Book Review

by
Robert Heaton

Six Days in September: Black Wednesday, Brexit and the making of Europe

William Keegan, David Marsh and Richard Roberts

OMFIF Ltd: London
ISBN 9780995563636

'Six Days in September' has as its main focus, the political and economic events which built up to the crisis of Wednesday 16th September 1992, a day which saw the loss to the of UK of its foreign currency reserves at the hands of financial speculators. The book derives considerable authority from its provision of blow-by-blow detail and unique access to the decision makers of the time, combined with the ability of its authors to place these events into the contexts of earlier and subsequent Anglo-European relations.

Early chapters chart the reasons why Britain has for centuries stood apart from the turbulence of mainland Europe. It has been in the main, free of international conflict, shifting borders and the rule of dictators. British people have the strong sense of being an island nation, as close ideologically to the US as to its continental neighbours. Relations with them have amounted to cycles of reluctant co-operation followed by schism. Whilst most of Europe views EU membership in positive terms, Britain has 'perpetual difficulties' in extolling its benefits, seeming to be 'at the heart of every quarrel'. Against this backdrop, sterling saw ten depreciations between 1931 and 2016, usually as part of wider currency upheavals. A key contributor to later upheavals was an explosion in the number of hedge fund speculators in the twenty years following the mid-1980s.

The book goes on to describe the part played by Germany in the run-up to Black Wednesday. Reunification in 1990 saw a rise in public spending and inflation under an independent and strongly inflation-averse Bundesbank, which reacted with a series of rises in interest rates. These strengthened the Deutschmark and weakened further currencies such as sterling, which was already at the lower limit of its agreed European Exchange Rate Mechanism (ERM) rate. Pressures within the ERM grew as exchange rates failed to reflect the strength of economies. Hedge fund managers, in particular George Soros, saw the position as unsustainable and the devaluation of sterling as very likely. To them, large-scale purchases of Deutschmarks and the sale of sterling held out the prospects of huge profits with little downside.

At the core of 'Six Days in September' is a detailed description of the events, culminating in Black Wednesday. UK-German relations had soured after a series of unsuccessful British requests for cuts in German interest rates. Devaluation of the Italian Lira was met by British insistence that there was no need for sterling to follow suit, although the earlier pressure on the Lira was likely to turn to the pound. On 15th September 1992, the Bundesbank president Helmut Schlesinger told reporters from Handelsblatt and the Wall Street Journal that the pound was over-valued and that ERM pressures would grow further, comments which were interpreted as 'sell sterling'.

By 9am on Wednesday 16th September, the Bank of England had conducted three rounds of intervention, buying $2bn sterling which had no effect on an avalanche of selling in the market. By 10.30 am, the cost rose to £10bn, but again made no impression. Discussions between politicians and the Bank of England became protracted, although every minute of discussion was costing £18 million. Political reluctance to leave the ERM and devalue the pound, saw a rise of minimum lending rate from 10% to 12% at 11 am, and then to 15% at 2.15pm, all to no effect. However, this was seen by the markets as a sign of weakness prior to devaluation. They were correct and later that day, suspension of ERM membership was agreed. The delay had cost billions and Britain's foreign currency reserves fell from over $20bn to a significant negative position.

Further chapters describe how in the aftermath of Black Wednesday, speculative attention turned to the franc. Following heavy French pressure, the Bundesbank agreed to give up to DM39bn of support. In the event, this was enough to quell pressures, although subsequent months saw devaluations of the Spanish peseta, the Portuguese escudo and the Irish pound. The following year saw the renewal of attacks on the franc, depleting French currency reserves and leaving the Banque de France with a debt to the Bundesbank of DM34bn. Eventually, an agreement was made to widen ERM fluctuation bands to the point where the system was effectively suspended, but avoiding further devaluations and speculative profits. The entire episode contributed substantially towards British refusal to become part of the euro currency area in January 1999.

After a relatively problem-free introduction, the divergence of economies imposed similar strains on the Euro, as they had on the ERM. The authors note that by 2010,

'It became clear how dependent the euro had become on a range of support and intervention measures, assembled through laborious compromises of ever greater complexity. The battery of rescue procedures, described with inscrutable technical acronyms, represents a significant reversal from the euro's original ideals of a self-regulating economy...........Permanently fixed exchange rates and stable interest rates appeared to give greater security, but the absence of financial market fluctuations snuffed out the possibility for adverse capital flows to impose corrective pressure on errant governments to change policies'.

The authors argue that Britain's withdrawal from the ERM following Black Wednesday, amounted to a 'first Brexit'. In substantial measure, this happened because of a British failure to understand the pressures on other countries, particularly Germany, together with over-estimation of its influence upon those countries policies. They conclude that 'the litany of misjudgement over nearly 50 years forms a discouraging backcloth for Britain's struggle to negotiate terms for leaving the EU that will maintain and enhance the UK's trading relationships and keep faith with different factions of the powerful lobbies on different sides of the arguments'. On the evidence presented by 'Six Days in September', it is hard to disagree.

Overall the book is never less than an interesting read and its central account of the events of Black Wednesday is gripping. The quality of evidence used as the basis of arguments is beyond criticism and could lead the reader to wish that the authors had more to say about Brexit. This subject will be central in UK and European consciousness in forthcoming years and is part of the book's title. But the authors, perhaps wisely, stick to their chronicling task rather than indulge in speculation. Compiling the story of Black Wednesday cannot have been straightforward. This was not the development of a single chronological theme, but rather the culmination of several themes in economic, social and biographical history with overlapping chronologies. The solution is in part, the book's structure of twenty-one short chapters, but the sheer quality of writing keeps the reader's eye firmly on the page.

'Six Days in September' is an excellent book, of interest to economists and historians, but also to the intelligent general reader with an interest in current affairs.