

Black Wednesday: Thirty Years On

Introduction

On 16th September 1992, Britain exited the Exchange Rate Mechanism (ERM) in catastrophic and humiliating circumstances. It was a moment that appeared to symbolise the country's struggling economic status and uncertain international role, being likened by some observers to the IMF loan crisis of 1976. It also struck at the very heart of the UK's increasingly troubled relations with Europe amidst an increasingly globalised and inter-connected world. The dramatic events of this day have reverberated across British politics over the subsequent three decades, and in the short-term impacted negatively on the reputations of some leading politicians. More specifically, Black Wednesday was the catalyst for various longer-term political trends within British politics in the ensuing years, including destructive Conservative Party divisions, the emergence of a more vigorous form of Euroscepticism, and ultimately creating the conditions for Brexit. It is therefore time to definitively re-assess the legacy of this turbulent episode.

Background and origins of the ERM

The Exchange Rate Mechanism (ERM) had emerged as a controversial European institution that unerringly hovered over the British political scene for much of the 1980s. It derived as a specific feature of the European Monetary System (EMS) that was launched in 1979, and it functioned as a preliminary mechanism for creating the conditions for a European single currency to be established. Its primary focus was to therefore align and stabilise the currencies and exchange

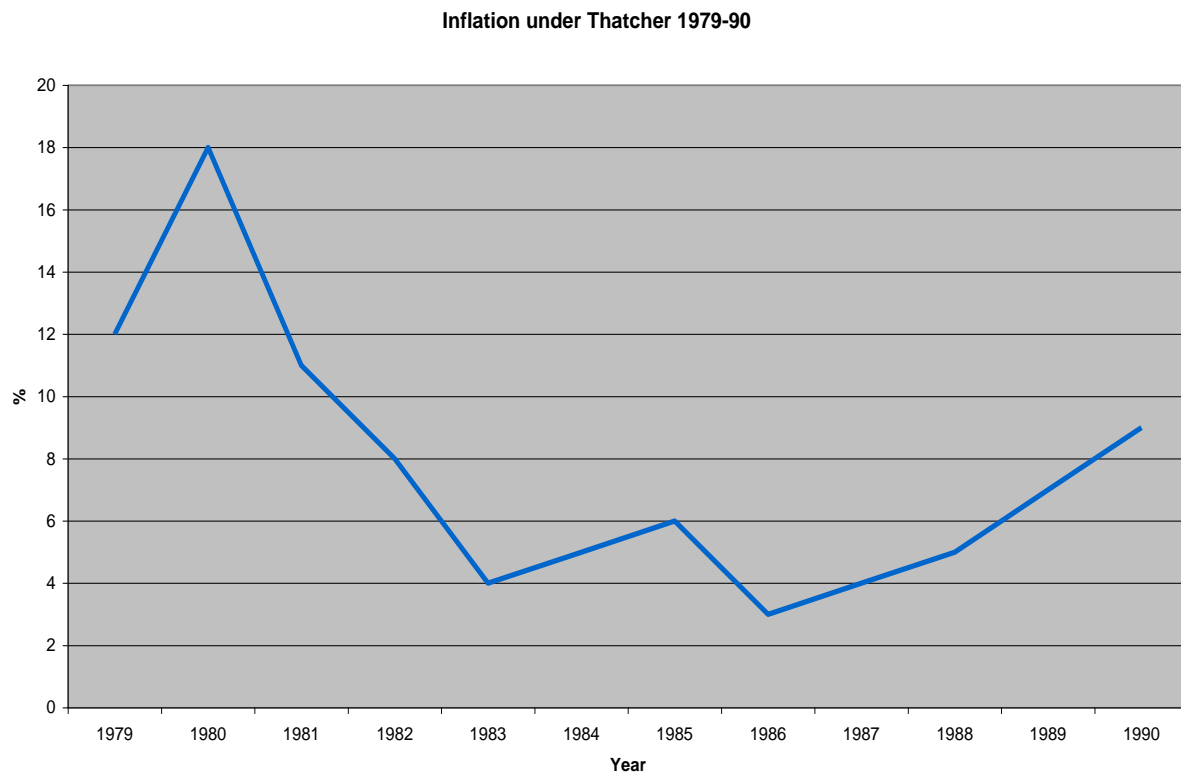
rates of the members of the then European Community (EC). The UK had only joined the EC in 1973, and such explicit longer-term integrationist goals of the EMS made various British politicians from both the Eurosceptic left and right somewhat nervous, fearing the potential threat to the UK's economic sovereignty by such developments.

On this basis, as a relatively new member of the EC, Britain did not join the ERM at its inception and remained outside it for the entirety of the next decade. However, pro-European politicians advocated membership, arguing that this lack of involvement resulted in a failure to shape the body's course and development. It was also of significance that the formation of such levers of monetary union coincided with the advent of Thatcherism in power, and this would prove to be a combustible mix as the next decade proceeded. Furthermore, the fact that ERM membership was a condition of joining Europe's eventual single currency was also a further cause of alarm in some political quarters, although during the Thatcher era such a policy option was never explicitly ruled out.

Thatcher, inflation and the ERM

As the ERM evolved as a transnational body, it aimed to provide a coherent framework for member states to align the value of their currencies within set limits linked to the value of the German mark (on the premise that this was broadly viewed as the strongest currency). This approach was also justified as having the fundamental aim of keeping inflation low across the community. From a British perspective, this was a particularly appealing incentive for membership, as escalating inflation had been an ongoing scourge over previous

decades. Indeed, tackling it had been a key element of the 1979 Conservative manifesto, with Margaret Thatcher in particular said to have had a ‘moral hatred’ of it, in the context of surging inflation levels peaking at 26% in the mid-1970s.



Source: ONS cited in *The Thatcher years in statistics*, BBC News, (9th April 2013), <https://www.bbc.co.uk/news/uk-politics-22070491>

Within such a context, combating inflation was a key Thatcher economic policy priority, but it was never fully controlled during the 1980s and started to rise again towards the end of the decade. Consequently, political pressure to join the ERM for its supposedly stabilising anti-inflationary influence steadily grew in momentum. Yet Thatcher’s European position had hardened, as had been evident in her 1988 Bruges Speech, and she became convinced that such

integrationist ERM policy formulation was not the 'silver bullet' for the inflation problem. Given the German ascendancy within the ERM, Thatcher's longer-term historic suspicion of Germany (shaped by her wartime experiences) also never went away entirely.

However, such scepticism was not shared by some senior Cabinet colleagues, most notably her Chancellor Nigel Lawson and her Foreign Secretary Geoffrey Howe. Both viewed the ERM more favourably, and they collectively confronted Thatcher before the Madrid European Council summit (June 1989), demanding that she set a date for the UK joining. Thatcher was angered at what she saw as a co-ordinated attempt to force her hand, and unresolved tensions over this issue culminated in both of these senior figures departing from her Cabinet within the following months. While Britain did belatedly join the ERM in October 1990, such European-based frictions ultimately played a part in Thatcher's ousting from the premiership the following month.

Major's European troubles

As Thatcher's final Chancellor of the Exchequer, John Major oversaw Britain joining the ERM in autumn 1990, and it was an economic policy position he personally endorsed. He subsequently continued with this transnational strategy once he ascended to Prime Minister in November 1990, valuing the ERM's worthy long-term aim of bringing inflation under control, and bolstered by broad bipartisan support from across the parliamentary chamber. Yet underlying troubles were evident from the outset.

Unfortunately for Major, he inherited a party increasingly riven by European policy divisions, which as previously alluded to, had played a part in his predecessor's demise. With an increasingly vociferous Eurosceptic element within the Conservative ranks, coupled with a small parliamentary majority, Major had to tread carefully. On this basis, his negotiations for a further integrationist European treaty at Maastricht during 1991-2 were particularly incendiary, especially given its explicit proposals for monetary union and to symbolically change the EC's name to the European Union (EU).

Despite securing a series of opt-outs from the more controversial treaty elements, including initiatives towards monetary union and common social policies, Major failed to appease the internal party sceptics and critics. This antagonistic mood towards all things European from a small group of his MPs with the sufficient collective capacity to remove his majority became a major concern for his administration. These dynamics were certainly exacerbated by events of September 1992.

Context and events of Black Wednesday

Most commentators and historians broadly concur that the Conservative Party under John Major won its fourth consecutive electoral victory in April 1992 primarily because it was perceived as being more economically competent than the Labour opposition. Yet the events of 16th September 1992 appeared to destroy that reputation, from which it never recovered.

Since Britain had joined the ERM in late 1990, critics had expressed concern that in shadowing the Deutschmark to ostensibly keep inflation down, a negative

side-effect was that interest rates were subsequently too high. There were also claims that Germany adopted higher than necessary interest rates for its own national benefit at other nations' expense, while further criticism arose that the pound had joined at an over-inflated exchange rate in 1990. By September 1992, it was becoming increasingly difficult to maintain this rate of exchange, and the pound was steadily falling in value within the ERM's framework. The pound was also being sold in large quantities on the currency markets, adding further pressure on its comparative value.

Conscious of past economic embarrassments like devaluation (1967) and the IMF crisis (1976), the Major government was anxious to remain within the ERM, which it continued to view as a source of economic stability and credibility. Subsequently, after pressure had grown in the preceding days, over the intense duration of 'Black Wednesday' (16th September), Chancellor Norman Lamont temporarily hiked interest rates up from 10 to 15% (later settling at 12%), with an estimated cost of £3-4 billion in seeking to prop up the pound's value at the taxpayers' expense. Yet it was to no avail, and by the end of the day Major's administration departed from the ERM in a state of chaos and crisis, and far from on its own terms. Despite Britain holding the Presidency of the Council of the European Union at the time, devaluation of the British currency had effectively occurred, heralding significant national humiliation in the process.

The political fall-out of Black Wednesday

Having been so personally associated with the policy in successive political roles, the day was a disaster for John Major, and many argued it was sufficient justification for his resignation. In his memoirs he described it as "*a political and*

economic calamity (which) unleashed havoc in the Conservative Party and... (made) a fifth consecutive Conservative election victory... remote, if not impossible". Yet Major managed to survive as Prime Minister, and Chancellor Lamont became the fall-guy, albeit only being removed six months later, which further reflected Major's weakened authority in Black Wednesday's aftermath. Morale within the ruling Conservatives was also shattered, while existing divisions worsened, and the party's polling plummeted and never recovered for the remainder of the Parliament.

The irony of this failed ERM membership experiment, with its focus on securing stability and low inflation, had the opposite effect as was intended. There were negative implications in the short-term for public spending due to the government's diversion of public funds to bolster desperate attempts to stay in the ERM, while mortgage rates were pushed up further by the day's volatile interest rate levels. Many Conservative Eurosceptics not surprisingly welcomed the departure, if not the circumstances, and have since argued that it was a liberating catalyst that kick-started the country's eventual economic recovery in the mid-1990s, with Thatcher loyalist and arch-Eurosceptic Norman Tebbit later condemning the ERM as being an acronym for an "Eternal Recession Mechanism".

Major's reputation and authority was undoubtedly damaged, yet while he stumbled on, he was never the same figure again. He subsequently faced a series of damaging rebellions during 1992-3 among his MPs while seeking to steer the Maastricht Treaty through Parliament. Maastricht's purpose as a core stage of EU integration came into even sharper focus following the ERM debacle, and the ERM fall-out emboldened the Maastricht rebels. This culminated in Major facing

(and narrowly winning) a vote of no confidence in 1993, before being unsuccessfully challenged for the party leadership by John Redwood in 1995. Yet overall, the sense of crisis instilled by the events of Black Wednesday seemingly contaminated and destabilised much of the remainder of Major's premiership.

Conclusion and historical legacy

It is broadly accepted by a range of political commentators and those politicians directly involved that Black Wednesday was the moment that the Conservatives lost the next general election, even though it would not happen for another four and a half years. The image of chaos, incompetence, division and lack of economic control certainly made an indelible impact on the minds of the electorate, and the Conservatives trailed Labour on the key 'valence' issue of economic management for the remainder of the Parliament, right until the unprecedented landslide defeat of 1997 that ushered in thirteen years of Labour in power.

Perhaps of wider significance is the evident conclusion that the nature of Britain's ERM exit in 1992 fundamentally and irrevocably changed the Conservative Party's relations with Europe, largely for the worse, and further boosted the flourishing Euroscepticism within the party. After this watershed episode, the likelihood of Britain joining the impending single currency became virtually impossible as public opinion and mistrust towards such a prospect hardened, despite it previously being under consideration at elite political levels. Indeed, when the Euro (single currency) was launched in 1999, the earlier developments of the 1990s meant that Britain had lost the political will to be part of it.

Post-1992, Conservative Party relations with Europe became further strained, increasingly clouded with the suspicion that had emerged under Thatcher from the late 1980s. Many Conservatives subsequently blamed this episode for exposing the party divisions that influenced its comprehensive ejection from national office in 1997. By the first decade of the 21st century, perhaps the ultimate legacy of Black Wednesday was that Euroscepticism had become gradually entrenched as an enlarged bloc within the mainstream of the Conservative Party, having previously been something of a fringe faction. This boosted the broader Eurosceptic forces that vigorously and successfully campaigned for holding the 2016 EU referendum.

Although such governmental hostility towards the EU was somewhat sidelined while Labour was in power between 1997-2010, joining the single currency was never seriously re-considered. Furthermore, such Europe-related tensions continued to fester within Conservative ranks and always seemed likely to be resurrected when the party returned to national office. This mood would emerge in its most explosive crescendo in the form of growing demands to leave the EU completely, culminating in the 2016 Brexit referendum producing a 'leave' vote, leading to Britain's eventual departure in 2020.

Black Wednesday has therefore had major long-term repercussions, and it can be viewed as one of the most significant turning points of the past three decades for both domestic and international politics. This is due to a series of prominent events that have consequently stemmed from it, the impact of which continue to be evident, most notably regarding internal Conservative Party dynamics and the tumultuous Brexit agenda. Yet on a broader political level, and despite such

problems from a British perspective, the ERM's stated focus on controlling inflation (at a transnational level) has nevertheless remained a crucial economic legacy.

Indeed, inflation control has been a pivotal priority of successive government's economic programmes on a global basis, and it remains a major feature of contemporary economic policy (notably relating to current rising inflation rates), although with questionable degrees of success. In addition, the eventual evolution of a single European currency (excluding Britain) reflects the growing internationalization and globalisation of economic management in the contemporary world, transcending traditional borders and conventional sovereignty. On this basis, the ERM can be said to have had coherent and logical aims from the period of its inception, yet the specific and volatile circumstances of September 1992 meant that they were ultimately distorted within the UK's political environment.

Further reading

Kevin Hickson and Ben Williams (eds.), *John Major: An Unsuccessful Prime Minister?* (Biteback, 2017)

Dennis Kavanagh and Anthony Seldon, *The Powers Behind the Prime Minister: The Hidden Influence of Number Ten* (HarperCollins, 1999)

John Major, *The Autobiography* (HarperCollins, 1999)

Charles Moore, *Margaret Thatcher: The Authorized Biography, Volume One*
(Penguin, 2013)

Margaret Thatcher, *The Downing Street Years* (HarperCollins, 1993)