From BLACK WEDNESDAY to

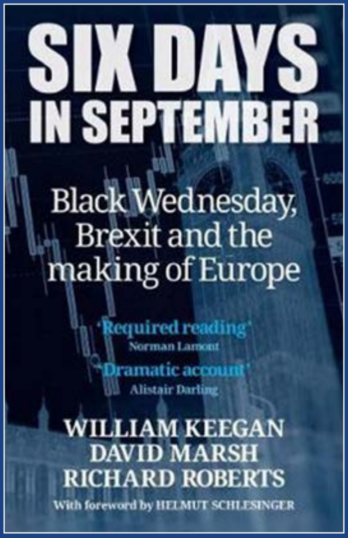
The Exchange Rate Mechanism (ERM), established in 1979, was a precursor to the euro.

Each member nation retained its own currency – the deutschmark, franc, lira, etc. – but agreed to hold their exchange rates within a narrow range.

This required governments to buy their national currency when its value approached the agreed lower bound and sell it when it approached the upper bound.

Six Days in September: Black Wednesday, Brexit and the Making of Europe, (by William Keegan, David Marsh and Richard Roberts), refers to the days in 1992 when Britain was forced out of the ERM.

Currency speculators (including George Soros) sold sterling in such massive quantities that the British



government was incapable (except at unreasonable cost) of buying enough to hold its value above the lower bound required by membership of the ERM.

But the story of the book begins earlier, with Britain's 1990 entry to the ERM. And its story is yet to end, according to the authors, who argue that Brexit is ultimately a consequence of Britain's ill-judged entry to the ERM and poorly managed exit from it.

Six Days provides a compact and engaging behind-the-scenes account of the political drama and economic decisions that drew Britain into the ERM and that eventually forced it out on the September 16 1992.

Among the latter was the

reluctance of Germany's central bank, the Bundesbank, to support sterling. This, the authors contend, damaged the ongoing relationship between the UK and the rest of the EU.

But, as *Six Days* makes clear, no single decision accounts for Britain's departure from the ERM.

Beyond simple errors of judgement, it was the result of a complex web of differing and often competing national interests. France was concerned with expanding its economy, while Britain's goal was mainly reducing inflation. Germany, too, was interested in fighting inflation by maintaining a high interest rate.

Such competing economic interests made the ERM inherently unstable. The costs of staying within the parameters of the ERM were worthwhile for some countries but not for others, Britain's 15 years of uninterrupted economic growth following Black Wednesday being "exhibit number one".

The real value of *Six Days*, however, lies not in the economic analysis of the ERM but in the light it shines on what actually went on between the many important figures involved, and how they dealt with the trials thrown their way – or, equally often, failed to deal with them.

A COMPACT AND ENGAGING BEHIND-THE-SCENES ACCOUNT OF POLITICAL DRAMA AND ECONOMIC DECISIONS

It highlights the importance of trust between members of the same parliament, and the importance of getting the right messages across.

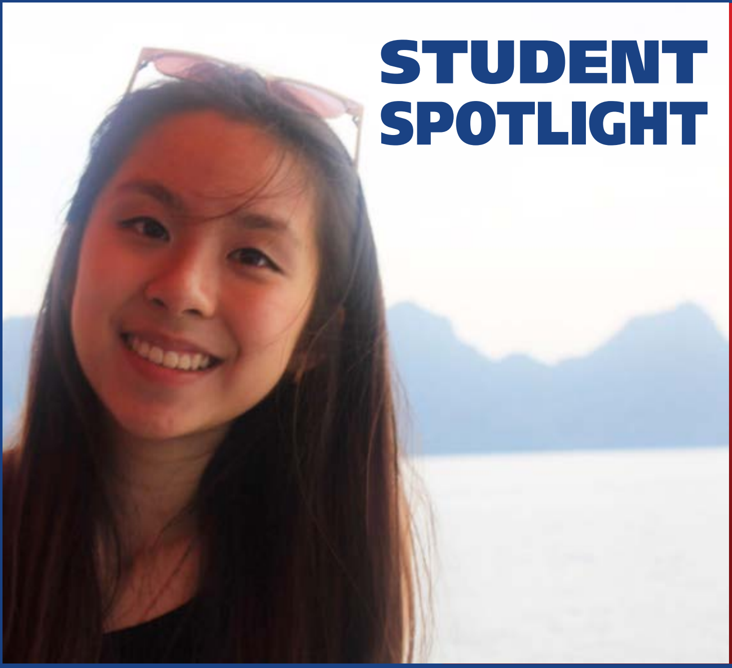
The public comment by Helmut Schlesinger, then president of the Bundesbank, that further ERM pressure was likely before September 20 sparked misunderstanding and decreased confidence in both consumers and businesses.

Whereas Britain's departure from the ERM was involuntary, Brexit is a still debated majority decision. Leaving the ERM turned out to be a blessing. Having an independent monetary policy contributed to lower inflation and sustained economic growth for Britain.

Could independence in commercial regulation and trade policy have a similar effect to independence in monetary policy?

Many say Brexit will be an economic calamity. Then again, that was a common response to Black Wednesday•

Allison Chia



STUDENT SPOTLIGHT

ALLISON CHIA is in the Upper Sixth at Headington School, Oxford. She submitted this review after reading previous editions of **EA**.

Allison is joint head of her school's Economic Magazine, where she also plans to launch an economics society.

If you're interested in writing an article for us, email: **eamag@iea.org.uk**