

Britain, sterling and the ERM question: a chronology, October 1979 – September 1990

- 78 Dec 6 The Prime Minister, James Callaghan, announces that Britain will not be joining the ERM. The Leader of the Opposition, Margaret Thatcher, responds that 'this is a sad day for Europe'.
- 79 March 13 ERM starts to operate
- 79 Oct Ministerial meeting decided against ERM membership: Sir Geoffrey Howe thought it should be a medium-term objective; Bank of England (Gordon Richardson) in favour.
- 79 Oct Exchange control abolished.
- 80 Mar MTFS first published in Red Book; Green Paper (*Monetary Control*) rejected monetary base control.
- 80 Nov Abolition of Minimum Lending Rate announced.
- 81 Mar Budget: tax increases of 2 per cent of GDP (£5 billion); interest rates cut by 2 per cent the following day (14 to 12 per cent).
- 81 Jun Nigel Lawson (Financial Secretary) first argued for ERM.
- 81 Sep-Dec US interest rate rise forced British rates up by 4 per cent, from 12 to 16 per cent, falling back to 14 per cent by end of the year.
- 82 Jan Ministerial meeting again decided against ERM membership: Bank of England and FCO in favour, but Howe seeing conflict with domestic monetary policy.
- 83 Mar France: Mitterrand Government adopted the Franc Fort: ERM realignments becoming less frequent thereafter.
- 83 Jun General Election with Conservative majority of 144; Lawson became Chancellor and launched a review of monetary policy.
- 84 Jun Fontainebleau European Council: end of British budget dispute with EC.
- 84 Oct Press first reporting Howe and Bank of England supportive of ERM membership.
- 84 Dec Lawson decided to press for ERM membership.
- 85 Jan Sterling crisis: dollar-pound parity in sight; interest rates increased.
- 85 Feb ERM seminar at No.10: decision to strengthen reserves; dollar began sharp fall following central bank intervention.

- 85 Jun-Jul No.10 'seminars' on monetary policy led to decision to suspend target for £M3 and to end 'overfunding'.
- 85 Sep Plaza Agreement to reduce the dollar; further inconclusive ERM seminar at No.10.
- 85 Oct Lawson announced suspension of £M3 target at Mansion House.
- 85 Nov Ministerial Meeting on ERM ended with Margaret Thatcher (MT) threatening to resign if ERM agreed.
- 85 Dec Secret Treasury mission to Germany to discuss British entry to ERM.
- 86 Jan-Sep Sterling depreciated 20 per cent against the DM as the dollar declined, initially with falling oil prices; continued to fall even when oil prices recovered; Lawson later seeing 1986 depreciation as root of 1988-90 inflation
- 86 Mar-May Interest rate cuts from 12½ to 10 per cent.
- 86 Sep-Oct Heavy intervention to check sterling's fall; interest rates increased 1 per cent (to 11 per cent) after Conservative Party Conference.
- 86 Oct Press reported that No.10 had ruled out ERM membership before next General Election; MT put this on the record in her Nov interview with the *Financial Times*.
- 87 Feb Louvre Accord: designed to stabilize the dollar – Lawson using opportunity to stabilize sterling by shadowing the DM (mid-March).
- 87 Jun General Election: Conservative majority of 100; Lawson remained Chancellor.
- 87 Jun-Jul Lawson notes sharp decline in his relations with MT: she refused even to talk about ERM till New Year.
- 87 summer Treasury first beginning to think monetary policy too loose.
- 87 Sep Lawson's IMF speech on 'managed floating'.
- 87 Oct 'Black Monday': quarter & half point rate cuts, to 8 ½ per cent over following month; heavy upward pressure on sterling.
- 87 Nov MT's *Financial Times* interview denied UK shadowing the DM; she later claimed first to have discovered about shadowing during the interview.
- 88 Mar 4 Shadowing abandoned: sterling 'uncapped' by order of No.10.
- 88 Mar 10 MT at PMQs: 'There is no way you can buck the market'.
- 88 Mar 15 Budget: 40p higher rate, etc.
- 88 May MT's rift with Lawson exposed at PMQs; 'concordat' negotiated between No.10 & Treasury to end the rift; interest rate cut to 7.5 per cent (lowest point in Thatcher years).
- 88 Jul Alan Walters's return as PM's economic adviser announced.
- 88 Jun- Nov Interest rates increased 5½ per cent, from 7½ to 13 per cent.

- 88 Nov Lawson proposed to MT an independent Bank of England; rejected.
- 89 May Walters returned; immediately began work to formulate detailed conditions for ERM entry (abolition of exchange controls; financial & capital markets deregulation).
- 89 May Interest rates increased 1 per cent, to 14 per cent, with sterling weakening.
- 89 Jun Madrid European Council: Howe-Lawson joined to pressure MT to announce a date of ERM entry, threatening resignation; MT in fact announced Walters conditions.
- 89 Jul Reshuffle: Howe removed from Foreign Office; John Major succeeded him.
- 89 Oct 18 Walters: EMS a 'half-baked' system (*Financial Times*).
- 89 Oct 26 Lawson resigned; Major succeeded him; Walters also resigned.
- 90 Jun MT finally accepted ERM membership: discussion of dates began.

Chronology of economic events, October 1990 – September 1992

October 1990

- 3 German reunification occurs with the former GDR now becoming part of the EC.
- 5 Chancellor of the Exchequer (John Major) announces that sterling will join the ERM from 8 October and that concurrently the minimum lending rate will be reduced by 1 per cent to 14 per cent.
- 6 UK's rate of entry to ERM is decided at £1=DM2.95. This can be varied within a band of 6 per cent.
- 8 Sterling starts to trade in the ERM. It rises initially to around 3.04 D-Mark.
- 23 A debate is held in the House of Commons on Britain's entry to the ERM.
- 28 EC leaders, with the exception of MT, agree to begin the second phase of EMU at the start of 1994, subject to certain conditions.

November 1990

- 1 Howe resigns from Cabinet.
- 8 Autumn Statement by the Chancellor of the Exchequer. Major states that inflation will fall to 5.2 per cent by 1991 Q4.
- 13 Howe criticises MT's attitude to Europe in a speech to House of Commons.
- 22 MT resigns. Douglas Hurd and John Major are nominated to stand for Tory party leader against Michael Heseltine.
- 28 John Major becomes Prime Minister-youngest since 1894.
- 29 Norman Lamont is made Chancellor of the Exchequer

December 1990

- 12 In his first parliamentary debate as Chancellor, Lamont, rejects any claim that sterling should be devalued within the ERM.
- 13 Unemployment rises, yet again, this time by 57,000 to 1.76 million as recession hits the UK.
- 15 EC talks begin in Rome. Discussions of increased economic, monetary and political union. Major gives the impression that he is more flexible in his approach to these negotiations than his predecessor in the office of Prime Minister.
- 17 Jacques Delors expresses anxiety about several EC countries' commitment to EMU.

January 1991

- 8 Lamont outlines his proposals for a hard ECU. This would not necessarily replace existing currencies but might be used alongside.

February 1991

- 13 'Liverpool Six' urge the Government to cut interest rates so as to avoid a 1930s style slump in a letter to *The Times*.

½ per cent cut in UK base rates to 13 ½ per cent.

March 1991

- 12 German budget revised to include increased taxes to cover larger than expected cost of unification.

- 19 Budget. VAT to be increased to 17.5 per cent. Signs of the start of the recession are noted, rising unemployment, and reduction in industrial production.

German Bundesbank President warns against the introduction of a single currency without more convergence.

- 25 Interest rates are cut in the UK to 12½ per cent.

April 1991

- 28 Finance ministers and central bank governors meet at G7 meeting in Washington. They agree to cooperate in exchange markets, despite some disagreement between US and Germany on interest rates.

May 1991

- 11 Meeting of EC and European central bank heads. Delors suggests that a future UK government could chose its path at stage 3 of EMU.

July 1991

- 13 Base rates reduced in the UK by ½ per cent.

September 1991

- 4 Base rates reduced in the UK by ½ per cent.

November 1991

- 6 Autumn statement. Budget deficit to be £10-12 billion compared to £7-9 billion predicted in Budget.

- 10 Major rejects draft treaty for Maastricht but pledges to work with Germany towards successful conclusion of summit.

- 25 Growing pressure on pound within ERM, strengthens Major's resolve to reach agreement at Maastricht

December 1991

- 31 Lamont rules out devaluation of pound in an interview with *Financial Times*.

February 1992

- 7 Maastricht Treaty is signed by EC countries.
Bundesbank announces doubts about plans for single currency.

March 1992

- 10 Budget is presented to House of Commons. Declared a 'budget for recovery'. Lamont forecasts a PSBR for 1991/2 at £13,800 million and £289100 million for 1992/3. Two part budget to be abolished from 1993.

April 1992

- 7 European Parliament vote for Maastricht Treaty to be ratified as soon as possible.
9 UK General Election is won by Conservatives but with reduced majority of 21.

June 1992

- 2 Danish people vote against Maastricht by narrow margin.
3 Referendum on Maastricht is announced in France.
19 Ireland votes in favour of Maastricht.
26 EC heads of state and government meet in Lisbon-determine to 'press ahead with European construction' despite setback of Danish no vote.

July 1992

- 16 Bundesbank raises discount rate by $\frac{3}{4}$ to $8\frac{3}{4}$ per cent (highest since 1931).

August 1992

- 26 Lamont states that he will not devalue Sterling or leave ERM. Bank of England supports Sterling with estimated £30 million.

September 1992

- 3 Government borrows £7.2 billion in foreign currencies to maintain position in ERM.
5 EC ministers agree that a change of central rates within ERM is not 'appropriate'.
10 Major declares commitment to membership of ERM.
13 Realignment within ERM. Central rate for lira within ERM reduced by 3.5 per cent.
14 Germany reduces discount rate (by 0.5 per cent) and Lombard rate (by 0-25 per cent).
16 'Black Wednesday'-UK interest rates rise first by 2 per cent then a promise of a further 3 per cent rise the following day. Second rise cancelled as UK leaves the ERM. Elsewhere in Europe the lira floats outside the ERM and the Spanish peseta drops by 5 per cent within ERM.