Back to the future: the 1970s reconsidered

Robin Ramsay

I write this as a member of 'old Labour', and like others of that ilk, I am looking for a way out of the present farce-cum-nightmare of a Labour Party lead by a tiny group of not very bright Thatcherites.(1) To understand where we are now, we have to go back to the 1970s. For the 1970s led to Mrs. Thatcher, which led to the progressive collapse of Labour as a radical, reforming party.(2) Mrs. Thatcher claimed legitimacy from the events of the 1970s; and the Blair faction have, in turn, accepted as legitimate much of what was done in her name. The Tory and Labour Thatcherites see the 1970s as a disaster and 1979 is their Year Zero.

There is a curious symmetry here: at the end of the 1970s the insurgent wings of both the major parties were dominated by betrayal myths. The Labour Left believed the Wilson-Callaghan governments had betrayed the party and socialism with a series of sell-outs in the 1970s, notably the introduction of public spending cuts imposed by the International Monetary Fund (IMF). (I discuss this incident in the second part of this essay.) The Tory Right believed Edward Heath betrayed Toryism with his so-called U-turn, the attempt at an incomes policy, his Industry Bill, the explosion of inflation and so forth.(3)

Part 1: Edward Heath and the rise of the City

> 'The Empire may have disintegrated and the UK may now be a third rate power, but the City of London has staged a comeback which would be the envy of any child movie star reaching maturity.' –
> Professor Ira Scott, 1969 (4)

Edward Heath, who succeeded Harold Wilson as Prime Minister in 1970, is conventionally viewed as someone who began as 'Selsdon Man', a prototype of the later Thatcher Tory Party, then made his famous U-turn. This is half-true, at best. It is clear now that Heath had one overriding aim – British entry into the EEC – and everything else played second fiddle to that. In the first year and a half of his government he appeared to believe that the best way to prepare the British economy for entry into the EEC was a dose of competition and freedom – the traditional Tory Party ideas of getting the government off the backs of the producers, reducing taxation and so forth: hence the 'Selsdon

Man' emphasis. Given these conditions, he believed, British capitalism would produce the investment and modernisation required to meet the bracing winds of competition from Europe. But Heath discovered that British capitalism was not as enthusiastic about this as he was.

> So British business had failed to respond to the new climate of enterprise which the government had striven to create after 1970. As a result, Heath now believed, the government had no choice but to take an active hand itself. Two years as Prime Minister had quickly disillusioned him as to the energy and even the patriotism of British industrialists, who he felt had let him down.(5)

Heath concluded 'that the government had no choice but to intervene directly to promote rapid growth – whatever ministers might have said previously about government getting off industry's back'.(6) The economist and Treasury official at the time, Donald Macdougall, witnessed the change of tack taking place.

> Then there was a sudden change in November 1972. [Chancellor of the Exchequer] Tony Barber, Douglas Allen [Treasury] and I had been invited one weekend to what we expected to be a routine meeting at Chequers with the Prime Minister. Shortly before, we were told that both the meeting and the scope of the discussion were to be enlarged: and that William Armstrong, who had been moved from the Treasury about three years before to be Permanent Secretary of the Civil Service Department, and (Lord) Victor Rothschild, Head of the "Think Tank" (Central Policy Review Staff) set up by Heath were also going. When we arrived, Ted started by asking William – who was obviously delighted to be back in the economic policy game again – what he thought. He said that, coming down in the car, he had been brooding over the situation and thought we should think big, and try to build up our industry on to the Japanese scale. This would mean more public spending. We should ask companies what they needed in the way of financial and other help, and give it to them. To my surprise Ted warmed to this and said, "Fine, and of course we must give to only to the good firms, not the bad ones . . . . This was the occasion when Heath was converted – or at least first announced his conversion in my hearing – from a "hands off industry" policy to one of selective intervention; and also to a major reflationary policy…. William Armstrong was asked, in effect, to go away and organise some increased spending, particularly to encourage investment.(7)

The ‘brooding in the car’ story was a lie. Armstrong had been heading a secret Whitehall Committee since late 1971 which had been set up to devise a framework for industrial expansion. It contained members of the Think Tank, the Cabinet Office, Sir Leo Pliatzky of the Treasury and Sir William Neild, previously the Permanent Secretary at the Department of Economic Affairs of the Wilson government.(8) Pliatzky later said of this committee: ‘The concept was the we must strengthen our industrial capacity so as to take advantage of membership of the Common Market.'(9) It was this group which produced the 1972 Industry Bill which gave the government such power over industry that Tony Benn welcomed it as doing ‘the spadework of socialism’. Heath’s Department of Trade and Industry (DTI) Minister, Christopher Chataway, confirmed recently that EEC membership was the rationale put forward by civil servants in the DTI for the Industry Bill.(10)

This secret committee ‘was an exercise of prime ministerial power comparable to Neville Chamberlain’s conduct of foreign policy in 1937-9 or Eden’s handling of the Suez crisis’.(11) The same inner group produced the prices and incomes policy which followed it and which was to dog the Heath administration for the rest of its life.(12)

Heath’s view of the benefits of joining the EEC extended to seeking to copy some of the institutions of EEC member states, particularly Germany.

> Heath had been very impressed, when visiting Germany, by Willy Brandt’s regular round-table consultations with the unions and the German system of co-partnership; his mind began moving towards establishing a similar relationship in Britain by which the unions should be given an acknowledged role in the running of the economy.(13)

Heath also wanted British bankers to become more like their German counterparts, taking direct stakes in British manufacturing. Cecil King reports in April 1973 having lunch with one of his friends, Sir George Bolton, then on the ‘Court’ of the Bank of England. Bolton told him:

> Recently Ted addressed a party of bankers at No. 10. Tuke, chairman-designate of Barclays Bank, told him Ted had lambasted them for not investing more in British industry. This went down very badly.'(14)

And Heath’s most substantial biographer to date tells us:

> During 1972 and 1973 Heath became increasingly critical of what he saw as the unpatriotic caution of businessmen in the face of the opportunities which he believed the Government was creating for them . . . . he used to lecture the banks on their national responsibility, urging

> them to *invest directly in industry like German banks . . .*(15) (emphasis added).

The Treasury found itself ignored by a Tory leader bent on generating economic growth.

> Heath had no time for the Treasury's caution. He had always thought it lukewarm on Europe, and was now convinced that it systematically underestimated the ben-fits to be expected from joining the EEC. The 1972 Budget was framed *in opposition to* the Treasury, as a deliberately *European* policy to take Britain into the Community at full stretch'.(16) (First emphasis added; second emphasis in the original.)

Lord Croham (Douglas Allen), then Permanent Secretary at the Treasury, commented recently in a symposium on the Heath years:

> There is some accuracy to the suggestion that Heath mistrusted the Treasury. In the 1960s the Treasury was less enthusiastic about membership of the European Community than Heath. This lack of enthusiasm was carried through into the 1970s. The Treasury was also quite pessimistic about the country's balance of payments outlook and the negative balance of payments effects which would be producing (sic) upon joining the Common Market.(17)

For Heath and the little group around him EEC entry was all; the strategy was not just a 'dash for growth', but an attempt to rejig British capitalism in preparation for EEC entry. This was not widely understood at the time, even in the Conservative Party. Norman Tebbitt, for example, writing in the mid-1980s, looked back on the Heath 'U-turn' from the free market emphasis of Selsdon Man and saw

> a retreat into corporatism, and from there into a mishmash of ill-considered centralist and socialist hand-to-mouth devices with *no intellectual nor political cohesion* marked only by fits of obstinacy alternating with climb-down.(18) (Emphasis added.).

Unfortunately for Heath, British capital was not impressed by the Heath-Armstrong plans for it and chose not to follow their suggestions. One section of it in particular, the City of London, which Heath seems to have largely ignored, had other ideas.

Wheelbarrow days (19)

While Heath was dreaming of transforming Britain into a modern European manufacturing economy to meet the rigours of EEC membership, the City had been quietly growing in another direction. The big expansion of City power began in the late 1960s with the development of London as an off-shore base for American money fleeing restrictions and low interest rates imposed by successive Democratic governments. Cecil King, in constant communication with the overseas/ financial sector, both as Britain's major newspaper publisher and as a member of 'the Court' of the Bank of England, first mentions this phenomenon in his published diaries in July 1971. With banker and fellow member of the Bank of England 'Court', Gordon Richardson, he discussed 'the success of London as a financial centre in recent years. [Richardson] said it was remarkable and had drawn to London very numerous branches of foreign banks…'(20)

Charles Gordon, part of the management of one of the so-called 'fringe banks' in London during this period, commented later:

> The colonial expansion of overseas banks into London in the 1960s and 70s created a near ring-fenced, on-shore, unregulated lending activity, which was simply mind-boggling in its enormous size. It arose not only because of the City's *laissez faire* tradition and in-grained expertise, not only because of the liberal tax aspects, not only because one or two brilliant merchant bankers, notably Siegmund Warburg, saw the fabulous possibilities early on . . . but because the US authorities designed their internal bank regulations almost as if they wanted to create a financial centre outside their own shores.(21)

In the midst of this City growth in the late 1960s the British clearing banks were increasingly unhappy. While they remained the

> unpaid agents of the state, bearing a great part of the considerable administrative burden of implementing exchange controls, in the post-war years their lending activities were almost constantly restricted by government, and they were the main agents through which the authorities tried to enforce periodic credit squeezes.(22)

Chafing under their restrictions, the big clearing banks had to watch the growth of pension funds, unit trusts and building societies as rivals for domestic saving, the arrival of increasing numbers of foreign banks, and the rise of the so-called secondary banks which began to grow in the spaces left by the centrally restricted clearers. The Bank of England was also under pressure, for much of this financial activity was beyond their regulation; and, with the Treasury, it set up a committee, under Douglas Allen, to solve these difficulties.(23) But 'the Bank [of England] bounced the Treasury; produced its own scheme in the autumn of 1970 while the Allen committee was still pondering various options in a leisurely way.' (24) The Treasury was not happy about the proposals, believing – correctly, as it turned out – that they would produce inflation.(25) Chancellor Anthony Barber had the proposals put to him at a dinner by Bank of England Governor O'Brien in January 1971;(26) and having 'bounced' the Treasury, the Bank of England then 'bounced' the in-coming Conservative Government and the Competition and Credit Control (CC&C hereafter) changes were implemented while Ministers were still reading their way into their new jobs. As Margaret Reid dryly commented, 'The Bank [of England] had not overlooked the fact that the proposals accorded with the competitive ideology of the new Conservative government.'(27)

The Bank of England proposed that lending ceilings and liquidity minimums imposed on the clearing banks be replaced by a system of reserve assets and special deposits. There were to be no more physical or administrative controls on credit growth; market forces – i.e. interest rates; i.e. interest rate *rises* – would control the growth of credit. In other words, there was an end to limits on lending, and high interest rates would 'control' credit in the economy. Here was the authentic voice of the British banker struggling to throw off the restrictions of government and begin seriously milking the British economy! The proposals were adopted as government policy in September 1971, barely noticed by the media or the Labour Opposition – and, if his biographers are anything to go by, barely noticed by Heath himself.(28) Indeed, at the time hardly anyone outside the higher echelons of the City seems to have known what was going on. Edward Du Cann was at a meeting of the 1922 Committee of the Conservative Party at which the CC&C proposals were described.

> I looked round the room and wondered how many of the MPs present fully comprehended what he was talking about. I doubt whether more than half a dozen had the least idea.(29)

The proposals had been whisked through the House of Commons in Chancellor Barber's budget speech. As the *Economist* commented at the time, they

> had not been the subject of a single clause of legislation. Parliament has barely discussed it. It has all been fixed up as a gentleman's agreement in private conclaves in the City.(30)

Even in the City, Du Cann tells us that

> it was generally supposed that all that was occurring was the replacement of one system of control by another: it was certainly not appreciated, perhaps not even by the banking sector generally, that the competition part of the package meant virtually unbridled liberalism, leading to new and unforeseen risk.(31)

A great many versions of the *aim* of these changes have appeared.(32) Cecil King reported a version from 'the senior official concerned with its preparation', John Fforde:

> The revolution is in two parts: (1.) the Bank will not support the gilt-edged market; and (2.) they're now encouraging a greater degree of competition between the clearing banks . . . [this] should mean higher interest rates for deposits and lower rates for loans.(33)

Another (unstated) aim, acknowledged a decade later by the Bank of England, was to 'contract' the banking fringe, the so-called 'secondary banks', which had grown up in the sixties in the space left by the limits on the clearers' lending.(34)

In the most detailed version of CC&C, after noting the Bank of England's admission that the intention was reducing the banking fringe, Moran tells us that CC&C was perceived by some as

> a welcome if limited assertion of free market principles . . . the influence of "Selsdon Man," but was perceived by its principal constituency, the clearing banks, as 'the end to [lending] ceilings'.(35)

As banker Du Cann put it, 'the brakes were well and truly off.'(36)

It was simply the old order being reimposed on the British economy. This was the climax of all those attempts since 1950 to get rid of government controls.(37) Under the new system the banks could lend what they liked, and, when it was decided that there was too much credit in the system, the Bank of England, on their behalf, would put the interest rates up. What a truly wonderful racket! It was a coup by the Bank of England – on behalf of the clearing banks in particular and the City in general.

Having persuaded the Tories to reintroduce 'freedom' into the banking business, the clearing banks began churning their files, generating credit – literally 'printing money' – and *not* lending it to, or investing it in, British manufacturing as Heath seems to have expected, but to domestic consumers, to the property markets and the so-called 'fringe banks' (which in turn lent it on again, largely into property speculation).(38)

Charles Gordon, then with the secondary bank, Cedar Holdings, described the period:

> These immediate years after C&CC were wonderful shovelling times. The main thrust of the banks (there were a number of honourable exceptions) was to apply the shovel with gusto not with discretion, lip-service was mouthed to the authorities, consequences were ignored, and pious condemnations were made of those who were found out

> patently over-doing it. Old-fashioned lending practices were contaminated, most of the lending industry was embroiled – from the newly liberated primary banks to the reeking sewage level of the tertiary lenders.(39)

In the absence of a memoir from Heath, we don't know what he thought CC&C would do; but it seems to have been linked in his mind with the approaching entry into the EEC. A contemporaneous 'spin' on CC&C, echoing Heath's desire to see more direct involvement by the British banks in industry, appeared in *The Economist* of 18 September 1971, 'The Banking Revolution', which presented the consequences of CC&C as being a move towards the

> German-Japanese system of largely bank-controlled industry . . .a situation in which banking would have even greater control over British industry and the economy as a whole – that is, direct control through ownership and participation, rather than the indirect control it has exerted traditionally via government and the state.(40)

Heath seems to have thought that he was 'modernising' Britain, creating the conditions necessary for the transformation of Britain into a modern social democratic European country. According to the creator of Trafalgar House Investments, Nigel Broaches, who dined with Heath in January 1972, Heath 'wanted an investment boom with an abundance of cheap credit'.(41) He certainly presided over a boom, cutting personal taxes, making interest on bank loans offsettable against tax, and tripling the public sector borrowing requirement between 1971/2 and 1972/3. When the balance of payments went into deficit as a result of imports being sucked in by all this new spending power in the economy, he floated the pound rather than slow things down. As late as September 1973, after the OPEC oil price rise, when the economy was obviously developing a serious case of inflation, Heath told a meeting of National Economic Development Council, 'this time I am determined to swim through the whirlpool'.(42) After the 'stop-go' of the 50s and 60s, he wasn't going to stop.

Why Heath Failed

Heath's gamble on a dash for growth to kick-start Britain out of its stagnation didn't work for several reasons. In the first place, with little commercial, industrial or financial experience, Heath simply didn't understand British capitalism. Given the right expansionist conditions, Heath believed, British capitalism would increase investment in the domestic manufacturing economy. But it didn't; and Heath took to berating those he thought should be investing – bankers, as we have seen already, and the men running the big British companies. Head of the Confederation of British Industry (CBI), Sir Campbell Adamson said:

> I couldn't count on the fingers of both hands the number of times that Mr. Heath told us that everything had been put right that the government could put right, and still industry didn't invest enough.(43)

How little Heath understood is suggested by his enthusiasm for Slater Walker.(44) Like many others, Heath really thought that there was something going on in SW other than asset-stripping, padding of accounts and good PR.

He was also trying to go in contradictory directions. On the one hand, influenced apparently by the German model, he was trying to take the unions on board into a tripartite management of the domestic economy; on the other he was attacking them with his industrial relations legislation. On the one hand seeking an investment boom in Britain via cheap credit; on the other unwittingly allowing the introduction of a system which explicitly promised increases in interest rates to 'control' the supply of credit.

In the event, Heath allowed the introduction of CC&C but would not allow the system to work the way it was supposed to. The theory was that as the money supply – bank credit, essentially – expanded, interest rates went up. For domestic and political reasons, Heath refused to allow the rates to rise as far and as fast as the Bank of England wanted.

> The introduction of CC&C was a sign that the cheap credit lobby in Whitehall had been eclipsed. The eclipse was brief. The first serious efforts to allow interest rates to rise after 1971 produced a powerful reassertion of influence by those sensitive to the demands of industrial investors and mortgages in the housing market.(45)

The result was the worst of all possible worlds: banks printing money day and night with low interest rates. A former senior Bank of England official told Margaret Reid, off the record:

> We little knew that Ted Heath would lose his head and bolt for wildly exorbitant expansion just as C&CC started. The system was meant to rely on interest rate movements and we were going to be allowed to use that instrument as required. Against the background of enormous expansion of the economy with the banks just released from their shackles, bolting for business, the end result was very different from what we had hoped.(46)

It is also rather interesting to see it stated that banking had 'indirect control it has exerted traditionally via government and the state'. This you *don't* find in the textbooks on British politics. But blaming Heath, putting the liberation of the banks into the passive voice – 'the banks released from' – and using 'shackles' rather than, say, 'sensible controls', fails to conceal the Bank of England's role. In their account, Heller and Willatt noted that, between mid 1970 and early 1974 M3 (currency, current bank accounts and deposit accounts) had risen rose by the previously unthinkable amount of 270%. 'What had been created under the eyes of the Bank of England, was a simulacrum of the lethally unbalanced Wall Street of the late and roaring twenties.'(47)

William Keegan points out that CC&C became a part of the 'dash for growth' when Chancellor Anthony Barber made bank loans tax deductible for many purposes, including the purchase of homes, second homes and shares – encouraging what was then 'the biggest credit binge in British post-war history'.(48)

How much of the inflation of this period was *directly* attributable to the activities of the banks is impossible to quantify. In this period there was undoubtedly some wage inflationary pressure coming through from the British trade unions, demand pressure in the domestic economy from the government's increase in public spending in 1972/3 and 1973/4 – not to mention the 1973 increase in the price of oil, rises in other commodities, and the rise in food prices resulting from entry into the EEC and membership of the Common Agricultural Policy.(49)

Too late, the government realised it had all gone wrong and began to reverse some of the changes made. For a period they even subsidised the building societies to try and prevent the interest rates paid by owner-occupiers rising above 10%. Incomes policy was reintroduced. In the financial sector the summer of 1972 saw the Governor of the Bank of England trying informal persuasion, telling the commercial banks that he would not be amused by excessive lending to property speculators. Eventually the commercial banks were told to desist from competing with the building societies for the custom of small depositors. At the end of 1973, with the energy crisis in full swing and the balance of payments deep in deficit, the brakes were slammed on the economy: government spending was cut, surtax was increased, hire purchase controls were reintroduced and the 1971 CC&C reforms were virtually suspended.

But it was too late – and, for the secondary banking and property sectors, it was too much.(50) The edifice of speculation based on rising property and land prices, began to topple. The feeding frenzy among the secondary banks led to the Bank of England's secret launching of 'the lifeboat' bearing financial assistance to the stricken money-lenders, and by early 1974 inflation in Conservative Britain was heading for 20%.(51) The bankers had been given 'freedom' and made a mess of it.

Part 2: 1976 and all that

While the Thatcher faction's 'betrayal myth' focused on Heath's 'U-turn', its Labour Party equivalent centres on the 1976 loan from the International Monetary Fund. Labour returned to office in February 1974 inheriting a record trade deficit and record, and still rising, inflation. Inflation was not just a British problem, though Britain's inflation was worse than in the other major industrialised nations; and this did not take place in a political vacuum. Most discussions of this period ignore the wider international and the domestic background. On the geopolitical level, the U.S.-dominated post-war order was under unprecedented attack. In South East Asia U.S. power had been defeated, and elsewhere around the U.S. 'empire' there was significant resistance in Australia, Portugal, Chile, Italy and Angola.(52) Globally, the left seemed to be in the ascendant. This was also true in Britain – the U.S.'s partner in the post-war arrangements. The most important problem the U.S. had was in the U.K.(53)

The Communist 'threat'

A substantial section of the British secret state and its allies in the Conservative Party, business and the media believed, or found it useful to pretend to believe – the distinction is difficult to make – that British democracy, the state, and even the capitalist system was under threat from a resurgent left, spearheaded by the trade unions and manipulated by the British Communist Party under instruction from Moscow.(54) The fact that none of this manifested itself via the ballot box – Labour received 37.1% of the votes in the February 1974 election and the Communist Party 0.1% – mattered not.(55) A secret communist conspiracy was, by definition, secret.

Tony Benn was the focus of the anxieties at parliamentary level. In this period he was being surveilled, bugged, wire-tapped, harassed and having his rubbish stolen. MI5 distributed briefings that he had 'contacts in Czech intelligence'.(56) MI5's pretext for this was the fact that Benn, while Minister of Technology, had been lunching with Czech diplomats, some of whom were intelligence officers under cover, and had not reported the contacts to his departmental MI5 officer.(57) But while Benn was the chief focus of the paranoid right's conspiracy fantasies, the Labour Cabinet was regarded with suspicion and many of its members, notably Wilson himself, were subjected to surveillance, burglaries and disinformation in this period. The anti-communist hysteria encompassed the formation of private militias – the so-called private armies – by former intelligence and military personnel, media speculation on the right circumstances for Army intervention in Britain, and a wide range of psy-ops, black bag jobs and disinformation projects running beyond the referendum on Britain's membership of the European Economic Community in 1975.(58)

Just how widely this disinformation about the 'communist threat' had permeated the British state is illustrated by Sean Stewart, in 1975 working for Labour Cabinet member Peter Shore.

> I thought the Civil Service was intensely disloyal. Peter Shore was my minister: most of my colleagues thought he was a 'fellow traveller'; and Benn was regarded as a Communist. You would not believe it, would you? In the whole of Whitehall, at the middle level, there was fear all over the place, and the 'antis' [i.e. those anti-EEC membership] were being labelled as Communists and 'fellow travellers'.(59)

Richard Body, a Conservative MP, also then in the 'anti' camp, remembered the same phenomenon.

> There was a great fear being created about the Soviet Union and their allies over here, and there was an inference that those of us in the 'No' side were 'fellow travellers'.(60)

In the year of the referendum, Mrs Thatcher, newly elected leader of the Conservative Party, made her first trip to the United States where members of her party spread the story of the communist 'threat' to Britain. The late Anthony Verney was then the director of a British firm which made fabrics and was in the United States at the time of her visit looking for finance. He recalled meetings with a representative of the Rockefeller empire which went smoothly until, after the arrival of the Thatcher party in the United States, the banker asked him if it was true that Britain was being run by the communists. The loan did not materialise.(61)

The 1975 referendum on the EEC

The U.S. took the 1975 referendum on British membership of the EEC seriously enough to send Cord Meyer over to London, for the period, as temporary CIA Station Chief. Meyer was one of the CIA's most important clandestine operators who had been involved in the manipulation of the youth, student and labour fields in the 1950s and 60s. This information, with some documents to back it up, was given to the Conservative MP Richard Body by two CIA officers in London during the referendum campaign. Body was told by these CIA personnel that Meyer had been a well-known federalist in his youth, and was coming over to work for the 'yes' campaign in the referendum.(62) But the mass media in Britain declined to publish the story and it ended up in the then tiny *Time Out*.(63)

Did it look like a crisis of capitalism? Not really. However, to the U.S.

government it did look like a crisis for their post-war economic system. A British rejection of membership of the EEC might have had serious repercussions; as would the introduction of import controls or any other significant deviation from the U.S. economic model.(64) The referendum on British EEC membership was a defining moment of 1970s Britain. The Labour Left and the Tory Right – roughly, the left and right nationalists of British politics – opposed the American-dominated, open, post-war order.(65) It was a one-sided struggle. The 'yes' campaign had unlimited funding, the support of the City of London, the large British companies, the British state, its broadcasting apparatus (the BBC) and almost all the rest of the media, as well as covert assistance from the CIA and IRD. The 'no' campaign was out-spent ten or fifteen to one. The socialist wing of the Labour Party had made its challenge and been defeated. Prime Minister Harold Wilson immediately removed Tony Benn from his job as Industry Minister.

Dealing with inflation

Meanwhile the inflation generated by the Heath government had reached 27% a year on some accounts and the Wilson government was perceived by the City-Treasury-Bank of England nexus as not showing sufficient zeal in deflating the economy to reduce it. The financial nexus pushed on two fronts. In 1975 they tried to impose statutory wage controls on the Wilson government. And failed. In 1976 they tried to impose massive public spending cuts. And failed. Both events contain the same features: demands from the financial sector, political games, and covert operations by sections of the Treasury.

'A veritable cornucopia of coincidence':(66)
The July 1975 attempt to impose a statutory incomes policy

> 'Over the final two weeks in June there was a savage and very enjoyable Whitehall battle . . .' – Bernard Donoughue (67)

In June 1975 inflation was at 26% or 27%, and, according to Denis Healey who was Chancellor at the time, 'basic hourly rates were up thirty-two per cent on the year'. This was the peak of the inflation *mostly* generated by the Heath government(68) – and the peak of the crisis.(69) The Labour government thought it had an agreement with the Trades Union Congress on wage increases but 'the unions defaulted on their part of the contract,' says Healey. 'A more effective policy for controlling wage increases was now an absolute precondition for saving the economy as a whole'. His memoir gives a brisk and straight-forward account of his persuading the Labour Cabinet to accept a statutory incomes policy in early July 1975.(70)

What really happened is much more interesting.

The key to defeating inflation was then perceived to be controlling wage increases. Wage costs put up manufacturing costs which were passed on by price rises. But getting a pay rise less than the cost of living increase (inflation) means taking a cut in living standards: this is the nub. How would a government of the urban working class and trade union movement enforce a reduction in the living standards of its constituents? Accepting that it had to be done, Wilson was determined not to make the mistakes the Heath government had in seeking a pay policy: it would *not* be legally enforceable, and this time it would include the miners. And getting the miners' approval for such a pay policy, Wilson believed, could only be achieved at the miners' conference in July. The Labour government was 'playing for time' until July – but under pressure from what Wilson called

> the bailiffs, in the shape of the international financial community, from cautious treasurers of international corporations, multi-nationals, to currency operators and monetary speculators.(71)

Would they wait for Wilson's 'D-day in the battle against inflation', the miners' annual conference? Bernard – now Lord – Donoughue was then in the Downing Street Policy Unit, and he 'learned from contacts in the Treasury that it had been decided to get the voluntary [pay policy] proposals rejected and to "bounce" a statutory policy through Ministers.'(72) Donoughue informed Wilson of this attempted covert implementation of Treasury policy, and Wilson then

> dispatched to the Treasury what is the most commanding document ever sent in British government – a Prime Minister's minute. This . . . .did give blunt instructions not to proceed further with arguments for a statutory policy and to start analysing and constructing a voluntary policy along the lines already supported in [Cabinet committee] MISC 91 . . . . *The Treasury ignored the Prime Minister's instructions'.*(73) (Emphasis added.)

On Wednesday 26 June, a speech Wilson proposed to give at the weekend had been circulated through Whitehall: in it he declined to adopt a statutory incomes policy. The speech was going to be delivered on Monday June 30.

> Therefore', says Haines, 'when they went home for the weekend on June 27 1975, senior officials at the Treasury were not only aware of the Prime Minister's minute to the Chancellor [rejecting a compulsory incomes policy]; they also knew what he intended to say publicly about the prospects for an anti-inflationary policy.(74)

On Friday the 27th, Wilson predicted to both Joe Haines, his Press Secretary, and Donoughue, head of his Policy Unit, that the governor of the Bank of

England or a senior official from the Treasury would come round on Monday, tell him that the pound was about to collapse and drastic measures needed to be taken.(75)

On Monday 30 June a wave of selling of sterling took place; sterling suffered its biggest fall in a day. The Governor of the Bank of England duly turned up on Monday at 2.45, revealed that sterling was collapsing and *urged the Prime Minister to support the Chancellor*, Denis Healey, in his proposals for a *statutory* policy. The inner cabinet committee dealing with this issue, MISC 91, met that evening. The Treasury policy, presented by Chancellor Healey, was centred round the compulsory incomes policy which for months they had been pressing upon the government and which they had been expressly instructed to abandon by Wilson. Former Chancellor James Callaghan opposed the Treasury advice: he 'had become sceptical of the various predictable kinds of Treasury and Whitehall wisdom'.(76) However, despite his statements earlier in the week, Wilson appeared to be leaning towards a compromise. When Denis Healey saw him earlier that day 'he said he would after all support a statutory pay policy, providing the legal sanctions were *directed only against employers* who conceded too much, and not against workers who demanded too much' (Emphasis added.) (77)

> At midnight 'as the dinner guests were departing, the inevitable Treasury memorandum "bounced" into No.10. It…..contained a totally stark statement of a statutory 10 per cent pay policy, with criminal sanctions.(78)

Donoughue and Wilson's Press Secretary, Joe Haines, sat down and wrote Wilson a memorandum which began: 'We believe that the Cabinet are being faced with an attempt by the Treasury to stampede it into a statutory pay policy, against every pledge which we have given.'(79)

Joe Haines:

> Bernard Donoughue and I were suspicious about the sudden run on the pound so quickly after the Prime Minister's minute on the previous Friday and his speech at Stoneleigh . . . . There was one further piece of evidence which had come to us during the evening which strengthened our suspicions about the behaviour of the Treasury. No attempt had been made by the Bank of England to keep the pound above the crucial $2.20 level. No money had been spent to bolster the rate . . . .[it was] a veritable cornucopia of coincidence'.(80)

In a rather oblique fashion, Wilson confirmed the Haines/ Donoughue account:

> without a legal framework, indeed one backed by criminal sanctions, we [the Cabinet] were told, sterling would go. At 1.0 a.m. ministers emerging from the Cabinet room were so advised. In this respect Mr. Joe Haines' book reproducing his note to me on the midnight Treasury *démarche* is accurate.(81)

But the Treasury/Bank of England manoeuvres failed. The Labour Cabinet did not implement an incomes policy 'backed by criminal sanctions' against employees. And, oddly enough, the pound did not 'go'.

The IMF incident

Through the rest of 1975 and into 1976 the situation remained the same. Formally floating, the pound was under constant downwards pressure as a result of British inflation being worse than the other industrialised countries. Its value was being defended by the Bank of England. Seeking to bring inflation down without a major recession or the massive industrial trouble which had helped end the Heath government, the Labour government sought an essentially voluntary incomes policy which would stick. Having failed on the incomes policy front, the Treasury-Bank of England-City nexus sought a reduction in government borrowing and spending. The subtext was this: if wages were not going to be cut sufficiently to maintain the pound at the level the financial sector wanted, they would enforce a reduction in consumption of publicly provided goods and services instead. Eventually the government – now led by James Callaghan, after Wilson's resignation – decided to go to the International Monetary Fund to borrow money with which to maintain the value of the pound.

Although it is impossible to *closely* connect up the two areas, the parapolitical and the financial, the psy-ops campaign against the Wilson government was still running during this period. The so-called 'private armies' were all funded or run by City figures. The late David Stirling, who had tried to get GB75/Better Britain off the ground, and who by 1976 was working with Truemid, received his funding from the City. The late G. K.Young who was running the Unison Committee for Action, had been a senior banker after leaving SIS as its no. 2, and Unison's members included other City figures, including Anthony Cavendish; and some of General Sir Walter Walker's funding for his Civil Assistance came from the City.(82)

Enter the bailiffs

'We a had the feeling it could really come apart in quite a serious way . . . so we tended to to see it [the IMF incident] in cosmic terms'

– U.S. Secretary of State William Rogers

The IMF incident is well documented and hardly needs rehashing here in detail.(83) On one side, the U.S. financial administration, the Conservative Party, most of the media, and *some* of the Treasury-Bank of England nexus tried to drive the British government into the arms of the IMF to enable the IMF to impose its traditional policy prescriptions – deflation, in one form or another – as a condition of a loan with which to support the value of sterling.(84) On the other side the Labour Government and *some* of the senior Treasury officials wanted the loan but tried to evade, as far as possible, the deflationary conditions which would accompany it. A prolonged game of chicken was played out. Using the prospect of possible economic chaos, damage to NATO – British troop withdrawal from West Germany was talked of at one point – and the threat from the British Left, members of the Labour Cabinet, notably Prime Minister Callaghan and Harold Lever, tried to mobilize political support inside the U.S. government and elsewhere within the NATO alliance against the U.S. Treasury and IMF officials who wished to impose a severe deflationary package on the Labour government. U.S. Secretary of State at the time, William Rogers, said later of the IMF affair:

> We a had the feeling it could really come apart in quite a serious way. As I saw it, it was a choice between Britain remaining in the liberal [i.e. U.S.-dominated] financial system of the West as opposed to a radical change of course, because we were concerned about Tony Benn precipitating a policy decision by Britain to turn its back on the IMF. I think if that had happened the whole system would have begun to come apart. God knows what Italy might have done; then France might have taken a radical change in the same direction. It would not only have had consequences for the economic recovery, it would have had great political consequences. So we tended to see it in cosmic terms.(85)

Rigging the figures

The struggle with the IMF centred round the projected Public Sector Borrowing Requirement (PSBR). The bigger the projected PSBR, the bigger the cuts the IMF would demand. The Treasury had helped create the sense of crisis six months before, in February 1976, by issuing false figures on public spending which showed that it was taking 60 per cent of Britain’s Gross Domestic Product.(86) Quoting the memoirs of Treasury official at the time, Sir Leo Pliatzky, William Keegan referred to this false figure as

> one of the *least fortunate mistakes* of the year; double counting certain items of local authority and nationalised industry spending, and failing to compare like with like, so that what later turned out to 46 per cent of

> gross domestic product was printed for all to see as 60 per cent early in that crucial year.'(87)(Emphasis added.)

Only the terminally naive could believe this was *a mistake*. There had been no previous estimates of the public sector even remotely approaching 60%: the figure must have looked absurd inside the Treasury. This, surely, was just another piece of psychological warfare. They rigged the figures to make life difficult for the government: by this stage an approach to the IMF was being discussed. A similar move was made during the early stages of negotiations with the IMF. The Treasury's – grossly exaggerated – estimate of the PSBR for 1977-8 was leaked to the *Financial Times.*(88) But with memories of the previous year's Bank of England-led attempt to coerce the Labour government into a statutory incomes policy, Bernard Donoughue recorded

> suspicions in [the government's] minds that the PSBR had been inflated to create an atmosphere of crisis enabling the Treasury to 'bounce' large cuts through Ministers.(89)

These doubts of Donoughue's were not only shared by Prime Minister Callaghan and Cabinet member Peter Shore,(90) the IMF official in charge of the IMF team in London – a former Bank of England official, Alan Whittome – also suspected that the figures had been inflated.(91) As it turned out,

> Partly as a result of cash limits, public spending fell sensationally short of expectations in 1976-77, so that the forecasts which so alarmed the IMF and the financial markets painted a much more gloomy picture than was really necessary.(92)

Conspiracy

At the time, members of the Callaghan government knew their opponents were machinating against them. Callaghan 'received well authenticated reports that a prominent front-bench Conservative spokesman, who has since served in Mrs. Thatcher's Cabinet, was in Washington trying to influence the Administration against the Labour government.'(93) John Pardoe MP in November 1976 stated that 'he had received reliable reports that a number of people from Britain representing both Treasury and City interests had at that time told the U.S. Treasury that it would be better if Britain were to get no more loans from the IMF.'(94) In the *Guardian* 28 October 1976 Peter Jenkins reported information from a 'wholly authoritative' foreign source: 'One of the problems is the axis between your Treasury and our Treasury. They seem to be agreed that the Labour Manifesto is a manual for suicide . . . . they are in constant touch with our people saying, "Don't bale these bastards out."'(95)

More recently we have learned from Bernard Donoughue that Prime

Minister Callaghan, if not the entire Cabinet, knew more than these published fragments suggests. In a 1989 seminar on the IMF incident, Donoughue revealed the following.

> In the middle of this crisis I was privately summoned to the United States Embassy for a secret meeting with a very senior official there who said, 'You should be aware of something, which is that parts of the Treasury are in very deep cahoots with parts of the U.S. Treasury and with certain others in Germany who are of very right-wing inclination and they are absolutely committed to getting the IMF here and if it brings about the break-up of this government, they will be very, very happy.' He actually showed me a copy of a secret communication between London and Washington which seemed to confirm this view . . .'(96)

In his book *Prime Minister*, Donoughue had earlier written:

> We were not being paranoid in 1976 in our suspicion that the IMF was capable of launching economic "remedies' which would destroy governments. (especially governments of the left). A year later in November 1977 the IMF mission to Portugal (including a senior member of the 1976 mission to the UK) refused to grant a credit tranche to the socialist minority government led by Mr. Soares because he would not make immediate savage economies which would certainly have brought down his administration and allowed back into power the old anti-democratic parties of the far right. Internal IMF briefing which we saw among diplomatic papers in Downing Street, at that time stated quite brutally that the *IMF policy was to create a foreign exchange crisis* over the next two months. The IMF staff explicitly asked the Western Governments of the United States, Germany, Japan and Britain to withhold financial and economic aid in order to create a foreign exchange crisis which would bring the Soares Government to its knees and so force it to accept the harsh IMF prescription.'(97) (Emphasis added.)

At the end of all the wrangles, the weeks of cabinet debate, the international horse-trading and arm-twisting, and the disinformation from within the financial nexus in Britain, the result was a victory for the Prime Minister. There were three alternatives being considered by the Cabinet. The left, led by Tony Benn, wanted to tell the IMF to take a running jump and introduce a version of the 'siege economy' – import controls and capital controls; in effect, to take Britain out of the international capitalist system. Another group, led by Tony Crosland, believed the IMF could not afford to let the British economy fail and thought the government should simply call the IMF's bluff, take the money and not make the cuts requested. Accepting the need for a deal with the IMF – if only for the IMF 'seal of approval' to display to the international markets – Callaghan used the NATO alliance dimension to greatly reduce the conditions on the loan. The cuts in public expenditure agreed were smaller than those already working their way through the system as a result of changes inside the Treasury made before the IMF crisis blew up.

The last big 'bounce'

Defeated again, the Treasury faction which wanted the IMF to teach the government a harsh lesson made a final attempt to deceive it. In the Prime Minister's Policy Unit, Bernard Donoughue was monitoring the conclusion of the IMF negotiations. The focus of his interest was the Letter of Intent, the contract between the government and the IMF.

> It seemed to me very important to scrutinise the small print on this document in case some nasty provisions and unnecessarily harsh conditions had been slipped in at the last moment.

The Treasury stone-walled him about the Letter of Intent. Eventually he found it in the Prime Minister's box of papers. Donoughue's suspicions were justified.

> The terms were extremely tough, much tougher than had been agreed with the Prime Minister as far as detailed monetary targets were concerned. The imposition of tight ceilings on both the PSBR and on Domestic Credit Expansion (the increase in domestic money supply before making allowance for balance of payments effects) seemed to rule out any possibility of reflation before the next election and even made it likely that we would be forced to trigger off a fresh round of deflationary cuts in order to meet these targets.

Donoughue claims that with his input Callaghan got significant changes made to the Letter of Intent, notably in raising of monetary ceilings.(98)

'We faced the collapse of the currency, the collapse of the Government and the collapse of the Labour Party' – so said an unnamed Treasury official in 1976.(99) The true significance of the 'crisis' in 1976, however, can be judged by the fact that the cuts finally required by the IMF were not very big, they were all quietly restored by the government the following year, only half the IMF loan was used, and the rest was repaid without incident. Six months after the IMF team flew back to Washington the problem with the pound wasn't that it was falling too far – the proximate cause of the approach to the IMF in the first place – but rising too fast. At which point the Bank of England tried, unsuccessfully, to get the government to remove exchange controls for the first time since the beginning of the Second World War.(100)

In the 1970s Ken Coates was the leader of the Institute for Workers Control, and one of Tony Benn's allies. Now an MEP, Coates is one of those who believed that the Wilson-Callaghan governments of the 1970s betrayed the labour movement and socialism.

> The truth is, Mr. Callaghan had presided over what had been fundamentally, as well as in name, a Liberal-Labour coalition, covering for the International Monetary Fund.(101)

The first part of Coates' statement is true; it was indeed a Lib-Lab pact, fundamentally as well as in name, for a time.(102) But why did Coates think this banality worth prefacing with 'The truth is' . . .? Who has ever questioned this? And what, if anything, does 'covering for the IMF' mean? After the first 1974 election Labour had only four more seats than the Conservatives and no overall majority. After the second 1974 election there was an overall majority of four which was whittled away by death and by-elections. Between 1974 and 1979 the Labour Party was kept in office by the minor parties, chiefly the Liberals; it received less than 40% of the votes cast in both elections. If Labour did not advance the socialist cause much in the 1970s, it had neither the political power nor the authority – the mandate – to do so. Those on the Labour Left, from Tony Benn down, who believe the Labour Governments of 1974-79 should have and could have done much more radical things than they did seem oblivious to these elementary electoral facts. There really was little choice. They did not have the political support in Cabinet, in Parliament, or among the electorate for the radical line offered by the left.

The uses of betrayal myths

The Labour version of the betrayal myth was a major factor in the party's turn inwards. The factionalised Labour Party of the late 1970s and early 1980s failed to convince the electorate that the mess of the 1974-79 period was overwhelmingly the result of Conservative not Labour policies. The Heath inflation was buried under the images of 'the Winter of Discontent'. It is still not understood by the bulk of the Labour Party, let alone the electorate, that the Callaghan-Wilson governments of the 1970s had, more or less, done what they set out to do – slowly bring down Heath's inflation without wrecking the economy. (What would happen when it is tried quickly was tested to destruction by Thatcher, Howe and Lawson.) Despite producing the most disastrous governments of the post-war years, those of Heath and Thatcher, the Conservative Party continued to be accepted by the British public and, more importantly, by the mass media as the party of economic competence right up to 1992 and the ERM debacle. Burying the achievements of the 1970s the Labour Left prepared the ground for the Labour Thatcherites now in office to echo their Conservative counter-parts in crying 'there is no alternative'

Sources

All books listed here published in London unless otherwise stated.

- Agee, Philip and Wolf, Louis eds – *Dirty Work: the CIA in Western Europe*, Zed Books, 1978.
- Benn, Tony – *Against the Tide; Diaries 1973-76,* Hutchinson, 1989
- Blum, William – *The CIA: a forgotten history*, Zed Books, 1986
- Brittan, Samuel – *Steering the Economy: The Role of the Treasury*, Penguin, 1971
- Broad, Roger and Geiger, Tim – 'The 1975 British Referendum on Europe: a Witness Seminar' in *Contemporary Record* vol. 10, no. 3 1996
- Bruce-Gardyne, Jock – *Whatever happened to the Quiet Revolution?* Charles Knight and Co., 1974
- Burk, Kathleen, and Cairncross, Alec – *Goodbye Great Britain: the 1976 IMF Crisis,* Yale University Press, 1992
- Butler, David and Kavanagh, Dennis – *The British General Election of October 1974*, Macmillan 1975
- Callaghan, James – *Time and Chance*, Collins, 1987
- Campbell, John – *Edward Heath,* Cape 1993.
- Coates, Ken (ed.) – *What Went Wrong,* Spokesman, Nottingham 1979
- Dorril, Stephen and Ramsay, Robin – *Smear! Wilson and the Secret State*, Fourth Estate, 1991
- Donoughue, Bernard – *Prime Minister: the Conduct of Policy under Harold Wilson and James Callaghan,* Jonathan Cape, 1987
- Du Cann, Edward – *Two lives* – Images Publishing, Upton on Severn, 1995
- Fay, Stephen and Young, Hugo – *The Day the £ Nearly Died*, *Sunday Times* (pamphlet), 1978
- Gordon, Charles – *The Cedar Story,* Sinclair-Stevenson, 1993
- Gorman, Teresa – *The Bastards,* Pan, 1993.
- Gould, Bryan – *Goodbye To All That,* Macmillan 1995
- Haines, Joe – *The Politics of Power,* Jonathan Cape, 1977
- Heller, Robert and Willatt, Norris – *Can You Trust Your Bank?,* Weidenfeld and Nicolson, 1977
- Healey, Denis – *The Time of My Life*, Michael Joseph, 1989.

- Hennessy, Peter – *Whitehall*, Secker and Warburg, 1989
- Jay, Douglas – *Sterling: a plea for moderation,* Sidgwick and Jackson, 1985.
- Kandiah, Michael David (ed.) 'The Heath Government': a Witness Seminar' in *Contemporary Record*, Vol. 9, No. 1, 1995
- Keegan, William – *Mrs. Thatcher's Economic Experiment,* Penguin, Harmondsworth, 1985.
- King, Cecil – *The Cecil King Diary 1970-74*, Cape, 1975
- Macdougall, Donald – *Don and Mandarin: Memoirs of an Economist*, John Murray, 1987
- Michie, Alistair and Hoggart, Simon – *The Pact,* Quartet, 1978
- Moran, Michael – *The Politics of Banking,* MacMillan, 1986.
- Reid, Margaret – *The Secondary Banking Crisis 1973-5,* Macmillan 1982
- Tebbitt, Norman – *Upwardly Mobile*, Futura 1989
- Whitehead, Phillip – *The Writing on the Wall: Britain in the Seventies,* Michael Joseph, 1985
- Wilson, Harold – *Final Term,* Weidenfeld and Nicolson, 1979

Notes

I am grateful to Tom Easton for his comments on this.

1. By Thatcherite I mean, roughly: support for free movement and non-supervision of capital, 'flexible' (i.e. non-union) labour, private education, health and pension provision; rejection of the post-war settlement and Keynesian economics; and support for the US-dominated international order. The *Observer* 26 September 1997 reported that Mrs. Thatcher advised Rupert Murdoch to support Blair, and quoted Madsen Pirie of the Adam Smith Institute approving of the Blair government. To which I would add the following. A correspondent of mine was talking recently to another of the big-wigs at the Adam Smith Institute. My correspondent said, 'Blair is just Thatcherism with a friendly face.' 'Where is the friendly face?' replied the Adam Smithite.
2. Labour was never a socialist party in the post-war era; not even in the early 1980s.
3. In a recent retrospective on the Heath years, Sir Geoffrey Howe spoke of 'the sense of betrayal which was felt by people like Nicholas Ridley, and Jock Bruce-Gardyne and Ian Gow.' All three were important members of the original Thatcher group. See Kandiah (ed.) pp. 191 and 2. In the same symposium the journalist Hugo Young said that 'the dynamism of Thatcherism related to what is adherents perceived to be the betrayal of

what had happened at Selsdon Park.' *NB Sources referred to in these footnotes are listed at the end.*

4. Cited in Reid p. 23
5. Campbell p. 452
6. *Ibid.* p. 442
7. Macdougall p. 188
8. Campbell p. 446
9. Whitehead p. 82 'The free-marketeers among the ministers at the Department of Trade and Industry knew nothing about it [the committee] despite the detailed Industry Bill which was to emerge.' Hennessy p. 239.
10. See Chataway's comments in Kandiah (ed) p. 198.
11. Campbell p. 447
12. 'The origins of the incomes policy of autumn 1972, according to one insider who was closely involved, can be traced to "the early summer of 1972 when William Armstrong asked Ted Heath if we could start preparing contingency plans for a new counter-inflation strategy in case inflation topped 10 per cent." ' Hennessy p. 231
13. Campbell p. 444
14. King *Diaries*, vol. 2, p. 278
15. Campbell, p. 526.
16. *Ibid* p. 444
17. Kandiah (ed.) p. 196. See also Reid p. 72.
18. Tebbitt p. 134
19. 'Just take your wheelbarrow to the banks and cart away the cash' – Edward Du Cann on the credit explosion after the introduction of the Competition and Credit Control proposals of the Bank of England in 1971. This is discussed below. Du Cann was then chair of the merchant bank Keysers. Du Cann p. 131.
20. He also added, 'The Jewish element in this is *surprisingly* very low.' (emphasis added) King *Dairy* 2 July 1971.
21. Charles Gordon p. 152. Gordon was then running Cedar Trust, which became one of the first casualties of the secondary banking crisis of 1973/4. The role of Warburg in this is ironic, for Warburg was one of Harold Wilson's few friends in the City.
22. Moran p. 396

23. A very clear exposition of this is in Reid chapter 3. Another view is Bruce-Gardyne pp. 43 and 44. This committee not mentioned in Chancellor Roy Jenkins' memoir of the period.
24. Moran p. 52.
25. Reid pp. 32 and 3
26. *Ibid* p.31
27. *Ibid.*
28. John Campbell, Heath's only substantial biographer to date, gives CC&C a brief mention on p. 455. The Bank of England's anodyne account of the changes was in a consultative document issued on 14 May 1971 and reproduced in the *Bank of England Quarterly Bulletin,* June 1971 pp. 181-193. The best discussion of CC&C is in Moran's *The Politics of Banking.*
29. Du Cann p. 130
30. *The Economist* 'The Banking Revolution', 18 September 1971
31. Du Cann p. 131
32. Michael Moran commented of CC&C that 'policies bearing the same name can signify very different things to different people'. Moran p. 44.
33. King *Diary* vol. 2, 18 June 1971. Nothing better illustrates King's economic naivety than reporting, without comment, a higher interest rate for savers accompanied by a lower interest for borrowers!
34. Moran p. 50
35. *Ibid*. p. 44
36. Du Cann p. 131
37. On this see *Lobster* 33 p. 4 and 5
38. Having complained about the activities of 'the fringe', after CC&C the clearing banks threw money at them, playing a central role in the ensuing collapse.
39. Gordon p. 149. This chapter on the post CC&C fiasco is aptly titled 'Borrow Short, Lend Long and Go Bust'.
40. To call this a 'spin' is really misleading. This is a fabrication, disinformation. There is nothing in the proposals which could lead to this interpretation.
41. Reid p. 74
42. Geoffrey Howe quoted in Kandiah (ed.) p. 199
43. Whitehead p. 81 Similar anecdotal evidence is on Campbell p. 526

44. Campbell Adamson remembers a dinner at Chequers when the Prime Minister made much of Jim Slater:'as if to say to us, the other industrialists, now here is the kind of industrialist I like, he is doing the things you are not doing. He's investing, he's being successful'. Whitehead p. 93
45. Moran pp. 52 and 3
46. Reid p. 76
47. Heller and Willatt, p. 102. Moran gives an amusing account of the various explanations Bank of England officials came up with to explain that the credit explosion signified by the exploding money supply figures was not, actually, what it looked like. A decade later Mrs. Thatcher was told exactly the same thing by the same officials: the exploding money supply isn't what it looks like, the figures are false.
48. Keegan 1985, pp. 55 and 6. 'Between December 1971 and December 1974 the total assets of British banks rose from £36,865 million to £85,204 million — a rise of £48,339 million or 131 percent.' Jay p. 148.
49. This last point, generally ignored, is made by Douglas Jay p. 155 and 6
50. This view is expressed very strongly by Edward Du Cann, then Chairman of the banker Keyser Ullman, in his account of the crisis in his memoir.
51. Teresa Gorman MP, now one of the 'radical right' group of Tory MPs who supported Mrs. Thatcher, first entered politics in 1974, standing as a business-sponsored, independent, anti-Conservative candidate in protest against the Heath government's 20% inflation. Gorman, pp. 162 and 3
52. For the complete list, and some details see Blum.
53. The head of the US National Security Council said the British economic crisis 'was considered by us in the White House at that time as the greatest single threat to the stability of the western world.' Fay and Young p. 5
54. A good example of the theory is the full page article 'Communists Aim to Dictate Labour policy' in the *Daily Telegraph* on 28 January, 1974. This period is discussed in detail in Dorril and Ramsay chapters 34-39.
55. Figures from Butler and Kavanagh p. 294
56. 'Contacts with Czech intelligence' was next to Benn's name in one of the forgeries made and distributed, using MI5 briefings, by the British Army psy-ops unit in Northern Ireland.
57. See Dorril and Ramsay ch. 27. While Benn's junior minister at Min Tech, John Stonehouse duly obeyed MI5 instructions and reported his contacts with Czech diplomats. MI5 still tried to smear him as a Czech agent.

58. This period is discussed in detail in Dorril and Ramsay part 4.
59. Broad and Geiger (eds.) p. 103
60. *Ibid*.
61. Verney letter to author.
62. Broad and Geiger (eds.) p. 93.
63. This *Time Out* story was republished as 'The CIA backs the Common Market' in Agee and Wolf (eds.). I wrote to Sir Richard Body requesting a copy of these documents but did not receive a reply. What Meyer *did*, I have no idea. Meyer was profiled by Godfrey Hodgson in the *Sunday Times* Magazine on 15 June 1975, three months after *Time Out* revealed his arrival. This is reprinted in Agee and Wolf (eds.)
64. How these consequences were perceived by the U.S. State Department is illustrated below in a long quote from the then U.S. Secretary of State.
65. Nationalists in economic terms. Tony Benn, for example, would resist to his last breath the claim that he was a nationalist.
66. Haines p. 59
67. Donoughue p. 64
68. I write 'mostly' here because there were other factors involved: rising world commodity prices, notably oil, as well as some wage inflation. It was Heath's misfortune to try and expand the economy and let the bankers off their leash at precisely the wrong moment. To my knowledge nobody has ever tried to quantify these different inflationary factors.
69. And it was a real crisis. Inflation at 25% is a crisis for any economic system. Occasionally reading left accounts of this period you get the impression that this was just a crisis for capitalism.
70. Healey pp. 394-5.
71. Wilson p. 114
72. Donoughue p. 66 The language of childhood – 'bounce' – is used to partially conceal or underplay what is being described: an unelected group of civil servants trying to impose their views on the government.
73. *Ibid.*
74. Haines p. 52
75. Haines p. 50, Donoughue p. 66
76. Donoghue p. 67
77. Healey p. 94
78. Donoghue p. 68
79. Haines p. 59

80. Haines pp. 54, 58, 59
81. Wilson p. 115
82. The details of this are in Dorril and Ramsay.
83. A recent thorough re-examination is Burk and Cairncross.
84. The leading pro-IMF people identified were Alan Lord and Derek Mitchell at the Treasury and Gordon Richardson at the Bank of England. The antis were Sir Douglas Wass, Permanent Secretary of the Treasury, and Leo Pliatzky. It is generally forgotten that the same forces had tried to use the IMF against the Labour Government in 1969. See Brittan pp. 395 and 6
85. Fay and Young p. 30
86. Healey p. 427
87. The *Observer*, 21 March 1982
88. Burk and Cairncross p. 70
89. Donoughue p. 94.
90. On 23 November 1976 Tony Benn noted in is diary, 'Peter [Shore] suspected the figures produced by the Treasury.' James Callaghan: 'The only doubt in my mind, borne of previous experience, was how far to trust the figures.' Callaghan p. 422
91. 'Here was evidence that the mandarins were painting a redder picture of the books than the international bankers were. Whose side were they on? Incompetence rather than a deliberate fiddling of the figures is likely to have
been the culprit here, the PSBR being notoriously difficult to estimate.' Whitehead p. 192 Why is incompetence 'likely'? A great deal about the innocence – or incompetence – of British political commentators is expressed in that 'incompetence is likely'.
92. William Keegan, *Observer* 21 March 1982, citing the memoir by the Treasury official in charge at the time, Sir Leo Pliatsky. Denis Healey wrote in his memoir, 'I cannot help suspecting that Treasury officials deliberately overstated public spending in order to put pressure on governments which were reluctant to cut it.' Healey p. 402
93. Callaghan p. 431
94. Coates (ed.) p. 182
95. Cited in Haines p. 58. This sounds like it came from Donoughue.
96. Symposium on the 1976 IMF crisis in *Contemporary Record* Vol. 3 No. 2 November 1989 p. 43. Donoughue begins this statement with the standard 'no conspiracy' preamble required in intellectually respectable

circles in liberal
democracies: ‘We all know, and history shows, that most conspiracies were cock-ups. That’s the basis I start from.’

97. Donoughue p. 95 and 6
98. Donoughue pp. 99 and 100 There is another version of the same events in Whitehead p. 199 and Burk and Cairncross p. 107
99. Quoted in Fay and Young p. 5
100. Healey p. 435
101. Introduction, Coates (ed.) p. 8.
102. On the pact see Michie and Hoggart.