations in his memorandum C (68) 15 about the line to be taken in the discussions starting on the following Sunday, 14th January, with the Prime Minister of Singapore, Mr. Lee Kuan Yew. The Cabinet might therefore now wish to consider, before adjourning their discussion until the following Monday, 15th January, at what stage in the talks with Mr. Lee it would be right to broach with him the question of additional aid in mitigation of the effects on Singapore of the Cabinet's decision to accelerate our withdrawal from the Far East. In his view the right procedure would be to devote the initial discussions with Mr. Lee on Sunday, 14th January, to hearing his representations and to presenting the considerations underlying the Cabinet's decision, without raising the question of additional aid. Even if Mr. Lee did so, it would not be advisable to mention any figures until the later discussions with Mr. Lee the following Monday, when the Cabinet would have had time to hear a report from the Commonwealth Secretary on his visit to the Far East and to consider his own memorandum C (68) 15 on the line to be taken with Mr. Lee.

In discussion there was general agreement with the procedure proposed by the First Secretary. This would not only be right, both procedurally and tactically; it would also help to make it clear that the Cabinet did not regard their conclusions on withdrawal as definitive and that decisions would not be taken until after they had heard the Commonwealth Secretary's report. Meantime, since Mr. Lee would no doubt seek to make informal contact with a number of Ministers individually, it would be necessary in such contacts to avoid any anticipation of the formal discussions he would be having with the Prime Minister; and, in so far as such contacts were unavoidable after the formal discussions had started, Ministers should speak strictly in accordance with the sense of the Cabinet's discussions.

The Prime Minister, summing up this part of the discussion, said that it was generally agreed that it would be right to proceed with Mr. Lee on the lines proposed by the First Secretary. The Cabinet had already decided to take final decisions on withdrawal at the conclusion of their discussion of the Commonwealth Secretary's report on Monday, 15th January; and they were now agreed that they should consider the recommendations in the First Secretary's memorandum concerning additional aid to Singapore at the same meeting, which would take place before the final discussion with Mr. Lee. They were also agreed that it would be best if Ministers could avoid seeing Mr. Lee before the initial meetings with him on Sunday, 14th January; and that in any meetings with him thereafter, they should speak in accordance with the collective view of the Cabinet. The next meeting of the Cabinet would take place on Monday, 15th January, at 10 a.m.; and its first business would be to take final decisions on the matters to which he had just referred. Now that the Cabinet were approaching final decisions on a wide range of important matters of policy affecting future public...
expenditure, it was more than ever essential to preserve the confidential nature of the Cabinet's proceedings on all these matters, particularly on the visit of Mr. Lee and the representations made by the Chiefs of Staff.

The Cabinet—

(6) Took note, with approval, of the Prime Minister's summing up of their discussion.

_Cabinet Office, S.W.1._

_13th January, 1968._