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Working for common security

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Arms control and the superpowers

Not since the Second World War have the United States and the USSR enjoyed such a constructive relationship as exists today. After decades of hostility between the superpowers, the INF Treaty and START offer the potential for further progress in East-West relations and arms control.

Since the first Reagan/Gorbachev summit meeting in Geneva in 1985, the superpowers have engaged in a process of negotiation and 'detente' resulting in an unprecedented agreement to eliminate an entire class of nuclear weapons. Further arms control talks and negotiations on regional conflicts are continuing which, if successful, would radically reduce the sources of instability and tension between the East and the West. The 1990s offer the prospect of an end to the Cold War.

The warming of superpower relations is today more intense than previous periods of so-called detente. Both the US and USSR are not just attempting to reduce tension. They are working towards a normalisation of relations in which superpower summits and negotiations are commonplace rather than exceptional. Mr Georgy Arbatov, the leading Soviet academic expert on East-West relations, recently commented, "Previously our goals were more limited . . . Now we have the possibility to move towards demilitarisation in Soviet-American relations, to remove the infrastructure of the Cold War."

The INF agreement to scrap American Cruise and Pershing II and Russian SS20 missiles is the first tangible achievement of the improvement in superpower relations. The treaty eliminates all land-based medium range (between 500 and 5,500 kilometres) missiles worldwide and establishes important means of verification including on-site inspection. Furthermore the Soviet Union has accepted substantial assymetrical weapon cuts; removing 1,836 missiles against 867 by the United States. These are significant breakthroughs but the INF agreement remains a modest first step in nuclear disarmament.

The total nuclear stockpile of the superpowers still exceeds 50,000 warheads carried by an array of short, medium and long-range weapon

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systems. Some 4,000 nuclear weapons (mostly short-range 'battlefield' devices) will remain in Western Europe. Although the INF treaty scraps land-based medium-range weapons, similar missiles can still be deployed at sea and by air. Meanwhile the US and the USSR each retain huge quantities of long-range intercontinental, 'strategic' weapons.

Talks are now underway to reduce this arsenal of strategic nuclear weapons. At the Reykjavik summit in October 1986 President Reagan and Mr Gorbachev spoke of the objective in ten years of 'eliminating all ballistic missiles from the face of the earth'. This extraordinary proposal has subsequently given way to a more limited suggestion, made at the Geneva summit in 1985, to make deep cuts.

The Strategic Arms Reductions Talks (START) seek to make a significant cut (by up to 50 per cent) over five years in strategic warheads and missiles with a range of beyond 5,000 kilometres. Both the US and the USSR have accepted the proposal in principle and are committed to cut their offensive strategic nuclear forces to 6,000 warheads and 1,600 launchers. The current talks are tackling issues of verification and how the cuts would be divided between land-based, sea-launched and air-launched missiles.

After decades of hostility between the US and the USSR, the INF treaty and START offer the potential for further progress in East-West relations and arms control. If START succeeds, new talks may commence to achieve a further 50 per cent reduction of the remaining arsenal of long-range missiles.

Conventional Stability Talks (CST) are being launched in Vienna to consider crucial disarmament negotiations between NATO and the Warsaw Pact covering conventional weapons and forces from the Atlantic to the Ural mountains in western Russia. Mr Gorbachev's historic announcement of unilateral cuts in the levels of Soviet troops and tanks at the United Nations in December 1988 has provided a powerful impetus to these crucial negotiations. Hopes of progress towards a comprehensive global ban on chemical weapons are also being cautiously advanced. Today, in contrast to many years of stalemate, the prospects for substantial achievements in arms control and disarmament are better than ever before.

Economic incentives

Optimism about the future evolution of superpower relations is based on the widely acknowledged perception that both the US and the USSR have a vested interest in defusing the Cold War. The staggering costs of the arms race, and the problems of sustaining the global role of a superpower, bedevil the decision makers in Moscow and Washington. Increasingly both the USSR and the US are being forced to address major difficulties in their own economies. Domestic imperatives are

a major driving force behind the new era of disarmament talks.

The early years of the administration of President Ronald Reagan witnessed a massive \$2 trillion military build-up. The Congress, stimulated by the Republican's hawkish rhetoric about the Soviet 'evil empire', authorised the Pentagon's spending spree. Between 1979 and 1984 US defence spending rose by 42 per cent in real terms.

But during the second term of the Reagan Presidency the defence budget excesses became unsustainable. Planned increases in military expenditure for 1989 have been cut. Meanwhile in Congress legislators are increasingly demanding that the US trim its contribution to NATO amidst renewed rows about 'burden-sharing' and accusations that the European members of the Alliance are paying too little to meet the costs of their own defence.

With major economic problems now facing the United States, it is likely that the defence budget will be reduced. Many American analysts and politicians believe that whilst US military strength has grown, the country's industrial and financial base has been seriously weakened. The legacy of 'Reaganomics', staggering deficits in visible trade and the world's largest foreign debt, cannot be squared with massive defence expenditure. Domestic concerns about under-investment in industry, loss of competitiveness and dependence on foreign investors to finance the current account deficit, will force the administration of newly-elected President George Bush to review America's military commitments at home and abroad.

Illustrating this new trend in thinking has been the buoyant American sales of the book *The Rise and Fall of the Great Powers* by Professor Paul Kennedy (Unwin Hyman, 1988). Arguing that the US is suffering the impact of "imperial overstretch", Professor Kennedy claims that the country's declining relative economic strength can no longer sustain the global foreign and military commitments of the typical superpower. "The fundamental grand-strategical dilemma remains," Kennedy writes, "the United States today has roughly the same massive array of military obligations across the globe as it had a quarter of a century ago, when its share of world GNP, manufacturing production, military spending and armed forces personnel were so much larger than they are now."

Kennedy's thesis of "imperial overstretch" can be usefully applied to the Soviet Union. Although analysts dispute the methods of calculation, the amount of GNP devoted by the USSR to defence is substantially higher than that of the United States. The UK Government estimates a figure of 15 per cent of GNP compared to 6.5 per cent in the US. Given the poor performance of the Soviet economy and its backwardness, compared to the major Western industrialised countries, defence expenditure on this scale is an intolerable burden.

For Mr Gorbachev economic modernisation is the centrepiece of

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perestroika his revolutionary programme of reform which aims to tackle the stagnant bureaucratic inheritance of the Brezhnev era. Speaking at the 27th Communist Party Congress in 1986 he admitted that, "Acceleration of the country's socio-economic development is the key to all our problems; immediate and long term, economic and social, political and ideological, internal and external". Clearly progress in arms control, limiting the costly technological race with the United States and lowering general defence requirements would be an enormous help to Gorbachev's plan to revitalise the Soviet economy.

Gorbachev's 'new thinking'

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Flowing from the demands of *perestroika* Mr Gorbachev has introduced 'new thinking' into the evolution of Soviet foreign policy. The changes are profound and a major shift away from the attitudes that have fostered 40 years of tension between East and West. Mr Gorbachev has rejected the doctrine of permanent struggle between the communist and capitalist camps.

Speaking on the occasion of the 70th anniversary of the Bolshevik Revolution in November 1987, he emphasised that "for all the profound contradictions of the contemporary world...it is interrelated, interdependent and integral". Mr Gorbachev has called for "a comprehensive system of international security" and "reasonable sufficiency" in the level of Soviet military forces based only on a defensive rather than offensive capability. Concrete evidence of this radical shift has been provided by Mr Gorbachev in his speech to the UN General Assembly in New York.

Indeed a distinct feature of Mr Gorbachev's 'new thinking' has been the willingness of the Soviet Union to play a much greater role within the United Nations. The USSR has offered to pay \$245 million in past obligations to the organisation and, in particular, has accepted and encouraged United Nations peacekeeping initiatives in a range of regional conflicts in, for example, the Middle East and Southern Africa. Of course, the most radical foreign policy shift has been the withdrawal from Afghanistan, and in the spirit of *glasnost* the admission that Soviet forces have paid a heavy price in casualties since their occupation of the country in 1979.

Clearly the new dynamism of Soviet foreign policy has been a crucial catalyst for the recent progress in arms control. Paradoxically, 'new thinking' by President Reagan about the role of nuclear deterrence may also have contributed to the renewed interest in disarmament. For the Reagan administration, despite its hawkish aspirations, seriously undermined the credibility of nuclear deterrence.

The challenge for NATO

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The Soviet Union has seized the initiative in putting forward proposals for arms reductions. NATO must respond by modernising its strategy rather than its weapons systems.

In March 1983 President Reagan introduced his proposals for a Strategic Defense Initiative (SDI), and warned that nuclear threats of mutual suicide could not be expected to preserve peace much longer. His plans for a space-based 'defensive shield' against incoming nuclear missiles have proved both costly and over-optimistic. Nevertheless the President's use of anti-nuclear rhetoric to defend SDI contradicts and weakens NATO's nuclear-war-fighting strategies of deterrence.

As a result of Mr Reagan's vision of "a world without nuclear weapons"—expressed both at the Reykjavik summit and in his formulation of SDI—the former US President can take some of the credit for further weakening public tolerance of nuclear weapons. Mr Gorbachev, however, having taken the lead in promoting new disarmament initiatives, has earned for himself the image of peace-maker.

In contrast to the Brezhnev years, the Soviet Union is now putting forward a stream of proposals for arms reduction. In January 1986 Mr Gorbachev outlined a plan for the phased removal of all nuclear weapons by the year 2000. Under his leadership, the Soviets have conceded major demands of the West in accepting the INF treaty; set-aside their anxieties about SDI to allow progress in the START talks; and are pressing for the total elimination of short-range battlefield nuclear weapons. Mr Gorbachev has, also, offered to negotiate asymmetrical cuts in the conventional forces of both sides.

NATO's response to Gorbachev's arms control agenda has been cautious and confused. Rather than take the lead in further disarmament talks to test the sincerity of the Soviet proposals, NATO has scrambled to defend its remaining arsenals of nuclear and conventional forces. As a result the cohesion of the Alliance has been severely tested with major disagreements emerging over plans to modernise battlefield nuclear weapons deployed along NATO's central front in West Germany. The efforts to update these short-range nuclear devices, and compensate for the loss of the medium-range missiles, cut across the spirit, though not the letter, of the INF treaty.

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NATO's dilemma

The rigidity of NATO's posture stems from a marked reluctance to modernise the organisation's military doctrine and strategy. NATO's ministers find it easier to update weapon systems rather than their own systems of thought. NATO's task is to defend its members in Western Europe from the prospect (however remote) of an invasion by the Warsaw Pact. The Alliance's central front is the 550 mile inner-German border which is defended by a mix of both conventional and nuclear forces. However, NATO's excessive dependence on nuclear weapons to deter a Soviet conventional attack has become increasingly incredible, dangerous and contradictory.

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Until the early 1960s NATO relied on the 'tripwire' strategy of 'massive retaliation' against any Warsaw Pact invasion. When the Soviets became capable of mounting a successful strike against US territory NATO's strategy became fatally flawed. To restore deterrence a new doctrine, 'flexible response' was established in 1967. It is based on the threat of escalation through NATO's triad of conventional forces, short and medium-range nuclear weapons, and finally long-range intercontinental missiles "which provide the ultimate deterrent". Although initially relying on conventional forces to repel an invasion the strategy threatens first use of nuclear weapons to halt a successful Soviet advance.

Twenty years after its adoption NATO's military doctrine has become dangerously obsolete. Just as strategic parity undermined 'massive retaliation' so sub-strategic parity in short- and medium-range nuclear weapons has undermined 'flexible response'. It is based on the incredible notion that NATO could control the escalation from conventional to nuclear warfare.

As the American analyst Morton Halperin has argued: "NATO doctrine is that we will fight with conventional weapons until we are losing, then we will fight with tactical weapons until we are losing, and then we will blow up the world" (quoted by John Baylis, *International Affairs*, Winter 87/8). Even if the Soviets were overwhelming the Alliance's conventional forces it is hard to imagine how nuclear weapons could be used to gain military advantage. The Chernobyl disaster has shown the havoc that is caused by even a limited release of nuclear radiation. NATO commanders know that use of a small number of short-range devices would devastate the field of battle and the fighting troops of both sides.

Denis Healey, Defence Minister in the 1960s, argues that "few of those concerned still believe that in practice it would be possible to control a nuclear war once it had started at any level, particularly since the electromagnetic pulses emitted by the first explosions might black out the battlefield, making command and control impossible. So, since

any nuclear fighting might rapidly escalate to a general strategic exchange, Washington's readiness to authorise first use in time remains as uncertain as ever" (*Foreign Affairs*, Spring 1987).

The last point raised by Denis Healey highlights a crucial weakness in flexible response. The strategy relies upon the belief that Washington would authorise use of its strategic nuclear forces to halt a conventional Warsaw Pact aggression in Europe. But the launching of intercontinental missiles from the US would expose America's territory and population to the risk of a retaliatory Soviet nuclear strike.

Doubt persists that any President would be prepared to accept such an enormous risk, and would refrain from using NATO's 'ultimate deterrent' even given a major Soviet conventional attack in Europe. The former US Defense Secretary Robert McNamara and Secretary of State Henry Kissinger have both warned Europe not to rely on the American nuclear guarantee. Recently, President Reagan's proposals at Reykjavik and the SDI have exacerbated fears about the reliability of the so-called US 'nuclear umbrella'.

The INF treaty has deepened these anxieties on the European right since the US medium-range missiles were supposed to provide crucial steps in the escalatory ladder from conventional to nuclear forces envisaged by flexible response. Their removal has again worried some NATO traditionalists who fear that the US is becoming decoupled from the Alliance. But a deep contradiction lies at the heart of the doctrine of flexible response.

Each step Washington takes to recouple its nuclear guarantee tends to lower the point at which nuclear weapons might be used. Being a lesser risk to US territory such weapons become more credible as an instrument of nuclear war-fighting, which in turn makes the risk of such a war in Europe more likely. So extended deterrence to retain its credibility requires seemingly 'usable' US weapons in Europe. But these deployments (like, for example, the Cruise and Pershing missile) only increase the feasibility of, and fears amongst Europeans of a nuclear holocaust in the centre of their continent. This contradiction, built into the strategy of flexible response, constantly strains the cohesion of NATO. (For an interesting elaboration of this problem see chapter 8 of *Democracy and Deterrence* by Philip Bobbitt, Macmillan 1988.)

The latest subject of European anxiety is the modernisation of NATO's stock of short-range (below 500 kilometres) nuclear weapons. In 1983 at a meeting in Montebello, Canada, defence ministers began to consider updating NATO's battlefield nuclear forces. Especially controversial is the plan to replace the Lance missile. Currently 690 of these warheads are in Europe with a range of 125 kilometres. But the replacement systems being proposed by NATO would extend the range of the missiles as much as 450 kilometres—close to the bottom

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limit of the INF treaty. Critics of the modernisation plan argue that NATO is using the Montebello decision as a cover to compensate for the loss of medium-range weapons resulting from the INF agreement.

The strains of NATO's modernisation are most acute in West Germany. Given the short range of these battlefield devices they would be used along the border between West and East Germany. Not surprisingly German public opinion is strongly against weapons which could cause a nuclear war confined to the two German states. This anxiety has been succinctly expressed by Mr Volker Ruehe, foreign affairs spokesman of the ruling CDU Party, "The shorter the range, the deader the German". All major political parties in West Germany are either against, or highly cautious about, modernisation and would prefer new negotiations to limit or remove short-range systems.

The Soviets have offered talks on the elimination of all battlefield nuclear weapons but NATO is reluctant to negotiate. Its stance is both puzzling and disappointing. The Soviets have a significant superiority in short-range missiles and their removal would again meet Western demands for assymetrical cuts by the Warsaw Pact. But NATO fears that without short-range nuclear systems the threat of step-by-step escalation would disappear. Once again the nuclear dependency of NATO's flexible response is inhibiting progress in arms reduction. So whilst Mr Gorbachev takes the lead in disarmament, and gains another propaganda victory, NATO begins an anguished debate about modernisation.

Even more disturbing is the ill-disguised attempt to compensate for the INF treaty. Some NATO members are eager to fill the gap created by the removal of all land-based medium-range missiles. They are considering the deployment of sea-launched Cruise missiles on surface ships and submarines in the European theatre. Another option would be to station an increased number of nuclear-armed American F111 bombers (possibly armed with Cruise missiles) at their existing bases in Britain.

These 'adjustments' and the modernisation plans for short-range weapons are yet another attempt to restore the waning credibility of flexible response. They would make a mockery of the much-heralded INF treaty and risk twisting the arms race into a new upward spiral. In their *1988 Strategic Survey*, the influential International Institute for Strategic Studies (IISS) has warned against modernisation proposals which "smack more of 'war-fighting' than deterrence" and comments that steps by NATO to compensate for the INF treaty risks provoking a countervailing response by the Soviet Union.

It remains to be seen if the IISS's warnings will be heeded. At the NATO Summit in March 1988 the major dispute over modernisation was fudged and the Heads of State agreed a statement reiterating the strategy of flexible response and the major role of nuclear weapons

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“which will be kept up to date where necessary”. Critics believe, however, that NATO’s doctrine and military strategy needs a complete overhaul. Central to such a policy review would be a fundamental reappraisal of flexible response.

Sceptism about NATO’s strategy comes from the most unlikely sources. In 1984, for example, a report prepared by senior retired UK civil servants and military commanders (including Sir Frank Cooper, ex-Permanent Secretary at the Ministry of Defence) concluded that flexible response needed to be replaced. The authors argued that “The concept of controlled step-by-step escalation is impractical nonsense in an unpredictable and chaotic situation” (*Diminishing the Nuclear Threat*, British Atlantic Committee Report, 1984).

NATO and the military balance

According to NATO’s received wisdom, nuclear weapons are an integral requirement of Western defences because of the overwhelming superiority of the conventional forces of the Warsaw Pact. The Alliance’s own conventional strength, it is argued, is inadequate to deter Soviet aggression without recourse to the threat of escalation to nuclear war. But the assumption that NATO conventional defences are insufficient to halt a Warsaw Pact invasion is highly questionable.

Accurate comparison of NATO and Warsaw Pact force levels is notoriously difficult to achieve; different weapon systems are not easily compared and many subjective judgements have to be made. However, the most authoritative, and widely accepted, assessment of the balance is published annually by the IISS.

Their 1988-89 edition of *The Military Balance* confirms the Warsaw Pact’s clear numerical advantage in ground and air forces in Europe, particularly in total numbers of tanks, artillery and air defence fighters, whilst NATO is ahead in anti-tank missiles, armed helicopters and ground attack aircraft. In most of these areas NATO forces tend to be qualitatively superior. The two sides are roughly equal in the size of their armies but even the Pentagon readily concedes NATO superiority in naval forces.

If the IISS is correct there is scope for NATO to cut its nuclear arsenals and shift both military strategy and spending in favour of conventional defence. Recently, NATO has emphasised the need to strengthen its non-nuclear forces and sought to increase the budget contributions of member states. But NATO’s insistence that nuclear weapons are the chief guarantor of Western security serves only to erode the arguments for increased reliance on conventional forces.

The best path to achieve a more stable balance of conventional forces between East and West is through arms control and restructuring of forces into defensive postures. Mr Gorbachev has already suggested

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a three-step plan offering, first, a detailed exchange of data on the conventional armaments and troop units deployed by NATO and the Warsaw Pact between the Atlantic and the Ural mountains; secondly, reductions in troop levels from the forces of both sides in Europe; and lastly, talks about reorganising the remaining forces into a 'defensive' posture incapable of mounting a short-warning surprise attack. The Soviet Union has followed up these proposals with the unilateral cuts announced in December 1988.

These initiatives are a useful starting point for the CST. In Vienna NATO will insist on broadening the proposals to include further reductions in tanks and artillery in which the Warsaw Pact has an advantage over NATO. The complexities of negotiating conventional arms reductions are immense. Fourteen years of fruitless dialogue at the Mutual Balanced Force Reductions' (MBFR) talks bear witness to the problems. Nevertheless the unprecedented changes in the Soviet Union and the far-reaching nature of Mr Gorbachev's recent proposals offer the chance of real progress.

But even without significant progress in conventional disarmament, NATO could massively reduce its reliance on nuclear weapons. The emergence of new conventional technologies, which improve the lethality of munitions, and their systems of communication, control and targetry, are shifting the military balance. Of course the conventional forces available to the Alliance must be capable of deterring a Warsaw Pact invasion. But current NATO defence budgets already provide the resources to do so. Indeed, given the planned for cuts in Soviet offensive forces announced by Mr Gorbachev, it should be possible for NATO to accept significant reductions in the defence budgets of both the US and Europe.

NATO reform and minimal deterrence

The case for a radical change in NATO strategy has been argued by Robert McNamara in his book *Blundering Into Disaster* (Pantheon Books 1987). He proposes that "we accept that nuclear warheads are not weapons—that they have no military use whatsoever except to deter one's opponent from their use—and that we base all our military plans, our defense budgets, our weapons development and deployment programs, and our arms negotiations on that proposition".

McNamara bases his argument on the following three facts, which he believes are being accepted in 'a slow discernible movement':

- "NATO's existing plans for initiating the use of nuclear weapons, if implemented, are far more likely to destroy Europe than to defend it";
- "whatever deterrent value remains in NATO's nuclear strategy is eroding rapidly and is purchased at heavy cost";

- “the strength, and hence the deterrent capability, of NATO’s conventional forces can be increased substantially within realistic political and financial constraints.”

The ultimate goal for McNamara is a state of minimal deterrence involving a huge cut in nuclear arsenals. He envisages the Soviet Union and the US maintaining a nuclear force that would be no larger than “was needed to deter a nuclear attack by the other”. The number of warheads needed by each superpower, he estimates would not exceed “a few hundred, say five hundred at most. . . With tactical nuclear forces (short & medium range) to be eliminated entirely and the strategic forces having five hundred or fewer warheads, the present inventory of fifty thousand weapons could be cut to no more than one thousand”.

McNamara hopes to achieve this new strategy of ‘minimal deterrence’ as “rapidly as an Alliance consensus can be formed”. In the meantime, he and other senior former US officials, including McGeorge Bundy, and George Kennan, have called on NATO to adopt a policy of ‘no first use’ of nuclear weapons; to halt modernisation plans for nuclear systems and rely on conventional forces to meet any conventional threat.

Other proposals to reduce dependence on nuclear weapons include the withdrawal of short-range systems from the NATO-Warsaw Pact border. The Palme Commission Report *Common Security* (Pan Books 1982), for example, called for a ‘battlefield-nuclear-weapon-free-zone’ covering 150 kilometres on either side of the inner-German border. The report’s suggestion was combined with the proposal to achieve a rough parity of conventional forces based on the idea of common security. This doctrine argues that security cannot be attained through military advantage. It can only be gained through the renunciation of threatening military postures and restructuring of forces to “the lowest possible level of armaments”. Mr Gorbachev’s recent talk of “reasonable sufficiency” in Soviet defences encouragingly echoes the ideas expressed in *Common Security*.

Both the Palme Commission and NATO reformists like Robert McNamara have been accused of proposing to make Europe safe for conventional war. But is there a Soviet threat?

Few believe that the Soviet Union is planning or wants to attack Western Europe. Although the Warsaw Pact possesses a formidable military capability there is absolutely no evidence that it has any intention of launching an invasion of Western Europe. NATO planners match their military requirements to the Pact’s capabilities, but NATO’s intelligence officers have never warned of an imminent Soviet strike across the West German border.

The Alliance continues to base the core of its military strategy

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around the most unlikely of imaginable circumstances, and makes a worst case assessment of Soviet strategic objectives based on simplistic and questionable assumptions. The Kremlin, we are told, wants to push the United States out of Europe, dividing the Alliance and leaving the continent exposed to Russian domination.

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An intellectually-defensible case can be made for the exact opposite. This thesis suggests that the Soviet Union is seeking to defend the status quo—the post-war settlement of a divided Europe with a clear Soviet sphere of influence over its neighbours—and is content with the American role in Europe for two major reasons. They hope that Washington's potential for global adventurism will be partially restrained by the alliance with Europe. Secondly, they believe that US withdrawal from the alliance with Europe could undermine the post-war boundaries probably leading to the re-unification of Germany. The latter prospect would be viewed with alarm by the Kremlin rekindling bitter wartime memories, and fears of a united German state with political and economic power to rival that of the Soviet Union.

The debate about Soviet intentions is as old as the Cold War itself and will never be satisfactorily resolved. But, today, few would dispute that the Soviet Union is at a watershed. Mr Gorbachev seems willing to bury the antagonistic foreign policy concepts of past Kremlin leaders and has offered disarmament proposals which at least partially meet Western concerns about the Warsaw Pact's offensive capabilities. NATO, in turn, must recognise Warsaw Pact fears about the West and acknowledge the legitimate defence interests of the Soviet Union. The new phase of East-West detente started in the late 1980s has begun to overcome decades of mistrust and mutual suspicion.

Gorbachev's 'new thinking' and *perestroika* are changing perceptions of both the Soviet Union and the Cold War. In the 1990s the military doctrines of both NATO and the Warsaw Pact could rely on the idea of common security rather than the threat of nuclear holocaust. The arsenals of nuclear missiles may be dramatically reduced, and conventional forces structured defensively.

The challenge for NATO is to adapt its military structure and doctrine to meet the changing security environment of the next decade. If NATO can formulate its own version of 'new thinking' and *perestroika*, the arms control opportunities that are in prospect will be easier to achieve. At present, however, NATO leaders are on the defensive, prisoners of old dogma and the strategy of flexible response. The NATO hawks, lead by Mrs Thatcher, are desperate to modernise, and strengthen their nuclear forces post-INF. But this bellicose posture, which alienates public opinion and divides the Alliance, is anachronistic. Out of touch with the growing movement toward non-nuclear defence and the need for common security.

The challenge for Labour

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In the 1990s the Labour Party could turn defence and security issues to its advantage. But it must overcome the sterile arguments that in the 1980s have masqueraded as serious discussions of British defence policy.

No subject seems more emotionally charged or politically loaded. Yet defence policy—the strategy and resources required to guarantee national and common security—is the most inadequately discussed issue in contemporary British politics. The polarised struggle between so-called multilateral and unilateral nuclear disarmament has almost completely overwhelmed the real defence policy debate.

Today in both the conventional and nuclear spheres new opportunities exist to achieve arms reductions and promote common security. The reliance by both East and West on massive nuclear forces lacks credibility and the pressure for substantial cuts in nuclear arsenals is unprecedented. But these trends which have already been anticipated by the Labour Party's non-nuclear defence policy are little understood or discussed either within the Party or the general public. Abstract arguments about how to get rid of nuclear weapons obscures the winning of arguments against nuclear dependence.

The current two-year Policy Review is a welcome opportunity both to modernise Labour Party policy and promote public debate about Britain's defence needs in the 1990s and beyond. The modernisation of policy is suspected by some as an attempt to jettison the strategy of non-nuclear defence. This pamphlet does not argue for such a drastic change in the Party's defence policy.

The tide is turning in favour of non-nuclear defence as both the morality and practicality of nuclear deterrence is increasingly questioned. The point of principle—our rejection of nuclear weapons—is not at issue. The challenge for the Policy Review is to provide a political framework for non-nuclear defence that is practical and plausible for the 1990s. The task will be easier if a ceasefire is declared in the trench warfare between unilateralists and multilateralists.

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Reconciling the arguments

The arguments that have raged in the Labour Party can be reconciled. Unilateral and multilateral disarmament are not mutually exclusive. Each is a step or a series of steps in arms reduction which can be made compatible and reinforcing. During the recent INF negotiations, for example, a unilateral gesture to remove Pershing 1A missiles by West Germany clinched the otherwise multilateral deal between the USA and the USSR.

Support for unilateral disarmament notably in the late 1970s and early 1980s grew out of frustration with the absence of any successful multilateral talks. A unilateralist, it used to be said, was a multilateralist that meant it. In the late 1980s the modest breakthrough achieved by the INF agreement has re-established the political credibility of the multilateral approach. The argument that independent action by Britain would act as a catalyst to break the negotiating stalemate between the superpowers no longer applies.

The recent progress in arms control need not prevent independent steps of disarmament. Unilateral arms reduction, however, must satisfy a common sense criterion; that such actions will enhance, and not hinder, existing disarmament talks. Labour must aim to maximise the effect of independent action; to work for reciprocal reductions by other nations. The impact of a country's renunciation of its own nuclear forces is powerful and important. Too powerful and too important not to be thoughtfully timed to benefit and stimulate further nuclear arms reduction.

For some unilateralists any relationship to a process of negotiation is unacceptable. The moral disquiet experienced by many about possession of nuclear weapons is elevated by some into an absolute point of principle. It is argued that if it is wrong to possess nuclear weapons then all forms of multilateral negotiation involve unacceptable moral compromise. The weapons are still available for use during the negotiations and the talks may fail. On grounds of moral belief the weapons must be scrapped and any form of negotiation with other nations is irrelevant. This stance implies that there is but one 'pure' form of disarmament—unilateralism. But such defiant moral vanity is blind to the imperative need for international as opposed to merely national nuclear disarmament.

History, geography and the system of alliances that developed after the Second World War have bound together the security interests of Britain with many other nations. The nuclear threat has taken root within this international system and can only be resolved by agreements between nations. The scope for independent steps of nuclear disarmament is circumscribed by this political reality.

Unilateral action by Britain alone will not bring about a non-nuclear

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world. It is yet another post-imperial delusion to assume that this country alone can stop the superpowers' nuclear rivalry. Britain's contribution to nuclear disarmament will be significant but modest; it would be even more significant and less modest if it were used to augment international arms control.

Britain possesses its own nuclear weapons and acts as host for others owned by the United States and assigned to NATO. In advancing a non-nuclear defence strategy the Labour Party is seeking to end these nuclear roles, but also to change NATO's doctrine of flexible response, and work to achieve a non-nuclear world. These are ambitious goals and the timetable and negotiating strategy used to achieve our policy objectives must be flexible. There is scope for unilateral action, multilateral negotiation and bilateral agreements.

Independent steps are clearly easier with those weapons under the sovereign control of the British Government. Scrapping Polaris and cancelling Trident are decisions which would not fundamentally affect the functioning of the NATO Alliance. (They would, however, be relevant to the calculations of the current START negotiators.) In contrast, ending the nuclear role of the F111 bombers stationed in Britain impinges directly on NATO policy and its member states.

International negotiations and the apparent tedium of diplomacy are facts of life we cannot ignore. The Labour Party wants to have a non-nuclear world not merely a non-nuclear Britain. Achievement of the latter whilst the remainder of Europe is still covered with thousands of nuclear arms will do little to improve the security of Britain or remove the nuclear threat. If war occurred in Europe the effects of a nuclear exchange would devastate Britain too. In working to achieve a non-nuclear defence of Britain, the Labour Party must not lose sight of our wider goals in Europe and the world.

In the next decade this country could play an important role in sustaining the disarmament process already begun by the USA and the USSR. But the Labour Party's defence policy must be adapted to take full advantage of the events, national and international, that have occurred in the late 1980s. In key respects, circumstances have changed which challenge assumptions and opportunities that were applicable at the time of the last general election.

Labour's existing defence policy must be reconsidered against these major developments. The Trident nuclear missile system will be partially deployed, the START negotiations may be progressing to a second stage, and the defence budget will be severely strained. The Policy Review will have to explain Labour's proposals for the reform of NATO strategy; outline the future of the F111 nuclear bombers based in Britain, the battlefield weapons deployed in Germany, and the Trident and Polaris missile systems; and consider how the Party will meet the costs of Britain's conventional defences.



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4 Changing NATO strategy

For many in the peace movement, membership of the Alliance is unacceptable. But this ignores the scope for change in NATO strategy and cannot form the basis of the Labour's approach.

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Working within NATO is neither an apologia nor a prescription for 'pliant Atlanticist self-submission' in E P Thompson's phrase. Non-alignment is a prescription for the disruption of the disarmament process. British withdrawal from NATO would destabilise the Alliance, further increase the American role in the defence of Western Europe, and dissipate the political forces necessary to engage constructively with the Soviet Union. As a national policy it would marginalise British influence in those areas of defence and foreign policy where the need for a positive and progressive direction has never been greater.

Working within NATO for radical strategic reform must be a major priority for the next Labour government. Both superpowers, of course, will continue to retain nuclear weapons for the foreseeable future, and NATO will have a nuclear strategy for as long as the Warsaw Pact does. But the Labour Party can take the lead in encouraging reform of NATO strategy, and further reductions in nuclear weapons.

The security of Europe and the wider superpower disarmament process would benefit if NATO could radically reform its strategic doctrine of flexible response. The Labour Party has joined with others in calling for no-first use of nuclear weapons and sought to lengthen the 'nuclear fuse' by means of battlefield nuclear weapon-free-zones.

In government Labour would be well placed to argue the case for change within NATO. Our membership and commitment to NATO give Britain a powerful voice and influence within the structures of the Alliance. With our sister parties and governments of the Socialist International, a Labour administration could decisively influence NATO policy and the arms control agenda in the 1990s.

In West Germany, for example, there is widespread support across the political spectrum for further talks to remove battlefield nuclear systems, and deep reluctance to pursue the nuclear weapons modernisation plans favoured by Mrs Thatcher. West Germany plays a pivotal role within the Alliance and would face the most immediate threat if conflict occurred between NATO and the Warsaw Pact.

The Social Democratic Party (SPD) has joined with the Labour Party

in calling for adoption of 'no first use' and for the creation of a nuclear-free corridor along the inner-German border. By working closely with the SPD Labour's policy objectives and the common security of Europe can be greatly enhanced.

Tackling the battlefield systems

Reductions in short-range battlefield systems in both East and West Germany are clearly a matter of urgency. These weapons, consisting of nuclear artillery and Lance missiles, are already the subject of controversial modernisation plans. But as instruments of deterrence they have the least credibility and the earliest military use, threatening an uncontrolled nuclear exchange in the centre of Europe. Based forward along the West German border, these weapons are at risk from a successful Warsaw Pact conventional assault and would pose a 'use them or lost them' dilemma for NATO commanders.

The Soviet Union has already proposed the total elimination of battlefield nuclear weapons—the so-called third zero. But NATO has deliberately pushed the issue to the bottom of the current agenda of arms control. Despite West German anxieties, Mrs Thatcher has vociferously argued for the modernisation of these weapons and is blocking discussion of their removal. In government in the 1990s both Labour and the SPD could spearhead the reduction of short-range nuclear systems in Europe.

However, progress in de-nuclearising the inner-German border requires careful negotiation both between the East and West as well as within NATO. We, also, want acceptance of 'no first use' of nuclear weapons. These proposals, which are essential for common security, would mark a significant shift away from flexible response and dependence on nuclear weapons. But they cannot be achieved without hard bargaining among our allies in Europe. Negotiation is inevitable if we are seriously intent on changing NATO policy.

Negotiation will also be required to facilitate the withdrawal of nuclear arms from the American F111 bombers based in Britain. Their removal must be secured without detriment to the objective of obtaining agreement on battlefield weapons in Germany, or acceptance of 'no first use'. There is a real risk that, without having first gained agreement with our allies, action by Britain over the F111s would force redeployment elsewhere in Western Europe and postpone other significant steps of arms control.

Perversely Britain's attempt to remove nuclear arms from its soil could delay reductions of other weapons systems in Europe. Our allies in NATO, including those countries sympathetic to the goals of non-nuclear defence, would be plunged into domestic arguments about finding bases for nuclear-armed F111s. Progress in negotiating the

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removal of short-range systems in East and West Germany would be jeopardised. The interests of common security in Europe require negotiation when we seek withdrawal of the F111s' nuclear arms.

A commitment to negotiate does not weaken the case against these British-based nuclear bombers. There is a strong argument that the F111s should no longer be used in a nuclear role. At present their nuclear capacity inhibits use in conventionally-armed support for naval and land forces. Ending the dual capability of the F111s would enhance NATO's conventional deterrence and lessen the risk of nuclear exchange through mistaken identity. There is now a risk that the Soviets might assume that conventionally-armed F111s threaten a nuclear attack.

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Nevertheless ending the nuclear role of the F111s is one among a number of our policy objectives for NATO. The negotiations to reach any, or all, of these goals will not be helped by the adoption of inflexible deadlines. The goal of reforming NATO and working for common security is too important for the Labour Party to throw in the towel if the negotiations are long and hard.

The future of Polaris and Trident

With the F111s the obligation to negotiate flows directly from our membership of NATO and our existing commitments to the defence of Western Europe. These constraints clearly have less influence over decisions about the 'British independent deterrent'. Although 'committed to NATO', this country's strategic nuclear force of four Polaris submarines remains under the ultimate control of the British Government. They are not an integral part of NATO forces, but merely an addition to the existing strategic nuclear arms made available to the Alliance by the United States. Although obviously a step of significance to both NATO and the United States, Britain's abandonment of its own strategic forces would be an independent decision by a sovereign government.

Opponents of Britain's nuclear capability believe it is both unnecessary and incredible. Unnecessary, since NATO, insofar as it must meet the Soviet nuclear threat, already has nuclear weapons supplied by the United States. Incredible, as it is inconceivable that Britain could use its strategic force independently.

Field Marshal Lord Carver's frequently quoted speech is a powerful statement of scepticism about the purpose of the British bomb. "I have never heard or read a scenario which I would consider realistic in which it would be considered to be right or reasonable for the Prime Minister or Government of this country to order the firing of our independent strategic force at a time when the Americans were not prepared to fire theirs . . ." (House of Lords, 18 December 1979).

The case against retention of Britain's strategic nuclear weapons also includes specific concerns arising from the plan to replace Polaris with Trident. Firstly, the Trident D5 is capable of carrying up to eight warheads against just two or three in each Polaris missile. This extra warhead capacity clearly offers the potential for a dramatic escalation in Britain's nuclear capability.

Secondly, to an even greater extent than Polaris, the Trident system will be dependent on the continued goodwill of the United States. At present the Polaris weapons are maintained at Coulport in Scotland. However, Trident missiles will be obtained from America, drawn from a shared 'pool' of weapons stored at a base in Kings Bay, Georgia.

Finally, Trident will cost about £10 billion. The impact of the programme on the defence budget has forced a sharp squeeze on expenditure on Britain's conventional forces.

During the 1987 election campaign the Labour Party placed considerable emphasis on the costs of the Trident programme. The Party argued in favour of switching the money saved from the cancellation of Trident to modernise and equip our conventional forces. This line of argument has been overtaken by events. By 1991 expenditure on the Trident programme will have peaked. About 70 per cent of the capital costs will have been incurred or committed. One submarine hull will have been completed, the second will be about 80 per cent built and the third just starting construction. Immediate cancellation of the fourth submarine hull, assuming a Labour victory at the next election, will not release massive resources for the conventional defence budget—probably only £2 billion.

Despite the fact of diminished revenue from the cancellation of Trident, the arguments against Britain's possession of a strategic nuclear capability retain their force. Neither Polaris nor Trident are necessary to guarantee Britain's security. Indeed the retention of this country's nuclear capability has little or nothing to do with defence policy. Possession of the bomb has always been justified as a foreign policy priority vital to guarantee Britain's status abroad. As Britain's imperial past receded we have tried to compensate our lost international authority by purchasing the 'power' of nuclear capability.

Our nuclear capability, however, has proved a feeble weapon of international diplomacy. Regardless of the delusions of nuclear grandeur fostered by Mrs Thatcher it has not provided access to the superpower talks at Reykjavik or Geneva. Although Britain's strategic nuclear force has become a powerful source of domestic political controversy, the protagonists on both sides of the argument readily grant too much importance to the British bomb.

Nevertheless in its Policy Review the Labour Party must again set out its proposals for the future of Polaris and Trident. By 1994 the first Trident boat is scheduled to enter service and gradually the Polaris

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submarines are expected to be replaced. Given the objective of achieving a non-nuclear defence policy the Labour Party will be seeking to dismantle Britain's strategic nuclear force. The challenge for the Party is to place the objective of withdrawal of Trident and Polaris in a practical political framework.

Our aim must be to ensure that nuclear weapon reductions in Britain benefit nuclear disarmament internationally (by applying the 'enhancement' criterion discussed earlier). A Labour government will have to consider the best means to advance the on-going international process of disarmament. As we enter the 1990s, options are available which can ensure that action by Britain will positively contribute to global reductions in nuclear arms.

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A Labour government could offer to include our strategic nuclear force within the START talks. Unlike Mrs Thatcher, who seems determined to retain nuclear weapons indefinitely, Labour shares Mr Gorbachev's objective of a world free from nuclear weapons. By offering to count Trident and Polaris into the talks, Labour would be able to add to the total number of strategic weapons eliminated as a result of START, and give a European perspective to negotiations which at present are confined to the superpowers.

But a decision to contribute to the START process would require acceptance of the constraints that are inherent in arms negotiations. Flexibility in the timing and phasing of the withdrawal of our strategic nuclear force would be inevitable. At the very least our decisions about Trident and Polaris must be constructively influential on these crucial superpower negotiations. It would be absurd if independent action by Britain 'jogged the elbows' of the negotiators in Geneva. Arms control is a painstaking process, and clearly no responsible government would wish to jeopardise a successful conclusion to the START negotiations.

Alternatively a Labour government can independently engage in bilateral talks with the Soviet Union. The withdrawal of Britain's strategic nuclear force could deliver a reciprocal reduction on their part. This would be a result worth working and waiting for. The Soviets have offered reciprocal reductions in the past (in 1984 and 1986) and further bilateral talks are a practical option which can be developed before the next general election.

But neither participating in START nor working for a reciprocal reduction by the Soviet Union imply that possession of a strategic nuclear force is essential for the defence and security of Britain. The justification for such initiatives is that they would give added value to British withdrawal of Trident and Polaris. They do not compromise the determination of a Labour government to work for a nuclear-free world and an end to Britain's strategic nuclear force.

Opponents of the Labour Party's non-nuclear defence policy complain that the objective of withdrawal of the British bomb would

remove any incentive for the Soviets to strike a reciprocal deal or make additional concessions through START. The Kremlin, it is argued, merely has to wait to gain a windfall of one-sided arms reduction. On the contrary, the Soviets will have powerful incentives to respond. If they fail to reciprocate, the integrity of Mr Gorbachev's disarmament proposals will be tainted.

Negative signals would be conveyed not just to London but also to the START talks and throughout the Western Alliance. A hard-line Soviet response would inevitably impact on the defence policy of a Labour administration and ensure that its eagerness to pursue further steps of disarmament and reform of NATO strategy would be dissipated.

Some argue that the loss of Trident and Polaris would be unsatisfactory regardless of the response of the Soviet Union. They are concerned that our strategic nuclear capability will come to an end whilst Russia's equivalent forces will be merely reduced. These advocates of the British bomb really believe that this country must always retain strategic nuclear weapons so long as the Soviet Union possesses them; an argument which undermines the collective security that remains the *raison d'être* of NATO. Some hawks even imply that Britain should retain a nuclear capability in perpetuity. But such a nationalistic posture will be hard to sustain indefinitely.

If the START talks make good progress and enter a second phase, the superpowers will expect to negotiate reductions in the British and French strategic nuclear forces. Britain's dependence on the US as supplier of the Trident missile ensures that even Mrs Thatcher's Government will be powerless to prevent a superpower agreement for further weapon reductions—including the British and French systems. The outcome of START could result in a world in which only the superpowers retain (hopefully very modest) strategic nuclear arsenals. Under these circumstances Britain will confront a Soviet nuclear capability but our defence will unambiguously depend on NATO.

A further line of criticism accuses the Labour Party of accepting the protection of the American nuclear capability whilst refusing to shoulder a comparable responsibility ourselves. But NATO does not expect or require every member state to possess its own nuclear capability. Only the United States, France, and Britain, out of a total membership of 16 countries maintain their own nuclear forces.

The Labour Party understands that Britain's security depends on NATO and the collective efforts of its membership. Neither Polaris or Trident are of crucial significance to Britain's contribution to the Alliance. Indeed they serve only to obscure the more fundamental role of our conventional forces in the defence of Western Europe. Withdrawal of our strategic nuclear force will break the spell that prevents this country from embracing a credible defence policy for Britain in the next decade and beyond.

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5 Meeting Britain's defence needs

The challenge facing British defence policy in the years ahead will be to match our military commitments to the available expenditure. A major review of Britain's defence priorities is urgently required.

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About 20 per cent of government spending, some £19 billion, is accounted for by the Ministry of Defence (MoD). But the burden of our strategic commitments and the need to re-equip and modernise our land, sea and air forces is placing the defence budget under great strain.

During the last general election the Labour Party illustrated the expenditure constraints which have been exacerbated by the Tory government's determination to purchase Trident. The Party warned, for example, about cuts of about 30 per cent in spending on new military equipment, and the Government's difficulty in meeting their own target for a fleet of 50 frigates and destroyers.

In the 1990s, with the bulk of the Trident paid for, the defence budget will be facing even greater stress. Defence spending has declined by almost eight per cent over the last four years. By 1989-90 the percentage of GDP allocated to the MoD will have fallen to four per cent compared with five per cent in 1985-86. A comprehensive review of Britain's defence commitments is inevitable because of these budgetary constraints.

At present Britain's defence policy is based on:

- the defence of the United Kingdom;
- a major contribution to the defence of the North-East Atlantic;
- the maintenance of the British Army on the Rhine and a tactical air force for the defence of Central Europe;
- an intervention capability beyond NATO 'Out of Area' (such as the Armilla Patrol in the Gulf);
- the maintenance of a strategic nuclear force;
- the military presence in the Falkland Islands.

Since the Second World War, British defence policy has consistently embraced more military capabilities than the country can afford. The most recent attempt at a major defence review in 1981 was pre-empted by the Falklands War. Subsequently the Government has avoided a new

review rather than face the political embarrassment of axing any of its existing military commitments.

But the resulting expenditure squeeze is eroding Britain's conventional defence capabilities. An Army officer writing in March 1987 complained that lack of resources "are making it increasingly difficult for commanders at all levels to train their formations and units to the highest standard required to maintain a credible deterrence". Citing lack of spares, fuel and ammunition, he warned that, "we are neglecting our conventional defence in spite of ministerial comments to the contrary" (*The Times*, 5 March 1987).

The basis of a new review must be Britain's NATO responsibilities. Conventional land, sea and air forces are the centrepiece of our contribution to the collective security of Britain and the NATO area. These must take priority within the defence budget.

The next Labour government will make only modest savings if it withdraws our strategic nuclear force. The curtailment of the 'Out of Area' role (in favour of United Nations peace-keeping exercises), and a negotiated solution to the security of the Falkland Islands, could also release some additional funds. But even assuming a better use of scarce resources the pressure to sustain expenditure at present levels will remain. This pressure will exist despite the encouraging progress in nuclear arms control. Success in the sphere of nuclear disarmament places even greater emphasis on conventional defences.

Furthermore the United States is pressing for increased military spending by the European members of NATO. The traditional 'burden sharing' concerns of Washington are being intensified by the Federal budget crisis. Western Europe faces an unpleasant choice of responding to the American demand for more spending now, or waiting for Congress to withdraw US troops from Europe, which would force increased spending later. Since Britain is already NATO's third highest contributor direct pressure to increase our defence budget will be less intense than on other European members of NATO.

The best hope to ease the burden of defence expenditure will be through conventional disarmament. The Conventional Stability Talks are about to tackle reductions in conventional forces. Mr Gorbachev's unilateral cuts announced at the UN in December last year are an encouraging first step. In the light of the cuts in Soviet conventional forces, it should be possible for reciprocal reductions in NATO's conventional forces. Although it will be some time before the negotiations bear fruit it should then be possible to reduce defence spending in Britain.

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6 Conclusion

The defence of Britain will be best achieved through a strategy of common security. Britain must work constructively to lessen NATO's heavy dependence on nuclear weapons, and reform the strategic doctrine of 'flexible response'.

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This pamphlet, as a contribution to Labour's Policy Review, sets out a political framework through which the next Labour government can work towards the goal of common security. It is not a fully comprehensive review of Britain's defence policy. Such a task is beyond the scope of a publication of this size. However, the report does highlight the key defence issues and opportunities that will face a Labour government in the decade ahead.

It proposes a strategy for nuclear disarmament which embraces both independent action and negotiation within NATO. It stresses that a Labour government must ensure that the key tasks of our conventional forces on land, sea and air are adequately fulfilled; but recognises that with progress in conventional disarmament the defence burden can be reduced. These are proposals around which the Labour Party can unite.

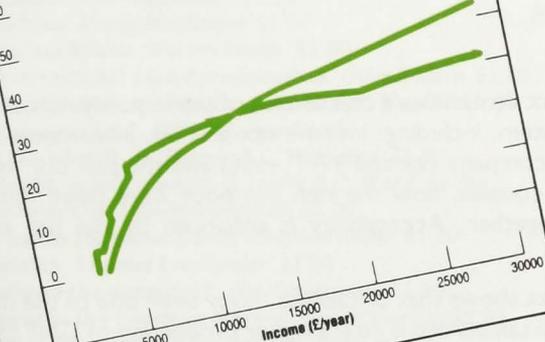
If the Labour Party can conquer its internal arguments it will overturn the Conservative's dominance of the defence policy debate. It can place its proposals for common security within a wider framework of foreign policy and those global concerns, for development in the Third World and environmental protection, that are vastly more important to humanity than the rivalry between the superpowers.

This opportunity is too important to be squandered through the internal arguments that have dogged the evolution of the Labour Party's defence policy. For too long the whole subject has been treated like a political football. Some members of the Labour Party, whilst candidly disclaiming detailed knowledge of defence policy, are happy to use the issues of disarmament as a barometer for the struggle between the so-called left and right. But as the trend of nuclear disarmament gathers pace so the arguments about how to disarm become daily more irrelevant. The gunfire between so-called unilateralists and multilateralists silences a defence policy debate that the Labour Party can win.

CHANGING TAX

How the tax system works and how to change it

Average tax rate (%)



JOHN HILLS

WHAT HAS HAPPENED TO THE TAX SYSTEM

The Government has raised contribution rate in order to 30.45% where previously it was 25% for those whose pay is below £150 per week. **National Insurance Surcharge**, which is a maximum of 2.5% between October 1983 and September 1984, has also been taken when in 1985, the upper limit on employer contributions so that they now account for 30% of high salaries.

Capital Gains Tax

Those receiving capital gains have also benefited from a steady series of concessions reducing their tax from £1,000 in 1978-79 to £5,000 in 1988-89 and no longer intended to become an allowance for all rather than an exemption only for those with small gains. Gains which do not reflect inflation are no longer taxed, and an important change in the other direction has been that the tax rate of 30% was replaced from 1988-89 with an exemption of 10% (the rate of 25% of 40%.

Inheritance Tax

What was once Estate Duty and then Capital Transfer Tax has also been whittled away. Not only has the threshold at which tax becomes payable been increased from £10,000 to £110,000, but the rates have also been changed from a structure rising from 10% to 75% to one with a single rate of 40%, the tax collected on the largest fortunes has fallen most as a result. The exemption of gifts made more than 7 years before death has also been increased.

Fiscal Drag

If income tax allowances are left unchanged in cash terms as incomes rise, the tax burden (tax as a percentage of income) will rise. This fiscal drag occurs because the allowances then represent a smaller proportion of income and a greater proportion is therefore subject to tax. A similar effect occurs if the width of the bands of the structure of tax rates are increased, a greater proportion of income becomes liable to tax at the higher rates.

The Riddler-Walton amendment to the 1977 Finance Act requires that the main personal income tax rates (unless a specific decision not to do so is announced by the government of the day). However, in order to remove the effects of fiscal drag altogether, allowances would have to be increased by the rate of income growth. Other things being equal, the tax burden fiscal drag is, however, a gradual and somewhat invisible process. The compensating effect of raising tax one year packed to the next, is a preventive way for the adjustments needed to keep the tax burden steady. The Riddler-Walton provisions have had some effect in reducing the inflation to which they are subject, but governments continue to get the credit for any increase in allowances in excess of price, even though allowances have increased by no more than has been needed to keep up with incomes.

Excise Duties

Because many of the other indirect taxes are expressed as specific cash amounts, they lose their value unless they are updated to keep up with inflation. Over the last 10 years, increased costs have been met by higher prices for cigarettes, spirits and wine - have fallen behind inflation (see Section 17). The reasons for these shifts have included nationalisation of duties with the rest of the European Community and health campaigns against tobacco. The commodities mostly bought by the better off towards those who are poorer.

Corporation Tax

Ten years ago Corporation Tax was at a rate of 50% on company profits after deducting 10% of the investment allowance (apart from an allowance for stock) and the rate of tax was cut and a new 30% rate introduced. Whereas in 1978-79 Corporation Tax raised just over £10 billion, in 1988-89 (at 1988-89 prices) it raised 11%.

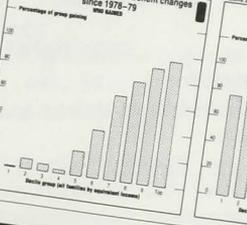
North Sea Revenues

The last decade has seen revenues from North Sea oil and gas come and largely go. Their rise from £0.56 billion in 1978-79 to a peak of £12 billion in 1984-85 has been followed by a fall to £3.3 billion in 1988-89. In all, some £30 billion of tax revenue will have been collected from the North Sea windfall we are unlikely to see again.

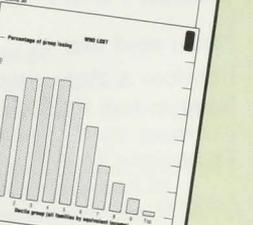
The tax system if it had been updated to take account of the effects of fiscal drag, for example, it would have been one in which benefits stayed in line with inflation, which means the lowest starting point. The 1978-79 system, therefore, includes income tax rates of up to 63%, investment income surcharge 1978-79 (they changed in November 1978) increased by 14.8% (compared with the actual 1988-89 level of 44.1%). The comparison also includes the effects of the change to Housing Benefit from the old system of Supplementary Rates. Indirect taxes are outlined in Section 17. Furthermore, what has happened has been a virtually zero net cost reform. The cuts in direct taxes have been largely offset by the increase in indirect taxes in 1988-89. These have, however, been only £2 billion less than the net effect on the income tax system. Figure 20 shows the net effect on the income tax system described in Section 2.

Overall, the bottom 60% of the income distribution has lost relative to the starting point of the adjusted 1978-79 system. The losses for the bottom 50% average out at nearly £8.50 per family. Overall, the bottom half of the income distribution has lost £6.6 billion, or 4.8% of the net income shown in Figure 20 - while the top 10% have gained nearly £4.0 billion. Overall, the bottom half of the income distribution has lost £6.6 billion, or 4.8% of the net income shown in Figure 20 - while the top 10% have gained nearly £4.0 billion. Overall, the bottom half of the income distribution has lost £6.6 billion, or 4.8% of the net income shown in Figure 20 - while the top 10% have gained nearly £4.0 billion.

The effect of direct tax and benefit changes since 1978-79



Percentage of those losing



CHILD POVERTY ACTION GROUP

CHANGING TAX: HOW THE TAX SYSTEM WORKS AND HOW TO CHANGE IT

John Hills

Changing Tax demystifies a crucial area of public policy. It looks at all the major elements of the tax system, including: income tax and NI, inheritance and wealth taxes, alcohol and tobacco, company tax and VAT, rates and the poll tax, tax and social security, the treatment of couples, how the rich and poor have fared since 1979 and how the tax system fits together. Accessibility is enhanced by the use of helpful colour graphics throughout.

Changing Tax shows that Britain has never been one of the most heavily taxed nations, that the overall tax burden is now a higher proportion of GNP than in 1978/79 (the burden has simply been shifted from the well-off to the less well-off), and that recent cuts in direct taxation have been entirely paid for by cuts in the relative value of benefits.

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Working for common security

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This pamphlet, as a contribution to the Labour Party's Policy Review, sets out a political framework through which the next Labour government can work towards the goal of common security. It examines the recent developments in East-West relations and arms control, and the implications for Britain's defence.

The authors explore the emerging relationship between the superpowers and their mutual interest in further steps of both nuclear and conventional disarmament. They argue against NATO's excessive dependence on nuclear weapons and recommend radical reform of the doctrine of 'flexible response'. In its place a strategy of 'common security' is proposed based on conventional forces and the gradual elimination of the nuclear arsenals of both NATO and the Warsaw Pact.

Within this international context, the pamphlet considers the Labour Party's defence policy. The arguments between so-called 'unilateralists' and 'multilateralists' are reappraised and key issues such as NATO reform, the future of Polaris and Trident, and defence expenditure are reviewed. The authors offer a political framework to advance Labour's existing objectives of a non-nuclear defence strategy and radical reform of NATO to achieve common security.

And they call for an end to the Labour Party's internal arguments that have prevented the evolution of its defence policy. If the Conservative dominance of the defence issue could be overcome, a debate would be opened—which the Labour Party could win.

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