



The authorised history of British defence economic intelligence

by Peter Davies, London and New York, Routledge, 2019, 376 pp., £120 (hardback); 376 pp., £36.99 (Pbk) with 6 appendices, chapter notes, bibliography and index, ISBN 978-1-138-65828-8

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BOOK REVIEW

The authorised history of British defence economic intelligence by Peter Davies, London and New York, Routledge, 2019, 376 pp., £120 (hardback); 376 pp., £36.99 (Pbk) with 6 appendices, chapter notes, bibliography and index, ISBN 978-1-138-65828-8

Peter Davies has provided the first comprehensive account of how the UK developed a major capability in economic intelligence and managed (although at times came close to mismanaging) that resource to powerful effect. His story of British economic intelligence starts in the inter-war years, deals with its application in economic warfare against Nazi Germany during the Second World War, and then relates how the resulting capability was used during the Cold War to assess the strengths and weaknesses of the Soviet Union. In this book, he focusses that history into (Part 1) the pioneering work of the pre-war Whitehall Industrial Intelligence Centre (IIC) in examining Nazi rearmament (Part 2), the wartime use of economic intelligence by the Ministry of Economic Warfare (MEW), and (Part 3) the maintenance of that capability in a new post-war experiment in joint working, the Joint Intelligence Bureau (JIB). He then relates the complicated Whitehall battles that led in 1964 to the substantial national capability for economic intelligence built up in the JIB being lodged within the Defence Intelligence Staff (DIS). The DIS was an integral part of Denis Healey's new Ministry of Defence (MOD) and therefore funded from the defence budget. In a final Part 4, Peter Davies draws lessons from the British experience of those different ways of managing and funding economic intelligence and of the consequences in the later years of the Cold War of that national capability having to compete for resources against underfunded defence and single-Service priorities.

Although not an 'official' history in the Cabinet Office series (now sadly dormant), the writing of this important book was authorised by the Ministry of Defence and in a welcome move was personally sponsored by the Chief of Defence Intelligence. Not formally cleared by the Ministry, the conclusions and sometimes trenchant criticisms in the book are those of the author alone. Peter Davies has based his judgments wherever possible on his own research in the archives of the relevant government departments, but for the later period helpfully draws on personal interviews and peer review by many of those directly involved (as the author was himself) in the events being recounted. He acknowledges his debt to the (alas very small) number of academics and PhD students who have researched his subject and to the former FCO Chief Historian Gill Bennett for her research into the career of Desmond Morton who created the IIC, became Churchill's intelligence adviser and believed that economic warfare was a fourth fighting service. The problem facing all British intelligence historians is that the records have gaps, notably the loss of most of the files of the wartime MEW and the inaccessible archive of the DIS with its 45,000–50,000 files that were contaminated by asbestos in the basement of the Old War Office in Whitehall and contain the most important records of economic intelligence. We can only look forward to their eventual release by TNA after digitisation.

Readers familiar with Peter Davies' career will recognise his strong credentials to write this history given his experience as an analyst in the Defence Intelligence Staff, in the Secret Intelligence Service and as a key member of the Assessments Staff within the Cabinet Office with responsibility for preparing national assessments for the Joint Intelligence Committee on Soviet military intentions and capabilities. That he is not only a believer in the value of economic intelligence itself but a staunch defender of the old DIS comes through strongly in his writing. He cites this reviewer's reminder in evidence to the Chilcot Inquiry that the DIS was 'a jewel in the UK's intelligence crown' a remark made about the national expertise in scientific and technical intelligence only being found in the DIS but which applied as much to the field of economic intelligence. The DIS is what Davies calls the 'dark matter' – the missing mass – of British intelligence history.

Davies sees economic intelligence as the means by which government can acquire knowledge of the economic strengths and weaknesses of a foreign country and how these advance or impede their objectives including being warned of changes in the strategic balance. This book is an invaluable corrective to the tendency to downplay economic intelligence in favour of the more telegenic types of intelligence activity and thus to restore its place in intelligence history. The United Kingdom had a pioneering and innovative pre-war role starting in the 1920s in developing economic intelligence to assist military planning. As Davies relates it was until comparatively recent times a capability in which the UK invested heavily. Economic intelligence made a significant contribution to the Cold War transatlantic intelligence relationship and was important in supporting the work of NATO intelligence staffs and planners.

An important distinction that Davies draws is between the potential of economic intelligence to support defence and security planning, on the one hand, and to assist in foreign policy decision-making on the other. He recounts in Part 1 of his book the tension between these roles in the work of the pre-war IIC and of the Foreign Office respectively, a theme he finds also, in Part 2, with the wartime experience of MEW, and carried forward, in Part 3, into the various Cold War structures used for economic intelligence. Confusion between these two different roles and what was needed to fulfil them bedevilled attempts over the years to organise central economic assessment, and even led to the parallel operation of two different models of intelligence: for the Chiefs of Staff the separation of analysis and assessment (the J2 function) from consideration of operational (J2) and policy (J5) implications; and for the Foreign Office the deliberate bringing together of intelligence with policy analysis as a political assessment process of which the professional diplomat could be the sole master.

Part 3 of the book covers what Davies describes as 'the golden age' of economic intelligence, during the Cold War. Davies is clear from the outset that the contribution of covert secret sources to all-source economic intelligence was limited in many cases, but at times it was essential when trying to understand the closed economies of the Soviet Union and Communist China, and their often deliberately deceptive official statistics. Much of the contribution of secret sources was confirmatory, although Davies may pass too lightly over the value of the interception, and detailed analysis, by GCHQ during the early and middle period of the Cold War of humdrum administrative and logistics traffic across the vast space of the Soviet Union, communications that were not protected with the high-grade encryption associated with mainline traffic.

The book explains clearly the technical difficulties of estimating Soviet economic activity including armaments production without reliable market price signals, and the bottom-up efforts that were made to build sector by sector, and at times enterprise by enterprise, reliable models of the Soviet economy. He recounts the huge US effort to construct an econometric model of Soviet economic activity in what has been described as the largest single project in social science research ever undertaken. Davies is careful to explain the limitations of conventional Western neoclassical economic theory projected onto the very different planned economies run on input-output Marxist economics. Davies expresses legitimate scepticism about some of the results of that work for which reliable data to populate the model was not always available. He intriguingly refers by contrast to 'the recognisably British way of economic intelligence' which reminded this reviewer of how the traditional British way of teaching 'political economy' has been supplanted by the sterility of modern economic theory that has the politics left out. One result of the massive transatlantic collaborative effort on economic intelligence was however to be able to deliver to policymakers (not just in the UK and US but across NATO) politically salient estimates of the huge share of Soviet national product devoted to defence, a burden that the Soviet economy could not in the end sustain.

Peter Davies' historical account provides important insights at two levels, each of relevance for today.

The first level is a reminder to historians of international affairs and economic policy, and to today's intelligence practitioners, of the value of the discipline of economic intelligence in a world that may be subject to global influences but where fundamental national interests do at times clash and lead to conflict. Davies' account shows, for example, how economic intelligence illuminated and,

in many cases directed, the course of government policy towards the Soviet Union itself, and also in the choice of sanctions as a weapon of coercion, for example, following the 1965 unilateral declaration of independence by Ian Smith in Rhodesia.

Davies reminds readers that part of the 1967 Trend reforms of British intelligence machinery was the creation of a JIC(B) to cover economic and non-military science and technology working in parallel to the JIC(A) with its traditional diet of politico-military intelligence. The intention was to enhance the use of non-military intelligence across Whitehall by giving HM Treasury the chair of JIC(B) and having the major economic departments as members. Davies does not gloss over other agendas in play such as the determination of Cabinet Secretary Burke Trend to sideline the over-eager special adviser to Prime Minister Harold Wilson, the noted economist Thomas Balogh. Separation by JIC(B) of the subject from the mainstream work of JIC(A) turned out, however, not to be a success, in part due to lack of commitment from mainstream Treasury officials and in part because the bureaucratic separation by committee of assessment to support foreign policy (not least in the effectiveness of sanctions) from that informing strategic defence planning was always artificial. In treating such topics, Peter Davies does not shy away from revealing the role that institutional cultures, prejudices and at times personal animosities played, such as that between the wartime chair of the JIC, Victor Cavendish-Bentick and Col. Sir Geoffrey Vickers V.C. who ran MEW's Enemy Branch (and whom Davies describes as the forgotten warrior and philosopher of British Intelligence).

Davies does a great service in reproducing, for the first time, the seminal Geoffrey Vickers memorandum written in August 1943 setting out the nature of the relationship between the producers and users of intelligence and the general principles and institutions of a comprehensive national intelligence architecture. The second level at which the book can be read therefore is as an illuminating case study for political scientists interested in the ever-present tensions within British government between the case for centralising authority in the light of external events and the atavistic power of the individual armed services, agencies and departments to resist. The statue of the 19th century Army Commander-in-Chief the Duke of Cambridge sits on horseback outside the Old War Office in Whitehall, last location of the integrated Defence Intelligence Staff. He is credited with saying to Queen Victoria, 'There is a time for everything, and the time for change is when you can no longer help it'. This reviewer shares the author's sense of frustration on seeing such attitudes keep surfacing over half a century on the part of the single Service Intelligence Departments, and at times HM Treasury and the Foreign Office, in opposition to successive attempts at reform of the British intelligence machinery even when promoted by powerful Cabinet Secretaries such as Burke Trend. When, as we must hope, an authorised history of the British Ministry of Defence itself comes to be commissioned Peter Davies' book will provide an invaluable source.

Part 4 of his book can be read as a corrective to any self-congratulatory tendency to imagine that the present UK 'intelligence community' is anything other than a very recent post-Cold War development, importing the term from longstanding (but in practice highly misleading) US usage. Perhaps more honestly, the British practice was to use the less cosy term central intelligence machinery. Davies draws perceptive lessons from the repeated attempts to establish a centralised national economic intelligence capability. These include the importance of making a strong enough case at sufficiently senior level in the face of successive waves of budget retrenchments, the competing pressures there will always be for any national intelligence capability funded by the defence budget and squeezed by rising equipment costs, and what he describes as the 'departmentalitis' that still afflicts the British system of government.

The authorised history ends in 1990, but we should take encouragement from the development since then of a genuine sense of British intelligence community, especially with the learning drawn from the long campaign in Northern Ireland and from the testing post 9/11 experiences, both domestic and overseas, and the transformative effect on all the agencies of the application of modern digital methods to intelligence access and analysis (not least of imagery and geolocation within defence intelligence). Davies refers in his final chapter to the Joint Terrorism Analysis Centre that this reviewer set up in 2004 with the then Director General of MI5 on a joint model in which Davies correctly sees the

traces of the principles of the IIC and the JIB. A lesson that Davies draws here is that the powerful departmental and agency barons will, when a genuine need is seen, be prepared to sacrifice some of their sovereignty, as they did with the IIC and the JIC, but only provided that the central body allows their full participation. It is also fitting that the UK government gave in 2014 professional status to intelligence analysts (as had been the case for economists with the Government Economic Service since 1964) and there is now in operation a joint College of Intelligence Analysis for that wider analytic community under the Professional Head of Intelligence Analysis in the Cabinet Office. This authorised history by Peter Davies of British economic intelligence should contribute usefully to their collective memory, something that today is in as short a supply as ever.

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