The Scandal of th

THE FINGER of guilt has finally been pointed at senior politicians, civil servants and bankers who together with the speculators of the Seventies, were responsible for the Crown Agents scandal which cost the British taxpayer £175 million.

An exhaustive Tribunal of Inquiry has exposed incompetence, secrecy, greed and even corruption in the Crown Agents' disastrous excursion into secondary bank and property deals from 1967 to 1974. But the inquiry's most damning criticism is reserved for Government Ministers and Whitehall and Bank of England officials who should have prevented the Crown Agents from indulging in high risks that were bound to backfire.

The tribunal's report*, a weighty 600-page document costing more than £3 million to produce, offers a remarkable insight into the way the City operated a decade and more ago, when speculators were falling over themselves in the rush for land, property .... and profits. The euphoria proved too great for the Crown Agents, who quietly but decisively neglected their traditional role of servicing the commercial and financial needs of overseas governments and rushed, head long, into 'own account' trading in fringe banks and property. Then came the crash.

IN THE AUTUMN of 1973, the Yom Kippur war erupted, followed by a world oil crisis. The economic recession was fast approaching and the Bank of England urged banks to restrain lending to property developers. In November, interest rates soared and a secondary bank, London and County Securities Ltd, ran into trouble. Other banks followed, forcing the Bank of England to launch its 'lifeboat' rescue operation. On Dec. 17, the Government of the day announced plans for a development land tax. The property market came to a standstill before collapsing – leaving the Crown Agents with liabilities exceeding £200m. The Government was forced to put up £85m and, later, a further £90m to keep them alive.

In Whitehall, meanwhile, embarrassed and bewildered officials at the Treasury and the Overseas Development Ministry, which was most directly responsible for the Crown Agents, scratched their heads, blamed one another for the catastrophe – and wondered why the Bank of England had not alerted them in time. "The situation cried out for someone to use common sense, show some initiative and grapple with the problem. But nobody took the lead. Although in our view the main responsibility lay with the Ministry, the Treasury and the Bank should have done more."

The report makes it clear that the Crown Agents themselves lacked the expertise for "big time" finance. "They were, on the whole, no more than amateurs .... they took unjustified risks .... in many respects, they did not realize they were taking any risks at all."

● Sir Claude Hayes, the senior Crown Agent, is accused of neglecting his day-to-day duties – and then obstructing Whitehall officials in the belief that his work was none of their business.

● Alan Challis was Director of Finance from 1968 to 1973. He was also the "moving spirit" behind the Crown

● Judith Hart

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SPECULATORS like William ... property market crashed in ... pension funds and insurance ... careless investments. But it w... in the end, paid the price for ... the day – the extraordinary dec... compete alongside "get rich qu... of parliamentary outrage, the ... scale investigation. A Tribunal ... affecting reputations in both ... worlds. Just who was to bl... scandal?

PAULA JAN

Agents' "own account" operations. The tribunal found him intelligent, hard working – but a man carried away with his enthusiasm. Worse, he was secretive.

The report is devastating. "The combination of Mr Challis (who wanted to follow his own ideas and did not want them to be public property) and Sir Claude (who kept aloof from much that was happening) turned out to be disastrous."

● Bernard Wheatley, as Money Market Manager, was directly responsible for lending vast sums of money. He also gambled heavily – cashing sums of £2,000 and £3,000 in an evening. His colleagues believed he had a private income. Nobody bothered to check and the tribunal concluded that Wheatley, now dead, was involved in corruption.

HOW MONEY MEN M

THE DEFINITIVE history of the hectic land deals of 1970-73, when property millionaires were created on an almost daily basis, has yet to be written, *writes Ian Barron.*

But a valuable contribution has now been made by John Plender, who examines the way in which financial institutions – banks, pension funds, insurance companies – conspired with the property men to pour hundreds of millions of pounds of people's hard-earned money into get-rich-quick land deals.*

This is a descriptive account, rather than an attempt at economic analysis. As a result, Plender makes some claims that would not stand up to close examination.

In noting that "the institutions' involvement in property in the 1970s .... is one of frequent over-generosity to property entrepreneurs and of frequent errors of investment judgement," he then concludes:

> *"The second great post-war property boom, which reached its peak in 1972-73, was mainly the creation of bankers, for wh... hyper-active pr... stituted an irres... lazy lending pra...*

This places the ... heavily on the ba... certainly the mediu... money was poured in... and they were sloppy... they accepted th... collateral.

But the speculativ... happened anyway, ... connivance of the ... system. People woul... in which to swi... resources into land d... tion of making quick ...

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● William Stern

The Government Ministers at the time are severely criticised – Dame Judith Hart, who was Labour's Overseas Development Minister from October 1969 until June 1970, and her Conservative successor, Richard Wood, now Lord Holderness, who held the job until February 1974, when Dame Judith returned.

● Dame Judith Hart told the tribunal that she regarded the Crown Agents as a top priority, not only because she was unhappy about their constitutional position – and the lack of public accountability – but also because, on moral grounds, she disapproved of their involvement in speculative property developments. Nevertheless, the report blames her for failing to discover more about Crown Agents' activities. "It was not enough to assume that her officials would make whatever inquiries were necessary; she should herself have asked questions."

● Lord Holderness knew that urgent action was needed, once alarm bells began ringing, but he failed to call for information. "We consider that cumulatively, these defects amounted to a lapse from the standards to be expected from a Minister occupying the position he held."

The Bank of England is faulted for failing to alert the Government about the commitments being made by the Crown Agents .... commitments for which, ultimately, the taxpayer would be made responsible.

● John Page, the Chief Cashier at the Bank until last year, is heavily criticised. "In our opinion, the Bank's decision not to take a view on the future of own account activities was an error of judgement. Several people must share the blame .... but the person principally concerned was Mr Page."

● Sir Jasper Hollom, the Bank's Deputy Governor, is held primarily responsible for not warning the Treasury about the risks being taken – the most startling of which was William Stern, whose property empire collapsed soon after borrowing £40 million from the Crown Agents. It was not until the collapse of the Stern Group that the Bank expressed "grave concern." Yet it took the Bank almost a month to alert the Treasury.

Treasury officials, finally, are reprimanded for the part they played – or failed to play.

● Mrs Hester Boothroyd, Treasury Under Secretary, failed to urge action on Government Ministers.

● Russell Barrett, Treasury Deputy Secretary, is also blamed. "We take a graver view of Mr Barrett's conduct. His was the immediate responsibility to ensure that Mrs Boothroyd did what was necessary, but he did not intervene."

THE CROWN AGENTS' ambitions reached as far as Australia .... too far, says the report, for adequate supervision of investments. By the end of 1974, £41m was locked into property "down under" and losses were put at about £33m.

These losses are now being recovered with the sale of Australian assets by Abbey Capital Holdings, a subsidiary of the now-reconstructed Crown Agents. The sale – one of the biggest property deals in recent years involving supermarkets, office blocks, department stores and the Sydney Hilton Hotel – was postponed for several years, until the Australian market picked up again. The report makes clear, however, that without Government loans, the Crown Agents would have been forced to sell earlier, when the market was depressed.

The painstaking inquiry, which was set up in 1978, found that the Crown Agents had built up commitments exceeding £400m, without real public accountability. The blunders committed by the Crown Agents were surpassed only by those in Government, Whitehall and the Bank of England who should have known better. Shockwaves from the report will echo around the world finance and property markets for some time. But have the real lessons – about the evils of speculation – been learned?

**Report of the Tribunal appointed to inquire into certain issues relating out of the Crown Agents as financiers on own account in the year 1967-74 (Cmnd. 364), London: HMSO, £16.35.*

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THE FIRST major ''fringe'' bank to collapse was London & County Securities. It went down in 1973, owing £51m.

Heading the firm was barrister Gerald Caplan, who departed for Monte Carlo. Five of his associates stood trial. One was jailed for two years for stealing; the others were fined or given suspended sentences.

Caplan, now aged 50, moved on to a plush house in Bel Air, California, from where he successfully resisted extradition proceedings. The Direct or Public Prosecutions wanted him to stand trial on a charge of stealing £2.4m.

The proceedings were dropped last October, but a warrant for his arrest is waiting for him, if he decides to return to London.

Caplan is not likely to return: today, he is a born-again Christian. He preaches to congregations in the Los Angeles area, and he says: ''There's no money in it.''

*John Plender, *That's the Way the Money Goes*, London: Andre Deutsch, £8.95.