

TARZAN TAKES THE HIGH GROUND

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The political storm over the financial rescue of a small bankrupt private sector defence contractor has developed into one of the greatest political crises of the Thatcher government. Media attention has focused on the extraordinary events surrounding Michael Heseltine's resignation. No-one has previously resigned from the cabinet in such spectacular fashion or produced such embarrassing and detailed disclosures about the manner in which government is conducted. The Thatcher government has always been plagued by leaks, but it has never had to suffer such a flood as this. Most observers judge that the Westland affair has inflicted lasting damage on the reputation of the prime minister among her backbenchers and among Tory voters. The prime minister failed to display her usual political skill and from the evidence both of press comment and public opinion polls was generally perceived as less honest and less principled than Heseltine.

Yet the affair is hardly the constitutional outrage which Heseltine claims, nor is it a very convincing illustration of Thatcher's authoritarian style and presidential tendencies. It was the indecision of the prime minister which allowed the internal departmental wrangling to continue for so long and to build up to the point of explosion. The immediate cause of the political crisis was plainly the clash between Heseltine and Thatcher. But underlying this is a deeper and unresolved incoherence in the objectives and commitments of the Thatcher government.

Why did Heseltine resign? The prime minister at a meeting of one of those cabinet committees which officially and constitutionally do not exist, is supposed to have remarked impatiently: 'Do you realise we have just spent three hours discussing a company with a capitalisation of only £60m?' Like many other people the prime minister seems surprised that the Westland affair should have blown up into such a crisis. There are two main versions as to why it did. Heseltine himself has

claimed repeatedly that he resigned on an issue of constitutional principle rather than on the substantive issue of whether there should be a European or an American rescue for Westland. Many of his former colleagues and many commentators on Fleet Street regard this as a pretext. They believe that what really motivated him was political ambition.

claims this was the first time such a thing had ever happened in his experience as a cabinet minister. Like Leon Brittan denying the existence of a letter from BAE, this may be technically correct, but it is seriously misleading. Mrs Thatcher's treatment of cabinet as an obstacle to be surmounted rather than as an aid to good government is well known and there are



A constitutional outrage? Heseltine insists that he would have accepted a cabinet decision to back the American rescue package for Westland if only it had been arrived at in a 'constitutional' manner. His objection, he claims, is not primarily to the decision but to the way in which it was taken which deprived him of a chance to win the support of his cabinet colleagues, and to the subsequent use of the government machine against him in an increasingly desperate bid to ensure he was defeated.

Heseltine's main charge is that the prime minister cut short proper discussion of the Westland issue to prevent the option which she favoured being rejected. He

Michael Heseltine's extraordinary assault on his cabinet colleagues in the Westland affair marks a turning-point for Thatcherism. Now Mrs Thatcher faces a challenge from within Conservative ranks more deadly than any she has dealt with from the wets.

numerous occasions on which she has railroaded her cabinet into accepting decisions without proper discussion; the budget proposals in 1981, which almost caused the resignation of several ministers on the spot, is well-remembered.

The prime minister is not known for her consensual approach to policy-making or for her enjoyment of 'internal arguments'. Since she plainly regarded the Westland issue as a very minor matter she probably saw nothing wrong in peremptorily halting discussion. She is used to imposing deci-

overruled by Thatcher. What then made it a resigning issue?

The tabloids at least had no doubts. From the outset they treated the affair as an extension of *Dynasty*, a political power struggle between Maggie and Tarzan. Other papers speculated that his resignation was the first blow in the struggle to secure the post-Thatcher succession.

Heseltine is known as an exceptionally

Conservative party, or be easily communicated to a wider national audience. 'A European Defence Sector' hardly rivals 'Free Trade', 'Tariff Reform', 'Re-armament', 'Empire', or other great political causes of the past.

But although the issue must have seemed to him at first of minor importance, the way events unfolded crystallised all his long-standing misgivings about key



sions on her ministers and forcing them to implement the government line as she determines it.

The Tory succession?

There is nothing very new in this. The drift towards ever greater authority and influence for the prime minister and her inner circle of ministers at the expense of the cabinet as a whole has been a feature of every government since 1945. This was not the first time that Heseltine had been

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ambitious politician, and no sense can be made of his actions if this is left out. Yet the risks of such a flamboyant resignation far outweigh the advantages. Few politicians who resign and attack their colleagues have ever reaped the reward for themselves. British political history is full of self-appointed men of destiny who were never called. Heseltine's position is made more difficult because the substantive issue on which he resigned is not a great issue of principle that could either rally substantial support to him within the

policies of the Thatcher government. His real complaint is not with Thatcher's constitutional improprieties or her authoritarian style of government, but with her brand of Conservatism and specifically with her economic strategy.

Heseltine has never been within Thatcher's inner circle, never 'one of us', and has displayed disturbing 'wet' tendencies on occasion. His report to the cabinet on the riots in Liverpool in 1981 linked the breakdown of public order with unemployment. The offending passages had to

the Westland affair has made the government look exhausted and lacking coherent direction

be removed by the prime minister. He has never subscribed to the tenets of the new conservative economics, and at the Ministry of Defence he became firmly committed to the integration and development of the European defence industry. This became the new expression of his long-held belief in the necessity for an interventionist industrial policy.

Free market or protected market?

For Heseltine the Westland affair epitomised his dislike for the style and direction of the Thatcher government, and provided as good an issue as any on which to leave the government and stake his claim to the succession. But the government's role in the affair remains obscure. Since the government was committed to co-operation in the defence field with other EEC member states, and since it was acknowledged as late as October 1985, that the government favoured a European rescue bid for Westland, why did Downing Street go to such lengths subsequently to block the European option that Michael Heseltine put together?

The answer lies in the contradictions that have always existed between key commitments of the Thatcher government, in particular the conflict between the government's defence policy and its industrial policy, and the unresolved tension between Britain's 'special relationship' with the United States and its role as a leading member of the European Community.

The adherents of the free market in the Conservative party believe that the same principles should be applied to defence as to any other industry. Westland is a private sector company which got into deep financial trouble. When it approached the Department of Trade and Industry for assistance it was told (properly) that there was none available. The company was instructed instead to find its own route to survival by attracting new private funds into the business. The Ministry of Defence similarly indicated at this time that it was not prepared to bail out Westland by

giving it orders for helicopters that were not needed. The use of MoD procurement policies to subsidise particular contractors is an inefficient and illegitimate use of defence funds. The government is a major customer of Westland but its only interest as a customer is to get helicopters of the right quality and at the right price. Who owns or controls or participates in Westland is a matter of indifference.

It would be a bonus, so this argument runs, were there British firms able to supply the government's defence requirements, but this does not justify subsidising the British armaments industry. Such subsidies raise the costs of defence procurement. If other countries are foolish enough to subsidise their defence industries that is up to them. The interest of the taxpayer is best served by buying in the cheapest market. Why bother to get involved in the complexities and costs of production when what you want is already available and more cheaply?

Such arguments express the traditional commercial perspective of British policy. For economic liberals in the government they are reinforced by the urgent need to reduce defence spending so that the government's ambition to contain inflation and reduce taxes can be fulfilled. Heseltine was originally appointed to the MoD partly as a strong minister who could be relied on to get a grip on defence spending. He launched a major drive to cut the cost of defence procurement. This meant tackling the problem of non-competitive contracts, the practice of guaranteeing a specified rate of profit to defence contractors. If all protection were removed many contractors might go to the wall, but the costs of defence procurement could be reduced significantly.

The difficulty for the government is that defence is not an industry like coal or steel. It is a vital Conservative interest. The communities that depend on it are Conservative communities. Four hundred thousand jobs in industry are supported by military spending, spread among some ten

thousand firms. A further 600,000 civil and military personnel are employed by the Ministry of Defence. The defence lobby is powerful and well organised. Many Conservatives regard defence as the first call on public expenditure. The application of free market principles to defence procurement and arms manufacture is bound to make many Conservatives uneasy. Most agree that national and strategic considerations mean that this industry should be treated differently from other industries. There is a tension between the requirements of the national interest and the logic of the market. No Conservative prime minister can afford to be seen selling out the national interest and weakening Britain's defences.

Europe versus America

This conflict of objectives may explain the devious way the government proceeded in the Westland affair. It has persistently shirked making hard choices in the defence field. So far it has maintained all the defence commitments inherited from previous governments and it has even added a new one: Fortress Falklands. It has not been willing to apply its economic principles to defence or to that other major protected sector in the British economy - agriculture.

But while it has been slow to cut back defence spending it has also been reluctant to deepen state involvement in the defence sector. This is the second dilemma facing the government in this affair. As a member of the European Community the government is committed in principle to favouring European solutions and an integrated European defence sector. In practice there is considerable resistance. Many ministers including the prime minister are at best lukewarm towards Europe. The Europeans are regarded as unreliable partners. It is feared that a viable European defence sector would require a large increase in state funding of basic research and product development. Two of the three European firms in the consortium to rescue Westland

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are state companies. A European defence sector could only succeed if the Americans were frozen out of the European market. Success in this field would breed pressure for the same approach to be applied more generally throughout European industry.

A return to a major programme of state intervention in industry is a policy the present government is determined to avoid. But there are other factors at work as well. The European option for Westland represents in miniature the European option for Britain as a whole. If it is to succeed Europe must become much more independent of the United States. Business and political leaders in Britain were slow to be converted to the advantages of a European community at all; most remain reluctant to see policy options in terms of a choice between Europe and America. But if forced to choose, a significant number still prefer the preserving of close ties with the United States to promoting European co-operation.

For all these reasons the government was very reluctant to get involved in the European option. It gave verbal backing at first to a European solution in line with its commitments to its European partners. But by refusing assistance in July, it had already indicated that whatever solution the company itself proposed the government would support. The interests of managers and shareholders were to be paramount. The chairman of Westland, Sir John Cuckney, the nominee of the banks, took the government at their word. If there was to be no government assistance then the best rescue option for Westland was a deal with Sikorsky, the American firm with which Westland had had co-operative ventures for many years. The board and the workforce at Westland were convinced that the Sikorsky option offered much the best prospect of preserving jobs and keeping the company from liquidation. The government backed the board.

The new government attitude was presented as a policy of even-handedness. The government declared it had no preference

between the rival American and European options. That was for shareholders to decide. The government accordingly declined to support the recommendation of the European National Armament Directors¹ at the end of November that a European rescue should be organised for Westland. What lay behind this refusal was rejection of the case for a strong and integrated European defence sector. By refusing to declare for the European option the government was ensuring that the American option would win. Heseltine's complaint was that a policy of genuine even-handedness was impossible, and that under cover of it the government was ignoring the national and strategic arguments that made a European solution so desirable.

A watershed for Thatcherism

The Westland affair is a watershed in the history of the Thatcher government. It marks the first serious challenge to the priorities of the Thatcherite economic programme from within the government. 'There is no alternative' will never have quite the same ring again. The wets' dislike of the deflationary policies associated with monetarism and their harsh and divisive effects was brushed aside. Their plea for more government spending appeared as a palliative rather than an alternative to the tough policies Thatcherism declared were necessary to reverse national decline.

Heseltine raises a different banner. He proclaims the need for the regeneration of the British economy through European co-operation. He sets out the vision of Britain's future as a member of an independent Europe instead of a dependent client state of the United States. His stand chimes with the concern expressed about Britain's receding industrial future in the recent House of Lords report and the Save British Science campaign. Heseltine is the new voice of political principle and national idealism within the Conservative party. He has revived the old interventionist

strand within the Conservative party after 10 years of Thatcherism had almost obliterated it. In the months ahead he can be expected to broaden his attack onto other aspects of the Thatcher record which he deplors. Unemployment, the inner cities, and privatisation are all likely to draw his fire. His aim will be to make a state-led modernising programme credible again within the Conservative party.

Heseltine may never become prime minister. Kicking the Conservative party in the teeth has never been a very reliable route to its summit. But by his resignation and his tireless advocacy of the European option he has claimed the high ground of national principle for his own. Heseltine's message is an uncomfortable one for his party and could prove very divisive. It is music to the ears of the Alliance, except for the two unfortunate Liberal MPs whose constituencies contain Westland plants. It finds the Labour party uncertain of its response, both because of the strong anti-European sentiment still within its ranks and because of the dislike of an integrated European arms industry.

The Westland affair has made the government look exhausted and lacking coherent direction. Relying on an economic recovery whose foundations look shakier by the week, the government finds it has not achieved the economic turnaround which could have helped it avoid further hard choices in its major spending programmes. The sense of drift and stalemate may mean that the urge for positive action to tackle unemployment and economic decline may start to become irresistible. The Thatcher government, after six years in office, appears to lack the will and the confidence to launch any further major initiatives. It has become the prisoner of events. This is not unusual in a government. But then the Thatcher government had promised its admirers so much more.

¹ These are the civil servants in charge of defence procurement in West Germany, France, Italy and Britain.