

Crack-up of dollar era institutions, June-October 1992

Event

June 2: Danes vote down Maastricht Treaty for financially unified Europe.

June 1-30: Scandinavian crisis mounts: Finland rocked by capital flight.

July 6-31: Italian financial crisis: Government unable to place its treasury bills; huge capital flight; Italian central bank has spent 27.5 trillion liras in 10 months trying to stanch flow; government imposes austerity policy.

July 16: German Bundesbank increases interest rates.

July 20: World stock market values plunge—down 7% in Italy and Sweden; down 4% in Japan; 3% in Germany and France; 2% in Britain.

July 20: Federal Reserve chairman Alan Greenspan cuts U.S. interest rates for the 23rd time in two and a half years.

July 31: U.S. unemployment crisis: 22.4 million unemployed or underemployed. Business failures hit record rate, numbering 50,582 in first six months. One million on welfare in New York City alone—one in seven people. State budget crises hit; California issues over \$1 billion in scrip. Commerce Department figures say "growth rate" dropped to 1.4%.

Aug. 10: Dollar plunges in value. Federal Reserve intervenes five times, along with Bank of Canada.

Aug. 11: World stock market values plunge. Dollar again falls. London FTSE falls to 2,325—lowest since Persian Gulf war. Frankfurt exchange falls to lowest since February. Oslo hits a low. Milan hits a low. Japan Nikkei average falls below the critical 15,000 level to 14,822, lowest since 1986.

Aug. 13: Italy's credit rating downgraded by Moody's Investor Service.

Aug. 15-31: Scandinavian financial crisis: Sweden hit by capital flight of 9.976 billion kroner (\$2 billion) week of Aug. 20; Denmark's second largest insurance company, Hafnia, announces bankruptcy (Aug. 20); Norway's largest insurance company, UniStorBrand, fails (Aug. 24); Denmark's second largest bank, Unibank, discloses huge loss of 4 billion DKroner, and chairman resigns (Aug 20).

Aug. 18: Tokyo's Nikkei average falls another 620 points to 14,309. Japanese Finance Ministry announces a 10.7 trillion yen economic stimulus package (Aug. 28).

Aug. 24-25: Dollar in free fall. Hits record low of 1.3990 to the deutschemark, below postwar low of 1.443. Repeated interventions by Federal Reserve and central banks. British pound and stock values plunge worldwide.

1992

June
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July

August

What they said

July 6-8: Group of Seven heads of state official communiqué agrees "to support the upturn without rekindling inflation. . . . Taxpayers' money should be used more economically and more effectively. . . . Each of us faces somewhat different economic situations. . . . But we should all gain greatly from stronger, sustainable, noninflationary growth."

July 23: Federal Reserve chairman Alan Greenspan called for "rebuilding balance sheets" for U.S. banks, by using interest rate reductions in combination with lowered reserve requirements, to enable banks to borrow at low rates, take on government debt at high returns, and gain the difference.

July 23: U.S. Treasury Secretary Nicholas Brady declares "economic recovery" is continuing. "While second quarter growth may slow slightly, it will be positive and consistent with a sustained recovery. . . . Inflation is still under control and interest rates are down. . . . The economy will continue to improve this year."

July 30: Secretary Brady: "What makes me optimistic about the rest of this year is a lifetime in business. You cannot have interest rates at the lowest level in 20 years, inflation down, productivity up, production costs in this country very, very favorable with regard to the rest of the world, and not have economic activity. . . . One of the most honest barometers is the stock market, because people have to pay to vote."

Aug. 14: Ross Perot calls for economic austerity. "Let's put the pain in there. There's got to be shared pain because we have so overspent our capacity."

Aug. 20: George Bush features "economic program" in his presidential nomination acceptance speech at the GOP convention.

Aug. 27: British Chancellor of the Exchequer Norman Lamont makes pre-dawn speech on steps of London's Treasury Building, saying there should "not be a scintilla of doubt" that Britain will back the pound, so speculators had best not speculate against the British currency.

Aug. 28: Financial officials of the European Monetary System meet in London and announce defense of Exchange Rate Mechanism.

Aug. 31: White House spokesman Marlin Fitzwater: "The United States is not seeking a decline in the dollar and does not believe that a lower dollar is necessary for its export competitiveness. . . . German interest rates are at traditionally very high levels, while the United States has reduced its interest rates to the lowest levels in roughly 25 years."

Event**1992****What they said**

September

Sept. 1: Dollar sinks to DM 1.3977 in Frankfurt. Stock values fall worldwide.

Sept. 1-17: Lira falls through floor of European Exchange Rate Mechanism (ERM). Government devalues the lira by 7% on Sept. 13, first ERM realignment since 1990.

Sept. 1-20: Riksbank of Sweden hikes overnight interest rate to 500% on Sept. 16. Norwegian Investa declares bankruptcy, causing shares of Den Norske and Christiana Bank to plunge by 32%.

Sept. 14: German Bundesbank lowers Lombard emergency funding rate by 0.25%, cuts discount rate by 0.50%.

Sept. 16: Pound falls through ERM floor. Britain announces two-stage rise in interest rates from 10-15%; then suspends the pound from the ERM, and cuts interest rate to 12%. Cuts rate again by 1% Sept. 22.

Sept. 16: Italian lira and Spanish peseta fall through ERM floors. Lira suspended from ERM; peseta devalued by 5%.

Sept. 17: Fierce austerity budget slapped on Italy of 93 trillion liras (\$75 billion) in budget cuts and tax levies.

Sept. 20: French voters approve Maastricht Treaty by 51% to 49%, no real mandate.

Sept. 20-30: Fierce budget cuts announced for Sweden (Sept. 20). Swedish Riksbank drops key lending rate from 500% to 50% (Sept. 21.) Capital flight out of Sweden hits Skr 15.1 billion (about \$3 billion) Sept. 25-30.

Sept. 22-23: Run on French franc; other currencies fall. Huge central bank support expenditures during month of September: Bundesbank spends 92 billion marks (\$65 billion); Bank of England, \$7.7 billion; Bank of France, 80 billion francs; Bank of Canada, Can. \$4.5 billion.

Sept. 29: Dollar hits record low of 119.25 yen.

Oct. 5: "Black Monday." World markets plunge. London FTSE index falls 4.1%, or 103 points, lowest since 1987 crash, wiping out 20 billion pounds from British shares. Massive wipeout of values—3-4% drop in Paris, Frankfurt, Tokyo, Spain, Zurich, Milan, Vienna, Stockholm.

Sept. 16-17: European Community Monetary Committee meets at midnight in Brussels; after six hours, releases communiqué: "Member states of the EC have taken note of" the U.K. suspension of the pound and the Italian abstention from intervening in foreign exchange markets. "They all stress their unanimous commitment to the European Monetary System as a key factor of economic stability and prosperity in Europe."

Sept. 17: Italian Prime Minister Giuliano Amato on new budget: "The government's life depends on this budget. On it hangs the recovery of credibility of our currency which I expect in the next few days."

Sept. 18: U.K. Chancellor of the Exchequer Norman Lamont: "We want to be satisfied that German policy, which has produced many of the tensions within the ERM, is actually going to have some changes and be able to operate within a more stable environment."

Sept. 18: German Chancellor Helmut Kohl to Lamont: "Such a remark is inappropriate for a minister."

Sept. 18: U.S. Deputy Treasury Secretary David Mulford: "We have for a long time taken the view that it would be desirable for Germany to reduce rates."

Sept. 19: Group of Seven ministers and central bank heads meet in Washington, D.C., and release communiqué: "The ministers and governors reaffirm the commitment made by their heads of state and government at the Munich summit to strengthen world growth without rekindling inflation. Since then, measures to reinforce economic recovery have been taken, including interest rate reductions in a number of countries. . . . These measures will strengthen the global economic recovery and foster greater stability of exchange markets. . . . [We] will take appropriate additional actions as needed to achieve sustained growth and greater currency stability."

Sept. 20: Swedish Social Democratic leader Ingvar Carlsson, in support of Prime Minister Carl Bildt's austerity budget: "I regret this. But Sweden is in the worst economic crisis for many decades."

Sept. 28: European finance ministers meet in Brussels on shattered ERM, defend it as "a key factor for economic stability and prosperity in Europe."

Oct. 2: Spanish Finance Minister Carlos Solchaga: "The ERM is almost absolutely broken. Interest rates are so high that they cannot last for long without creating real problems for economic recovery."

Oct. 5: U.K. Prime Minister John Major: "These things happen from time to time. . . . I don't think people should get unduly panicked about it."

Oct. 15: U.S. President George Bush said that Helmut Kohl and John Major told him "there is something going on worldwide, not only in the ugliness of politics, but in terms of the economy."

October