

Historical Notes

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Nigel Lawson and the Thatcher U-turn

Nigel Lawson, who died earlier this year, received a good press from a series of laudatory tributes and obituaries, which naturally spent a lot of time discussing his period as Margaret Thatcher's Chancellor of the Exchequer between 1983 and 1989. The Thatcher government's economic strategy, driven from the Treasury by Lawson, led to a rapid contraction of manufacturing industry, whose share of national output fell from 25 per cent to 17.3 per cent between 1979 and 1990¹ and to an expansion of the financial and service sectors, whose contribution to GDP grew from 56 per cent to 65 per cent over the same period.² The process was characterised by increases in activity in finance, insurance and real estate (what economists call FIRE) along with the growth of small business and self-employment, all encouraged by changes in fiscal policy and regulations governing banking and housing finance.

Lawson's time at the Treasury was increasingly characterised by deregulation and tax cuts – by 1988 he had cut the basic rate of income tax from 30 per cent to 25 per cent and the top rate from 60 per cent to 40 per cent – and the privatisation of public utilities. The economy and society which emerged in 1990, at the end of Thatcher's premiership, was markedly different from the one she had inherited in 1979, and Lawson has received much of the credit for this shift. Most of the tributes, especially on the political Right, fixed on Lawson's role in facilitating Britain's shift away from post-war social democracy towards a free market economy and society. Prime Minister Rishi Sunak called him 'a transformational Chancellor and an inspiration'. Boris Johnson hailed him as 'original flame of free market Conservatism' and 'a tax cutter and simplifier who helped transform the economic landscape'. *Spectator* editor Matthew d'Ancona rated him 'probably the most consequential Chancellor

¹ Chris Rhodes, *Manufacturing: statistics and policy*, House of Commons Briefing Paper 01942 (January 2020)

² DeAnne Julius and John Butler, 'Inflation and Growth in a Service Economy', *Bank of England Quarterly Bulletin*, November 1998, chart 2, p. 339.

of the post-war period'.³

One aspect of Lawson's time at the Treasury that was not discussed was the dramatic switch in macroeconomic policy which occurred on his watch. Thatcher's first Chancellor of the Exchequer was Sir Geoffrey Howe. Lawson was also appointed to the Treasury in 1979, serving as Financial Secretary. This was not a senior Ministerial post but Lawson exercised a good deal of influence as one of the most committed free marketeers in the Treasury team.⁴ During his time in that role the Thatcher administration's economic strategy in 1979-82 had concentrated on reducing inflation, seeing this task as central to the improvement of Britain's international competitiveness. To this end the government eschewed the Keynesian approach – focusing on the management of demand in the economy at or near full employment levels of output – which most post-1945 British governments had embraced. These were seen by many on the Right as responsible for building inflationary pressures into the economy. Instead, the monetarist teaching of Milton Friedman and the Chicago school of economists was followed. These argued that the most effective way to attack inflation was through control of the money supply. Howe and his Treasury team identified sterling M3 (the level of cash in circulation with the public plus sterling bank deposits) as the operational measure of money supply, and used monetary targets to manage its level. This turned out to be almost impossible to achieve and the government consistently missed its targets. In practice, therefore, it concentrated on reducing inflation via high interest rates (the Bank of England lending rate frequently exceeding 14 per cent between June 1979 and early 1982),⁵ credit controls and public spending cuts. The credit squeeze, along with the impact of revenues from North Sea oil, led to a significant appreciation in sterling's exchange rate against the dollar and other currencies (keeping down the price of imports, thereby assisting efforts to reduce inflation).

The results were catastrophic. There were dramatic increases in factory closures and unemployment as demand for goods and services in both the domestic and foreign trade sectors of the economy tumbled in response to deflation and the high exchange rate. The UK index of industrial production slumped from 113.1 in 1979 (1975 = 100) to 100 in 1982. Manufacturing

³ Christy Cooney, 'Nigel Lawson: former Conservative chancellor dies aged 91', *The Guardian*, 3 April 2023.

⁴ See Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical* (London: Corgi, 1993), pp. 20-21.

⁵ Bank of England, *Official Bank Rate 1975-2023*, <<https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>>.

output dropped by 15 per cent and investment fell by 28 per cent over the same period. 20 per cent of Britain's industrial capacity disappeared between 1979 and 1982. 1 million jobs were lost in the year from April 1980 to April 1981, 700,000 of these in the manufacturing sector.⁶ Unemployment shot up to levels not seen since the 1930s. The social impact was devastating, leading to riots spreading across the country in the spring and summer of 1981. When Howe doubled down on his strategy, proposing higher taxes and more cuts in spending programmes despite the ongoing slump, he was confronted by a Cabinet revolt and a letter calling for a change of approach and a traditional Keynesian-style reflation of the economy, signed by 364 economists. As is well known, Thatcher publicly refused to make any 'U-turn' and, at first slowly and barely perceptibly, the economy started to grow again. Its increasingly rapid expansion after 1983 was seen as a triumph of nerve and of judgment by the Prime Minister as well as by Howe and Lawson and as clear evidence that Keynesian economics no longer worked.

This version of history is still widely believed in politics and the media and has helped to make 'U-turn' a term of abuse. Yet it is founded on illusion, one created to reinforce Thatcher's image of being an 'iron lady' who did not give in to pressure and who stuck to her guns. In reality, however, there was what the Cambridge economist and former Treasury official Wynne Godley called 'a colossal U-turn'⁷ in which the government pushed every button likely to stimulate an increase in economic activity. With Lawson at the Treasury the Thatcher government's initial macroeconomic policy strategy was quietly abandoned in favour of a dash for growth driven by falling borrowing rates, easy access to credit, tax cuts, increases in public spending and the devaluation of sterling.

The adjustment actually started under Howe in 1981-82 with a relaxation in government borrowing targets and a rise in public spending, which was sustained when Lawson took over, growing at an annual rate of 2.5 per cent in real terms. Infrastructure, employment and training and the NHS were the main beneficiaries, the latter receiving in 1989-90 a 4.5 per cent real terms boost in investment (the largest annual increase in its history up to that point). At the same time, Lawson abandoned using sterling M3 as the operational measure of the money supply. There was a *de facto* return to Keynesian demand management as the new Chancellor focused (without publicly admitting it) not on the reduction of inflation but on increasing the nominal level of national

⁶ Scott Newton, *The Reinvention of Britain 1960-2016. A Political and Economic History* (London: Routledge, 2017), p. 145.

⁷ Godley quoted in Newton, *The Reinvention of Britain*, pp. 162-3.

output. Public spending had a part to play in this, but, in keeping with the free market ideology of Thatcherism, the key roles were taken by tax cuts and by monetary policy. Lawson repeatedly cut the Bank of England lending rate, which fell from a high of 16 per cent in 1980 to 7.38 per cent in early 1988,⁸ leading to easier credit terms throughout the economy. Hire purchase controls were abolished (these had restricted the availability of credit to consumers) and reforms to the housing market led to a marked rise in the availability of mortgage finance.⁹ This in turn stimulated an increase in house prices, which in 1988 were 40 per cent higher than they had been in 1986. Overall, net lending to the personal sector on the part of banks and other financial institutions rose by a factor of three between 1984 and 1987. Between 1987 and 1990 it amounted to 10 per cent of the national income. All this stimulated personal consumption, which expanded at an annual rate of 4.6 per cent between 1982 and 1989, double its annual average growth in the twenty years prior to 1979. Consumer spending at the end of the 1980s reached 39.5 per cent of national output, an increase of 7 percentage points above its 1979 level.¹⁰

The U-turn set off a period of (by British standards) rapid economic growth, which averaged 3.5 per cent per annum over the period 1982-90. In 1987 and 1988 it reached 4.4 per cent and 4.7 per cent, respectively. Unemployment, which rose from 5.7 per cent of the workforce in 1979 to 12.2 per cent in 1986, thereafter fell sharply to 5.4 per cent by June 1990, its lowest level since the spring of 1976.¹¹ There was talk of an economic miracle. This was, however, not to last. By 1988 there were clear signs of overheating in the economy. High domestic demand drove up domestic prices and sucked in imports. The balance of payments on current account, the proceeds of North Sea oil notwithstanding, plunged into the red. It rose to 4.0 per cent of GDP in 1988 and 4.7 per cent, a post-war record, in 1989 (even at the height of the 1974 oil crisis it had reached no more than 4.1 per cent of national output). Lawson resisted calls to restrain the expansion (including one from a worried

⁸ See Bank of England, 'Official Bank Rate History' at <<https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>>.

⁹ The government's reforms effectively removed the distinction between banks and building societies. Mortgage finance had been the preserve of building societies, which had rationed its availability to would-be borrowers. Competition to provide mortgages between banks and building societies followed the changes introduced by the Thatcher government now led to the collapse of the old system, leading to much easier access to funds for house purchasing and home improvements.

¹⁰ Ian Gilmour, *Dancing with Dogma: Britain under Thatcherism* (London: Simon and Schuster, 1992), p. 88.

¹¹ See Newton (see note 6) p. 162.

Thatcher, who feared the Tories were recreating the conditions for a re-run of the ill-fated Barber boom of 1972-74). He gambled on the deficit being corrected by a falling exchange rate, leading to cheaper exports and more expensive imports.¹²

There was indeed a downward float of sterling as the financial markets began to lose confidence in the currency. This followed from the cuts in the lending rate, a steady rise in the rate of inflation throughout the second half of the decade and a sharp fall in the price of oil. By early 1985 the sterling-dollar rate, standing at £1 = \$2.41 four years earlier, had dropped to £1 = \$1.38, a 43 per cent devaluation, while it declined against the deutschmark over the same period from £1 = DM4.85 to £1 = DM 3.265, a slump of 31.65 per cent.¹³ But no boom in exports materialised. The destruction of so much manufacturing industry, especially in the early 1980s, led to serious shortages of skills and capacity. Services, being less widely traded than manufactures, were incapable of filling the gap. By 1988-89, with the annual rate of inflation leaping from 4.9 per cent to 7.8 per cent (it peaked at 9.5 per cent in 1990),¹⁴ Lawson was applying the brakes. Now keen to restrict credit, he drove the Bank of England lending rate back up to the levels seen at the start of the decade (by 1989 it stood at 14.88 per cent). The squeeze on borrowing led to a slump in economic activity and a crash in property prices. Company insolvencies surged from just under 50,000 in 1989 to 120,000 in 1992, along with unemployment, which went from its low point of 5.4 per cent in 1989 to 10.5 per cent by the start of 1993 (a rise from 1.55 million to just over 3million).¹⁵ When Lawson resigned in 1989 he had not achieved a British economic miracle. True, in the face of economic crisis, social upheaval and great unpopularity (as well as the famous letter from the 364 economists) he had led the Thatcher government away from its disastrous original policies. These were ditched in favour of an expansionist approach. But in the end, after an interval of rapid growth, this came to resemble one of the 'Stop-Go' consumer-led booms which had been characteristic of Tory governments in the 1950s (under Butler), the 1960s (under Maudling) and the 1970s (under Barber). Thatcher's anxieties proved to be accurate.

There were two factors which made the Lawson experience special. First, the scale of the 'Stop' under his Chancellorship, in terms of its impact on the

¹² Newton (see note 6) pp. 165-6

¹³ Newton (see note 6) p. 163.

¹⁴ Roger Middleton, *The British Economy Since 1945* (Basingstoke and London: Macmillan, 2000), Table II.2, p. 149.

¹⁵ See Newton (see note 6) pp. 166-7.

level of bankruptcies and joblessness (not to mention the housing market), exceeded that of all his predecessors. Secondly, Lawson's time at the Treasury was characterised by the conscious acceleration of British deindustrialisation. The rapid contraction of the early 1980s was not reversed. The U-turn did not include the introduction of government measures designed to regenerate manufacturing industry, whose ongoing contraction was either encouraged by the state (as in the coal industry) or left to market forces. This was a political as much as an economic project, intended to weaken the power of organised labour and strengthen the forces of capital, especially financial and commercial capital, through policies which facilitated the collapse of the material foundations of post-war British social democracy. The Thatcher governments allowed manufacturing to decline, sought to undermine the power of the unions, and through their approach to taxation, social benefits and support for the jobless,¹⁶ promoted growing social and economic inequality.¹⁷ They were able to achieve all this thanks to the proceeds of North Sea oil, which was used not to reconstruct British industry but to provide a safety net for what has been described as 'one massive "market-clearing" operation' in which shock therapy was applied to the economy.¹⁸ By 1990 both the political and the economic dimensions of this project had become evident. Nigel Lawson's legacy was large-scale social and economic dereliction, an economy increasingly dependent on foreign capital inflows and vulnerable to financial shocks (as in 1990-92 and in 2007-8),¹⁹ and a country fit for millionaires and billionaires to live in. To that extent, he was indeed a 'transformational' Chancellor.

Treasury Orthodoxy and Sound Money

Bartholomew Steer's highly perceptive review article in the current *Lobster* has prompted me to make a couple of observations about the issues discussed.

The first relates to the 1976 sterling crisis. Aeron Davis and Kwasi

¹⁶ See Phil Burton-Cartledge, *Falling Down: the Conservative Party and the Decline of Tory Britain* (London: Verso, 2021), pp. 82-3.

¹⁷ Paul Johnson and Steven Webb, 'Explaining the Growth in UK Income Inequality, 1979-88', *The Economic Journal*, vol. 103 (1993), pp. 429-435.

¹⁸ Charles Woolfson, John Foster and Matthew Beck, *Paying the Piper: Capital and Labour in Britain's Offshore Oil Industry* (London: Mansell, 1997), pp. 31-33. See also Newton (see note 6) pp. 171-172.

¹⁹ These issues have frequently been discussed in *Lobster* over the years, especially by Robin Ramsay, most notably in 'Mrs Thatcher, North Sea oil and the hegemony of the City', *Lobster* 27 (1994), pp. 1-7; and also see Scott Newton and Dilwyn Porter, *Modernization Frustrated. The Politics of Industrial Decline in Britain since 1900* (London: Unwin Hyman, 1988), ch. 7; and Newton (see note 6), ch. 6.

Kwarteng, two of the authors reviewed by Steer, repeat the usual tale that this event saw a Labour Prime Minister (Jim Callaghan) and a Labour Chancellor (Denis Healey) abandon Keynesian economics as the foundation for managing the British economy and replace it with monetarism. This shift in policy and practice was subsequently intensified by Thatcher and became the basis of her government's programme to shrink the state and withdraw it from national economic management. It was supported by a Treasury staff traumatised by what happened in 1976 when a combination of 25% inflation, a large external deficit and a rising government borrowing requirement had led the UK to a position in which it became 'effectively bankrupt', according to Sir Terry Burns, former Permanent Secretary to the Treasury. From 1976 onwards, Treasury insiders were determined not to allow a re-run of what they saw as a national humiliation, and they subsequently committed themselves to exercising a 'vice-like grip' over public spending.

Speer explains that others, including Sir Douglas Wass, the Permanent Secretary at the time of the 1976 crisis, did not see things that way. This is certainly correct, as his book on the crisis, *Decline to Fall*,²⁰ makes very clear. This is no place to embark on a full account of what really happened in 1976, but the following points are appropriate. It is true that the IMF had demanded cuts in public spending worth £4.5 billion between 1977 and 1979, to reduce the government's borrowing requirement from a projected £12 billion in 1977-78 (10 per cent of GDP: the forecast was subsequently trimmed to one of £10.5 billion) to £6.5 billion in 1978-79, in exchange for a credit of £2.3 billion. The Cabinet refused to back this package, but in the end Callaghan persuaded colleagues to agree to reduce borrowing via reductions of £2.5 billion in spending along with asset sales and tax increases worth £1 billion over the same period. When the IMF Managing Director Johannes Witteveen demurred at this and demanded Labour implement the Fund's original demands, Healey told him to take a 'running jump' and threatened a general election called on the theme of a 'bankers' ramp'. (It was quite unconstitutional for the Chancellor to do this, but Callaghan backed him up.) At this point the IMF retreated and agreed to Labour's compromise programme.²¹

This outcome did not lead to the abandonment of the government's economic strategy and 'the end of Keynesianism'. For a start, the strategy had in fact been settled in late 1975, while Harold Wilson was still Prime Minister. Its aim was to deliver both steady growth and falls in the rate of inflation, along

²⁰ Douglas Wass, *Decline to Fall: The Making of British Macro-Economic Policy and the 1976 IMF Crisis* (Oxford: Oxford University Press, 2008).

²¹ See Newton (see note 6), pp. 126-130.

with reductions in government borrowing. To this end there had already been agreement on trimming spending programmes, the establishment of an incomes policy in agreement with the unions, and an industrial strategy based on tripartite agreement between the government and both sides of industry. The only aspect of all this that was altered as a result of the events of the IMF crisis was the approach to cutting borrowing, and even here the result was far less dramatic than has been claimed by journalists, politicians and historians writing at the time and in subsequent decades. What actually happened was that the current account deficit disappeared by mid-1977. Only half of the IMF loan was ever used, the last tranche being borrowed in August 1977. It was all repaid ahead of schedule, well before Labour left office in the spring of 1979. Borrowing for 1977-78 turned out to be well below Treasury projections and inflation fell in 1977-78 to 7.4 per cent (its lowest level for five years). Growth in 1978 was running at a rate of 3 per cent per annum.

This turnaround in the leading economic indicators occurred well before the Fund package could have played any part in achieving it. The combination of expansion with an improving external position allowed Healey to reflate the economy: there were increases in child benefits, and funding for training, while the provision of free school meals was extended. There was a £400 million package for the construction industry, and overall public expenditure *actually rose by £1 billion in 1977-78 and by £2.5 billion in 1978-79*. As Wass remarked, all this amounted to 'a virtual cancellation'²² of the cuts agreed to in December 1976. There is little doubt that the IMF, with the backing of the US Treasury, launched an ideological assault on the Labour government. But their achievements were in fact minimal, with the cuts being far more limited and of much shorter duration than the Fund and its allies in Washington had wanted. Labour stuck to its social-democratic programme.

Finally, it is clear from Steer's review that Aeron Davis has relied heavily for first-hand accounts of what went on in 1976 on Treasury 'insiders' and on Sir Terry Burns. But who were these insiders? Nobody in Wass's book (which is based not just on personal memories but access to a full range of Treasury, Bank of England and Cabinet papers from the years in question) speaks of the event and its legacy in the highly coloured terms these former officials seem to have used in talking to Davis. Nor is Terry Burns a particularly useful witness. At this stage in his career he was an academic at the London Business School and not a full time Treasury man, just an advisor on its panel of economists. He would not have played much of a part in the 1976 events. He is not mentioned once in Douglas Wass's comprehensive and genuine insider's account.

²² Wass (see note 19) pp. 309-10.

My second observation relates to Steer's treatment of the 'Treasury view', as rooted in the old motif of 'sound money', meaning balanced government budgets, with expenditure and revenue at low levels. Discussing Kwarteng's book, Steer comments that 'sound money came from the pens of and words of Robert Peel and William Gladstone'. This is undoubtedly true – but it is not the whole story. If we wish to understand that, we need to consult studies which can help us to go back a little further.²³ These locate the policy of sound money in the changing external strategy of the British state after the Napoleonic wars. The British state which emerged from that long conflict had accumulated its wealth over the previous century and more, through a mercantilist approach to trade. This had been characterised in external policy by aggressive rivalry with foreign powers and, at home, by protection of domestic producers, especially in the agricultural sector. It was a strategy which had led Britain into a series of wars for global supremacy, notably with France, first of all in the Seven Years' War (1756-63) and then in the Napoleonic era (although this also contained a significant ideological component). These conflicts were expensive, and were financed by increasing the national debt via the banking facilities of the Bank of England and the City of London and through taxation. At the end of the Napoleonic wars the accumulated debt amounted to £700 million, with interest payments absorbing half of all public spending in peacetime and equivalent to one half of the value of all exports throughout the eighteenth century. Taxation was mainly in the form of customs and excise duties (rather than land tax, which was unpopular with the aristocracy and propertied classes).²⁴

This made for a highly regressive fiscal policy, and throughout the eighteenth century taxation in Britain was higher, both per capita and as a share of the national wealth, than it was in France.²⁵ By 1815 both debt and taxation were generating concern on the part of investors and property holders. The anxieties were cogently expressed by David Ricardo, who published his

²³ See for example P. J. Cain and A. G. Hopkins, *British Imperialism 1688-2015*, 3rd edition (London: Routledge, 2016); Boyd Hilton, *Corn, Cash and Commerce: The Economic Policies of the Tory Governments 1815-1830* (Oxford: Oxford University Press, 1977); Geoffrey Ingham, *Capitalism Divided? The City and Industry in British Social Development* (Basingstoke: Macmillan, 1984); Scott Newton and Dilwyn Porter, *Modernization Frustrated. The Politics of Industrial Decline in Britain Since 1900* (London: Unwin Hyman, 1988); Frank Longstreth, 'The City, Industry and the State', in Colin Crouch (ed.) *State and the Economy in Contemporary Capitalism* (London: Croom Helm, 1979).

²⁴ Scott Newton, 'Joseph Chamberlain and Tariff Reform: British Radicalism, Modernization and Nationalism', in Robert Stradling, Scott Newton and David Bates, *Conflict and Coexistence. Nationalism and Democracy in Modern Europe* (Cardiff: University of Wales Press, 1997), pp. 85-6.

²⁵ Newton (see note 23) p. 86.

famous *Principles of Political Economy and Taxation* in 1817, and amounted to concern that if the debt were to continue growing it would only be redeemable by resorting to levels of taxation destructive of trade (through high excise duties which would provoke retaliation against the growing volume of British exports) and enterprise or by inflating the currency and undermining confidence in the financial system.²⁶ This caused the financial and commercial aristocracy which had composed the British ruling class since the end of the seventeenth century²⁷ to embark on a new national external strategy, based not on mercantilism but on free trade. Gradually, over the thirty years after 1815, protection was abolished. Duties on imports were removed, culminating in the repeal of the Corn Laws in 1846, in order to encourage the nations with whom Britain traded to remove their tariffs on British goods, especially on cotton textiles, coal and semi-finished manufactures such as pig iron. This caused government revenue to fall sharply, necessitating massive reductions in public expenditure. These, in turn, led to the development of a 'Nightwatchman State' committed to low taxes, low expenditure and minimal intervention in economic and social activity (hence, for example, the rationalisation of welfare in the 1834 Poor Law Amendment Act from which the Victorian workhouse emerged).

The new fiscal policy was accompanied by a reform of the government machine which elevated the Treasury to being the key department of state, in control of all the other branches and so keeping a tight grip on public spending commitments. It was accompanied by a financial strategy which saw sterling's value throughout the world stabilised and guaranteed through its convertibility into gold at a fixed rate of exchange (the gold standard). This measure, along with buoyant international demand for British goods, enhanced sterling's attractiveness to governments, traders and financiers all over the world. Given dwindling opportunities to lend money to the British State after 1815, thanks to cuts in government borrowing, City loan managers were forced to look beyond Britain for business. As quickly as sterling flowed into Britain as a function of its export trade, it began to flow out again, to destinations all over the world, in the form of loans and of both direct and portfolio investment. Sterling became the world's leading currency for a century after 1815, leading the City of London to develop into the world's financial centre in the process. The roots of 'sound

²⁶ Newton (see note 23).

²⁷ This is all covered by the work of Tom Nairn. See for example *The Break-Up of Britain and The Enchanted Glass* (updated second edition, London: Verso, 2011). I attempted to summarise Nairn's core ideas in 'Historical Notes on Tom Nairn', *Lobster* 85 (2023) at <https://tinyurl.com/5jxpd9> or <https://www.lobster-magazine.co.uk/article/issue/85/historical-notes-on-tom-nairn-and-the-british-state/>

money' are to be found here, in this mutually reinforcing set of policies – free trade, the gold standard and the Nightwatchman State and balanced budgets – which emerged in the aftermath of the Napoleonic Wars.

The turn to 'sound money' in the post-Napoleonic period was not simply a result of prominent politicians like Peel and Gladstone thinking it a good idea. It predated them and followed from the class interests of the financial and commercial elite at the helm of the British state. It continues to occupy this position, having decisively repulsed the Keynesian assault of British industrial capital which gathered strength in the era between the 1920s and the 1970s. This it achieved through consciously pursuing a deindustrialisation strategy which wrecked British manufacturing and undermined organised labour, the twin props of the social democratic political economy embraced by Labour in the years between 1935 and 1992. Today's 'global Britain', socially and economically scarred by austerity and Brexit on the one hand and increasingly a puppet state of the USA on the other, run by bankers, public schoolboys (and they are boys for the most part) and the super-rich, is the outcome of this process.²⁸

The Iraq Memory Hole

Winston Smith, the central character of George Orwell's *Nineteen Eighty-Four*, works for the Ministry of Truth in Airstrip One, which is what Britain is called in the novel. It has become a province of Oceania, a totalitarian super-state run by The Party. This is a pseudo-socialist political elite, whose structure and Stalinist theory and practice is modelled on the pro-Republican Communists Orwell encountered when he went to fight in the Spanish Civil War, an experience he first wrote about in *Homage to Catalonia* (1938). Smith's main job is re-writing old newspaper reports and altering photographic evidence in the archives so that they conform to the latest version of 'the truth' as determined by the Party, thus ensuring that history always confirmed the validity and wisdom of the latest 'line' and reinforced the infallibility of its leader, Big Brother:

All history was a palimpsest, scraped clean and re-inscribed exactly as often as was necessary . . . A number of *The Times* which might, because of changes in political alignment or because of mistaken prophecies uttered by Big Brother, have been re-written a dozen times,

²⁸ See Scott Newton, 'Britain goes back to the future: the Gulf, free trade imperialism and Brexit: review of David Wearing, *AngloArabia. Why Gulf Wealth Matters to Britain* (Cambridge: Polity, 2018), in *Lobster* 78 (2019) at <<https://tinyurl.com/4sanys5z>> or <<https://www.lobster-magazine.co.uk/article/issue/78/angloarabia-why-gulf-wealth-matters-to-britain-by-david-wearing/>>.

still stood on the files bearing its original date, and no other copy existed to contradict it. Books, also, were recalled and re-written again and again . . . Even the written instructions which Winston received . . . never stated or implied that an act of forgery was to be committed: always the reference was to slips, errors, misprints or misquotations which had to be put right in the interests of accuracy.²⁹

Having 'corrected' the historical record Smith and his colleagues in the Ministry dropped the redundant versions of the past into small chutes, known by staff as 'memory holes', whence they were carried away on currents of warm air into furnaces and there destroyed.

Nineteen Eighty-Four projected a dystopian vision of a world run by totalitarian blocs in perpetual rivalry and warfare with each other (in practice more cold than hot, despite bellicose newsreels and broadcasts purporting to tell of epic conflicts and battles), keeping their populations onside via political repression characterised by censorship, thought control, arbitrary detention and brutal 're-education', along with cheap alcohol and propaganda on the part of the state and a captive media. Many commentators have drawn attention to examples of the way what was fiction in *Nineteen Eighty-Four* has drawn close to reality over the decades since the book's appearance in 1949. The term 'Orwellian' has become a shorthand for such developments, mainly relating to the increasing ability of states and corporations to monitor and control the lives of private citizens. Usually, writers and journalists in the West have accused 'socialist' countries of such practices, sometimes (the USSR in the Stalin period and the People's Republic of Korea being examples) with justification. They have generally not been so keen to charge their own governments with these crimes, at least not if they have been centrist or right of centre in their political outlook.

In recent months, however, the US and British media have run a news story which could well be described as 'Orwellian' for its treatment of a recent historical event of major importance. This was the 2003 invasion of Iraq, the UK playing a major, if secondary role to the USA in the enterprise. The operation was immensely controversial, with huge mass demonstrations protesting against it in British cities, above all in London, in the days before it was launched. The Anglo-American led expedition was, of course, designed to overthrow Iraqi leader Saddam Hussein and replace him and the nationalist Ba'athist Party which sustained his regime, with a more pliable, pro-Western leadership. It was justified by reference to Iraq's possession of Weapons of Mass Destruction (WMD: 'WMD' is an abbreviation which covers nuclear, chemical and biological warfare), which, it was claimed, could be passed to al-

²⁹ George Orwell, *Nineteen Eighty-Four*, (London: Penguin Modern Classics, 2003), p. 47.

Qaeda and used against western countries with terrible effect.

It was, and remains, commonly accepted that Iraq either possessed such weapons or was seeking to develop them during the 1980s. Indeed, Iraq was known to have used chemical weapons against Iran during the 1980-88 conflict between the two states and against the Kurds in the Halabja massacre of 16 March 1988. Removing Iraq's WMD capacity was seen in Washington and London as a step to stability in the Middle East and Central Asia, and both capitals agreed that regime change was the only way to secure this objective. Both governments made their case with press releases and presentations (including one by the US Secretary of State Colin Powell to the UN Security Council) using collections of classified documents and intelligence assessments. The problem was that Iraq did not have any WMD. UN weapons inspectors did not find any before or after the 2003 war. US and UK political leaders had repeatedly assured their electorates and the world at large that there was no doubt of the WMDs' existence and they would be found once the fighting had stopped. They were wrong. Their protestations were by no means universally believed before the war, with public doubts reinforced by the ongoing inability of the UN inspectors within Iraq to find evidence of existing WMD capacity.

The growing public scepticism was fed by a series of denials that Iraq possessed any WMD from members of its government. A *Morning Star* piece by Solomon Hughes shows that early in 2001 Iraqi trade minister Muhammad Mahdi Salih repudiated such accusations, stating 'This is a lie . . . This is not true and there are no such projects. Iraq does not produce this kind of material.' The same message had been given to the UN by Foreign Minister Najji Sabri in November 1992.³⁰ In February 2003 Saddam Hussein himself told Tony Benn, who had flown out to interview him, that Iraq had 'no weapons of mass destruction whatsoever and no connections of any kind with al-Qaeda'.³¹ As late as March 2003 Information Minister Mohammed Said al Sahhaf explicitly stated that 'Iraq has been rid of weapons of mass destruction since spring 1992', while Baghdad announced publicly that it was destroying missiles.³² In both Washington and London all these announcements were either ignored or treated with contempt as lies and gimmicks designed to confuse the West and generate

³⁰ Solomon Hughes, 'Why are Iraq's fake WMD claims suddenly being revived in the press?' in *Morning Star* at <<https://tinyurl.com/2syt5ssf>> or <<https://morningstaronline.co.uk/article/f/why-are-iraqs-fake-wmd-claims-suddenly-being-revived-press>>. This article was originally published in 2009, in response to a *Daily Mail* story. It was run again in March this year after the reappearance of the original story in a large number of press and broadcast media outlets.

³¹ Tony Benn, *More Time For Politics: Diaries 2001-2007* (London: Arrow Books, 2007), pp. 92-3, diary entry of 2 February 2003.

³² Benn (see note 30) pp. 101-2, diary entry of 1 March 2003.

popular opposition to military action against Iraq.

This cast-iron evidence that Iraq denied possessing WMD in the months preceding invasion seems to have been dropped into a memory hole by elements in the US and UK media, as well as by influential people close to the national security establishments of both countries. As the twentieth anniversary of the war approached, a number of significant media outlets started running articles explaining that although it had turned out Iraq had no WMD, Bush and Blair could be forgiven for believing that it did. This is because throughout the period up to March 2003 *Saddam Hussein and his government were bluffing that the country held them*, largely to fool the Iranians so that they did not seek to take advantage and launch any pre-emptive strikes against Iraq. This tale has featured prominently in, for example, *The Times*,³³ the *Daily Mail*,³⁴ the *Daily Mirror*, in stories put out by the Associated Press agency,³⁵ in *The Washington Post* and in stories on CNN³⁶ and the BBC.³⁷ *The Atlantic* produced one of the most lucid versions, with its correspondent David Frum (a speechwriter for President George W. Bush) claiming that Saddam

thwarted and resisted international weapons inspectors in order to bluff the world into believing that he still possessed capabilities for mass killing. Saddam's best-hidden secret was his (at least temporary) weakness.³⁸

The 'bluff' story seems to have originated in the FBI, whose agent George Piro (an Arabic-speaking Lebanese American) interrogated Saddam after his capture.³⁹ The *Daily Mail* reported that during the interrogation Piro came to understand that 'Saddam's claim to possess WMD was a bluff . . . he had lied to

³³ Hugh Tomlinson, 'Bin Laden? Never trust a man with a beard like that, Saddam Hussein told FBI', *The Times*, 15 March 2023.

³⁴ Christian Oliver, 'Saddam Hussein said You can't trust anyone with a beard like that', *The Daily Mail*, 16 March 2023

³⁵ Hughes (see note 29).

³⁶ Peter Bergen, 'At my first meeting with Saddam Hussein, within 30 seconds, he knew two things about me, says FBI interrogator', CNN Opinion. 21 March 2023, at <<https://tinyurl.com/3m5nw57t>> or <<https://edition.cnn.com/2023/03/14/opinions/saddam-hussein-iraq-war-interrogations-george-piro-bergen/index.html>>.

³⁷ Gordon Corera, 'How the search for Iraq's secret weapons fell apart', BBC News, 21 March 2023, at <<https://www.bbc.co.uk/news/world-6491454>>.

³⁸ David Frum, 'The Iraq War reconsidered', *The Atlantic*, 13 March 2023 at <<https://tinyurl.com/2p9h9tnc>> or <<https://www.theatlantic.com/ideas/archive/2023/03/iraq-war-us-invasion-anniversary-2023/673343/>>.

³⁹ See Bergen (note 35).

unnerve eastern neighbour Iran'. A hubristic desire to re-configure the political map of the Middle East on the part of the US and the UK governments, along with corrupt intelligence and 'dodgy dossiers' were not responsible for the catastrophe. It was the Iraqi leader himself who was the culprit for the invasion because he convinced the Americans and the British that his country had WMDs. In the circumstances their invasion amounted to an excusable mistake, albeit with regrettable collateral damage.

As Solomon Hughes pointed out in his *Morning Star* article, the problem with all this is that Piro did not say what the reports claim. His notes do show that Saddam Hussein was worried about revealing Iraqi military weakness to Iran, and that he did act on this anxiety. *But these worries related to events in 1998 when he refused to allow UN weapons inspectors into Iraq. They were not behind an exercise in bluffing the US and the UK that there were Iraqi WMD in 2002-3.* There never was any such bluff, and the refusal to admit UN weapons inspectors was dropped in 2002 'to counter allegations by the British government'. The Iraqi denials that there any WMD were based on a fundamental truth, namely that late in 1991 Baghdad had started to destroy its WMD, along with all the paperwork which provided the evidence for the existence of this programme.⁴⁰ It is, of course, undeniable that the USA was determined to invade Iraq and Saddam could have done nothing to avert this, except perhaps by resigning and at the same time voluntarily liquidating his regime and the entire Ba'athist Party and movement, a supremely unlikely development. Certainly, neither the denials nor the efforts of the inspectors failed to prevent a war based on a fabricated *casus belli* which led to hundreds of thousands of Iraqi deaths, years of suffering for the population and to ongoing regional instability. It has been a cause of massive political embarrassment in London and Washington. Indeed it is likely that public faith in the political process in both the US and the UK has suffered a significant collapse as a result of this fiasco, a development which perhaps fuelled support for Trump's revival of isolationism in the USA and for the Corbyn insurgency in the British Labour Party.

The bluff story was launched to exculpate the US and the UK from responsibility for the catastrophe and shore up the crumbling legitimacy of the governing classes in London and Washington. It suggests the existence of a real political process with parallels to the fictional one Orwell wrote about in *Nineteen Eighty-Four* (albeit less comprehensive), with the state and its allies in the media promoting mendacious accounts of the past which are regularly updated and 'corrected'. New lies replace the old ones (namely, in this case,

⁴⁰ Richard Sanders, 'What did happen to Saddam's WMD?', *History Today*, July 2016. <<https://www.historytoday.com/archive/history-matters/what-did-happen-saddams-wmd>>.

that the war was provoked by Saddam's desire to protect Iraq's WMD programme) which are clearly unsustainable and indefensible. Having become a matter of 'slips, errors, misprints or misquotations', along with the truth, that the Iraq war of 2003 was launched and fought on false pretences, these start to disappear down memory holes. Historians need to nail these lies before they become the conventional wisdom and accepted version of the past, promulgated by the press, broadcasters, think tanks, tame academics and, through them, transmitted to the public.

Even more on Hess

The Hess affair has featured in many editions of this journal. Speculation about what was really behind it goes back to the Second World War itself. Successive British administrations from the time of the 1940-45 Churchill Coalition have maintained that Hess flew to the UK in May 1941 in an unprovoked solo attempt to make peace between London and Berlin. It is probably both accurate and fair to say that not one other government on the planet has ever believed this tale. The latest comments about the Hess saga in this issue of *Lobster*, by Andrew Rosthorn, who has written many stories about it over the years, and by John Harris, make for very interesting reading. They add to the large and growing pile of evidence and historiography indicating that Hess's mission to Britain was one link in a long chain of covert wartime peace negotiations between the Nazi regime – or elements of it – and influential circles in British politics and society connected to the Court and the landed aristocracy, the City of London and large-scale industry.⁴¹ As Rosthorn and Harris and Wilbourn show, this interpretation has been dismissed as 'conspiracism' by Sir Richard Evans, an academic of great distinction who has made a massive contribution to our understanding of twentieth century European history. Unfortunately he is also one of many professional historians whose willingness to dismiss all the material accumulated by students of the Hess story like Harris and Wilbourn, not to mention evidence-based arguments that do not fit the 82 year-old official view, as the product of 'speculation, suggestion and innuendo', is perverse.

Thirty years or so ago I found one intriguing piece of evidence about the Hess flight. This was a *Sunday Dispatch* piece from 30 September 1945 which was clipped into a Foreign Office file in the National Archives. It is a story by journalist Andre Guerber, based on documents (which have since disappeared) he came across in the Reich Chancellery in Berlin after Germany's surrender.

⁴¹ See Scott Newton, 'A Comment on Simon Matthews, "The Dungavel Handicap: Scotland, Churchill and Rudolf Hess, 1941"', in *Lobster*, 81 (2021) at <<https://tinyurl.com/kujvnf2b>> or <<https://www.lobster-magazine.co.uk/article/issue/81/a-comment-on-simon-matthews-the-dungavel-handicap-scotland-churchill-and-rudolf-hess-1941/>>.

These state that Hitler sent Hess on a 'secret mission' to Spain in April 1941. The purpose was to contact the British in order to discuss terms for a negotiated peace. The key figure would have been the British Ambassador to Madrid, Sir Samuel Hoare, a well-known supporter of appeasement before the war. Hess had already established a link to Hoare through Albrecht Haushofer in the autumn of 1940, so the channel for covert talks already existed. Guerber went on to say, on the basis of material in the files, that Hess had indeed gone to Spain and had then returned from Madrid convinced the British would make peace. A transcript of a meeting between Hitler, Hess and Goering on 4 May showed that Hitler was sufficiently impressed to authorise an approach to the British designed to obtain their withdrawal from the war prior to the start of Germany's invasion of the USSR. Hess believed that all the British needed was a demonstration of German sincerity about peace, and if Churchill found this unacceptable he would be removed from office.

This 'demonstration' was Hess's willingness to travel and meet representatives of leading British representatives of the pro-peace party, along with a document setting out the terms for a long-term settlement. According to Guerber, this was 'Plan ABCD Number S 274K' (there was a copy in the Reich Chancellery papers he used for his story). It was called Plan ABCD because there were four parts: (i) to persuade the British, using documentary evidence, that continued fighting was pointless; (ii) a guarantee of the independence and integrity of Britain and its Empire in return for an undertaking 'not to meddle in any way' with the internal politics or external relations of continental European states; (iii) the offer of a 25 year alliance with the Third Reich and (iv) benevolent British neutrality during the coming war between Germany and the USSR. Guerber's story corroborates both Harris and Wilbourn's thesis and the arguments of many of us who reckon the Hess affair was all about a serious attempt to reach an Anglo-German peace deal, overthrowing Churchill in the process.

The absence of the original copies of the files Guerber wrote about does not mean that his story should be dismissed. The balance of probability rests in favour of them being genuine and truthful, for four reasons. First, there are other sources of information besides Guerber which report that Hess was in Spain that April. These are of the time and not four years after the event. A Foreign Office file dated 22 April 1941 reports a rumour that Hess had gone to Spain on Hitler's behalf. The document states that the news originally surfaced in the Vichy press but was then confirmed by King Carol of Romania, who was resident in Seville at the time, via the British Embassy in Lisbon. This tale was picked up, either from Foreign Office contacts or independent sources by the

well-informed Labour MP Sidney Silverman,⁴² who claimed in the House of Commons on 19 June that that Hess had undertaken a diplomatic mission to Madrid and had considered flying to a meeting in Gibraltar.⁴³ Secondly, there is the account of the late Peter Padfield, who wrote several books about the Hess affair. An unnamed informant, who claimed to have seen the peace terms which arrived with the Hess mission, told him that they contained the term '*wollwollende Neutralität*' (benevolent neutrality) to describe the attitude Germany wanted Britain to take towards its forthcoming onslaught on the USSR.⁴⁴ This is some corroboration, at least, for Guerber's story since the same phrase appears in the same context in his newspaper report. Thirdly, the *Sunday Dispatch* editor at the time, Charles Eade, had been a wartime PR advisor to the King's cousin, Admiral Lord Louis Mountbatten, who was also Commander-in-Chief of South East Asian Command. Moreover, *Sunday Dispatch* circulation at that time was pretty high, at about 2 million, and it was therefore a well connected and widely read newspaper (it had been around since 1801). What motive could it possibly have had for inventing the Hess tale? And is it plausible to believe a paper like this could have been conned by Guerber into running the story? Fourthly, Guerber was a respected journalist with well-placed sources. Andrew Rosthorn informs me that

A serious book by Frederic Charpier (*La CIA en France – 60 ans d'ingérence dans les affaires françaises*, Paris, Seuil, 2008) on sixty years of CIA interference in France . . . cites an article by Guerber in *La Concorde* for 31 October 1946 under the headline "Nouvelles instructions pour les officiers interrogateurs, circulaire de la DGER⁴⁵ du 8 mai 1945". Charpier describes Guerber as an extremely well informed journalist . . .

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⁴² Silverman was Chairman of the British Section of the World Jewish Congress and received a good deal of intelligence in this capacity. He was one of the first people to be informed about Nazi plans for the 'final solution', in a telegram of 10 August 1942, from Gerhard Riegner, Secretary of the World Jewish Congress. See <https://en.wikipedia.org/wiki/Sydney_Silverman>.

⁴³ See Scott Newton, *Profits of Peace. The Political Economy of Anglo-German Appeasement* (Oxford: Clarendon Press, 1996), pp. 188-9.

⁴⁴ Peter Padfield, *Hess: the Fuhrer's Disciple* (London, Weidenfield and Nicholson, 1995), p. 370.

⁴⁵ DGER: Direction Générale des Etudes et Recherches. This was formed in April 1944 as the foreign intelligence agency of General de Gaulle's Free French government in exile in London. It went on to serve the post-liberation government of France before it became the 'Service de Documentation Exterieur et de Contre-Espionage' (SDECE) in April 1946.

⁴⁶ Email to the author from Andrew Rosthorn, 13 May 2023.

Indeed, according to Charpier, Guerber was at this time so well-informed that he was able to reveal that 500 German scientists and technicians were in US hands, their numbers including the nuclear chemist Otto Hahn who had been picked up at the end of 1944.

What happened to the files which contained 'Plan ABCD Number S 274K'? In a situation like this, when the material evidence they normally use is not available, historians are entitled to develop educated speculations. Unless they were fabrications, it is unlikely that the files would have been destroyed. A clue might well lie in the fate of the very embarrassing pre-war correspondence between members of the Royal family and their German relatives, in which the former expressed strong admiration for national socialism. This was tracked down in 1945 and brought back to Britain from Germany by Anthony Blunt and Owen Morshead, the Royal Family librarian.⁴⁷ Given Blunt's high rank in MI5 and his connections to the Palace, it is likely that the Soviets acquired copies of the letters. They would surely have seen in them great potential for blackmailing senior members of the British establishment. The Hess documents found by Guerber would have been strong candidates for exactly the same treatment. Given the *Sunday Dispatch* editor's link with Mountbatten, it is plausible to suggest that they would have been seized by representatives of the Royal Household and British Intelligence, with copies finding their way to Moscow. Even today, both the Palace and the Kremlin would have many more (albeit very different) reasons to keep the papers locked away than to release them, with all their revelations about the Hess affair.

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⁴⁷ Joseph Fitsanakis, 'Cambridge spy ring member gave USSR British royals' pro-Nazi letters', *Intelnews.org*, 6 April 2021, at <<https://intelnews.org/2021/04/06/01-2979/>>. Blunt's career, including his time in MI5 and his post-war mission to Germany, are covered in Barrie Penrose and Simon Freeman, *Conspiracy of Silence: the Secret Life of Anthony Blunt* (London: Grafton, 1986).