European Monetary Integration & Domestic Politics

Britain, France, and Italy

James I. Walsh

LYNNE RIENNER PUBLISHERS
BOULDER
LONDON

3

Exchange-Rate Politics, 1979–1988

This chapter compares British, French, and Italian exchange-rate politics and policies from 1979 until 1988. Governments dealt with the problems of slow economic growth, high inflation, and an unstable international monetary environment during this period in quite different ways. After 1978 the British government kept sterling out of the exchange-rate mechanism (ERM) of the European Monetary System (EMS) and reduced inflation quickly by raising interest rates and encouraging real currency appreciation. Once sterling began depreciating from a high level in 1982, the government raised interest rates but was unwilling to take more comprehensive steps to stabilize the currency. French and Italian governments also tightened monetary policy in the early 1980s but discouraged currency appreciation by devaluing in the ERM.

Why did governments respond to common challenges with different policies? Chapter 1 outlined two explanations. The openness approach explains policy choices as a function of the political conflicts generated by the degree of dependence on international trade and investment. Producers of tradable goods, such as industrial firms, prefer policies that stabilize the exchange rate at a competitive level and become more influential as they are exposed to greater overseas competition and investment opportunities. Based on investment data summarized in Chapter 1, the openness explanation leads one to expect that British authorities would be quite interested in exchange-rate competitiveness and stability during the 1980s. The institutional approach focuses on differences in bank-industry ties to explain policy choices. British banks had weak ties to industry; as a consequence, banks and other financial firms should have preferred policies that would reduce inflation quickly, whereas industry preferred policies that would stabilize sterling at a competitive level. Banks and industry had stronger ties in France and Italy during this period; thus bankers, industrialists, and government officials in those countries would be expected to demonstrate stronger preferences for stabilizing the franc and lira at competitive levels than for reducing inflation quickly.

I find that the institutional approach does a better job of explaining exchange-rate policy choice for two reasons. First, actual policy choices during the 1980s accorded more closely with its predictions. Second, close examination of domestic groups' preferences and lobbying activities demonstrates that British banks and financial firms were more interested in keeping inflation low, regardless of the effects on the exchange rate and industrial competitiveness, than their counterparts in France and Italy.

This chapter is structured as follows. The next section describes changes in inflation and exchange rates to identify periods of currency instability and appreciation that activated the preferences of domestic groups. The following three sections trace the preferences of banks and industry and the policy choices in each country. The concluding section draws on this evidence to compare the relationships between openness, bank-industry ties, preferences, and policy choices.

The Economic Environment

Rapid increases in the prices of petroleum and other commodities in 1979, combined with upward pressure on domestic prices, increased inflation in most industrialized countries (see Table 3.1). Large inflation differentials among the members of the ERM placed continual strains on the stability of exchange rates in the early 1980s. From 1979 to 1984, the annual percentage change in consumer prices averaged 11.1 percent in France and 16.2 percent in Italy but only 4.5 percent in Germany. This more rapid loss of purchasing power in France and Italy led the franc and lira to depreciate in nominal terms against the mark (Figure 3.1). But the fluctuation bands of the ERM kept the franc and lira from depreciating enough to offset real exchange-rate appreciation produced by high French and Italian inflation. French and Italian governments responded by negotiating frequent devaluations within the ERM to maintain competitiveness. Between 1979 and 1987, the franc and lira effectively were devalued six and eight times, respectively, against the mark (see Table 3.2). This strategy helped prevent significant real appreciation of the franc and lira (Figure 3.2). In contrast, sterling appreciated in nominal terms from 1979 to 1981 against the mark. Since Britain's inflation rate was quite high during this period, sterling appreciated strongly in real terms in 1979–1981. Thereafter, sterling depreciated in both nominal and real terms from this high level.

Table 3.1 Annual Percentage Changes in Consumer Prices, 1979–1987

	Britain	France	Italy	Germany
1979	13.4	10.8	15.7	4.1
1980	18.0	13.6	21.1	5.5
1981	11.9	13.4	18.7	6.3
1982	8.6	11.8	16.3	5.3
1983	4.6	9.6	15.0	3.3
1984	5.0	7.4	10.6	2.4
1985	6.1	5.8	8.6	2.2
1986	3.4	2.7	6.1	-0.1
1987	4.1	3.1	4.6	0.2

Source: Organization for Economic Cooperation and Development, *OECD Economic Outlook* 54 (December 1993): 140.

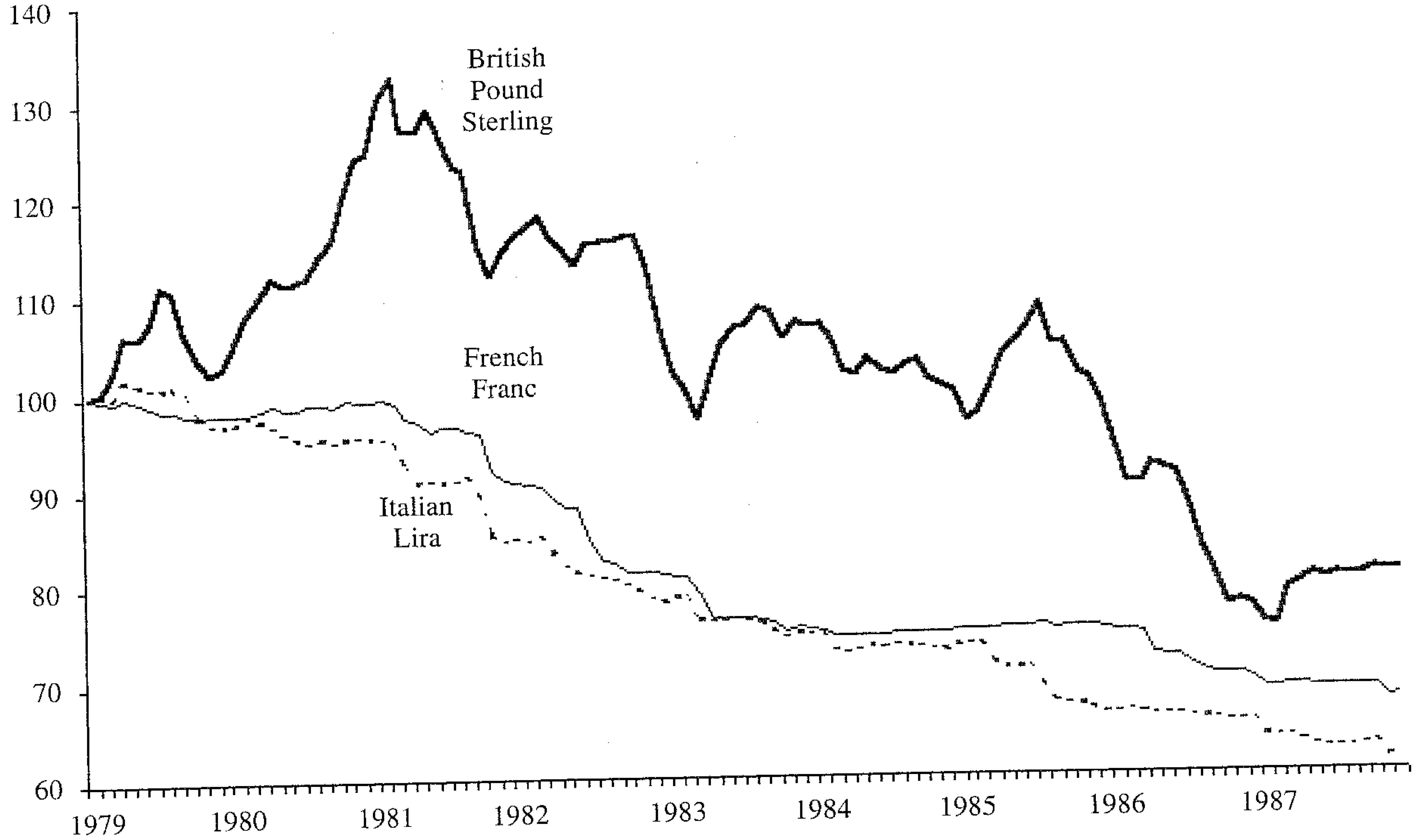
Table 3.2 Percentage Realignments of Central Parities

	French Franc	Italian Lira	German Mark
24 September 1979			+2.00
22 March 1981		-6.00	
5 October 1981	-3.00	-3.00	+5.50
14 June 1982	-5.75	-2.75	+4.25
21 March 1983	-2.50	-2.50	+5.50
22 July 1985	+2.00	-6.00	+2.00
7 April 1986	-3.00		+3.00
12 January 1987			+3.00

Source: Stefan Collignon et al., *Europe's Monetary Future* (Rutherford: Fairleigh Dickinson University Press, 1994), 26.

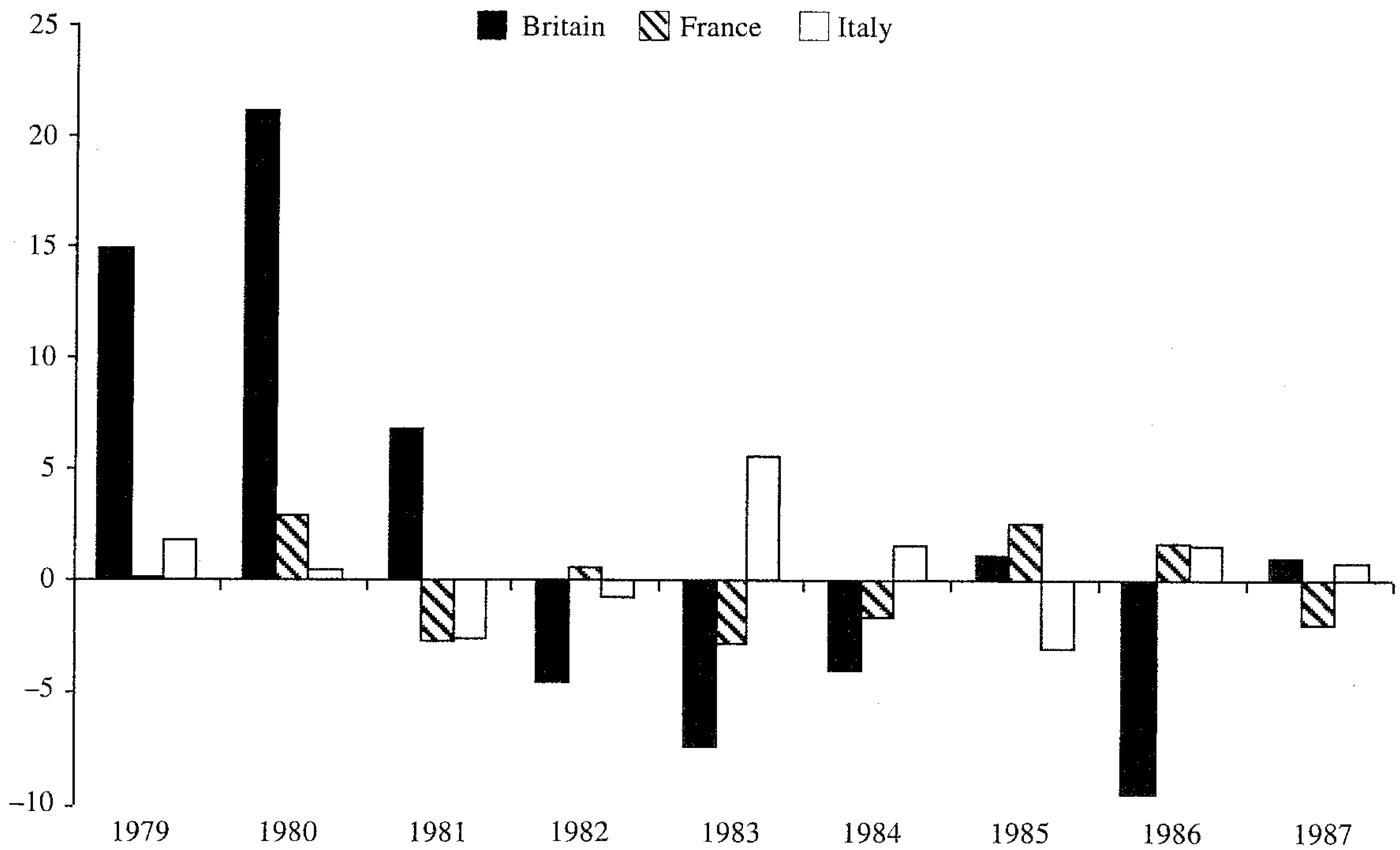
Note: A minus sign indicates devaluation against currencies whose bilateral parities remained unchanged; a plus sign indicates a revaluation.

Figure 3.1 Index of Monthly Mark Exchange Rates, 1979–1987 (January 1979 = 100)



Source: Calculated from *Federal Reserve Economic Database.*

Figure 3.2 Annual Percentage Change in Real Effective Exchange Rates, 1979–1987 (based on relative normalized unit labor costs)



Source: Calculated from International Monetary Fund, *International Financial Statistics,* various years.

Britain: Political Conflict and Exchange-Rate Appreciation

British exchange-rate policy went through four distinct phases during the 1980s. Monetary policy tightening in 1979 led to sharp appreciation of sterling until late 1981. The second phase began after sterling reached its peak in late 1981 and began to depreciate from this overvalued level until 1986. The government accepted this as consistent with economic fundamentals, but when necessary raised interest rates to prevent a sharp depreciation. The third phase occurred during 1984–1986, when depreciation, combined with technical difficulties with the implementation of domestic monetary policy, led some to express greater interest in stabilizing the exchange rate by bringing sterling into the ERM. In the fourth phase, the authorities informally "shadowed" (pegged sterling to) the mark outside the ERM in 1986–1987 but abandoned this tactic when they concluded that sterling needed to appreciate to reduce domestic inflation.

Sterling Appreciation, 1979–1981

After taking office in the spring of 1979, the Conservative government under Prime Minister Margaret Thatcher decided against bringing sterling into the ERM.[1] Thereafter, officials stated that Britain would join the ERM when "the time was right" but did not spell out any explicit conditions for entry. The background to this decision was a domestically oriented monetary policy framework developed before taking office. *The Right Approach to the Economy,* the Conservative election manifesto published in late 1977, called for a "virtuous circle" of low inflation brought about by sterling appreciation and North Sea oil income and stated that "we reject the simplistic argument that a depreciating currency is required to maintain competitiveness. Internal inflation is the real enemy. . . . A falling exchange rate makes internal inflation worse."[2] The new government's immediate priority was to eliminate Britain's system of capital controls by the end of the year. The motivations for dismantling controls were to force British industrial firms to compete for funds with overseas companies and to reinforce the international position of City banks and financial firms.[3]

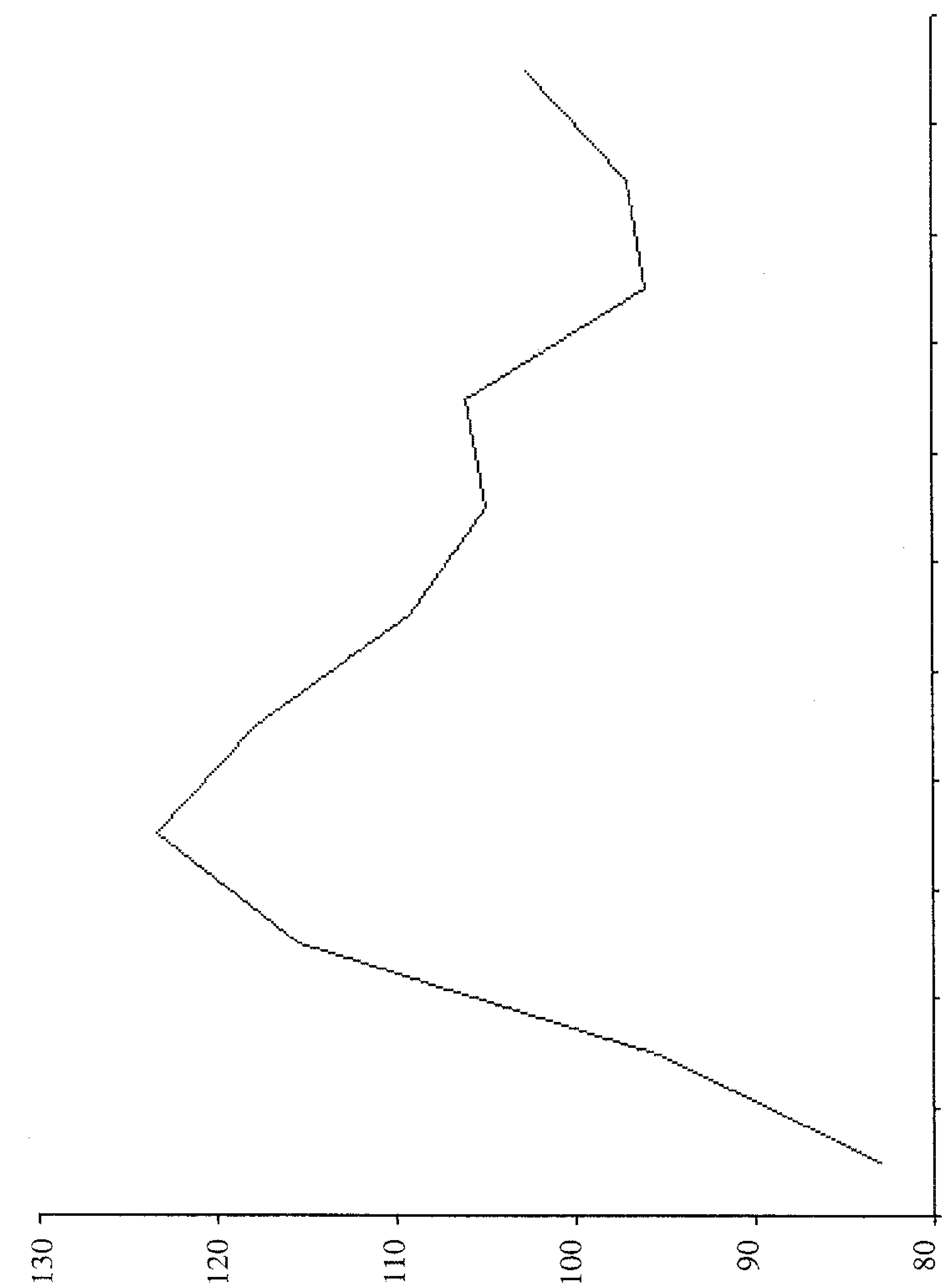
Investors' confidence in the new government and recent increases in the price of petroleum appreciated sterling during the summer of 1979. This accelerated after Chancellor Geoffrey Howe raised interest rates by 3 percent to the unprecedented level of 17 percent on 15 November. Ministers encouraged appreciation to reduce domestic inflation. Under the government's macroeconomic framework, which after the 1980 budget came to be known as the medium-term financial strategy (MTFS), interest-rate policy

was determined by the rate of growth of the monetary aggregate M3 and was not influenced by exchange-rate considerations. This commitment to domestic stabilization went so far that government officials vetted Bank of England press releases announcing changes in interest rates to ensure that they contained no references to the exchange rate.[4] Senior ministers recognized and accepted that currency appreciation was not only the natural consequence of higher interest rates but that it also helped lower inflation by inducing a sharp recession, reducing the prices of imports, and lowering employment and wage demands.[5] Although the government publicly placed the blame for sterling appreciation on petroleum exports, it did not support this argument with significant intervention on the foreign exchange markets and ignored the fact that other petroleum-exporting countries, such as the Netherlands, did not see their currencies appreciate as significantly. Economists estimated that North Sea oil caused only about 10 percent of sterling's appreciation.[6]

The sharp real appreciation of sterling (see Figure 3.3) soon led to public complaints from industrialists. In the spring of 1980, the president of the Confederation of British Industry (CBI), John Greenborough, attacked high interest rates as damaging to British industry. Thatcher replied disdainfully that many firms' management was "patchy" and "found it convenient to be regulated by government and saved by subsidies." Ministers were quite clear that their goal was to use a tight monetary policy and currency appreciation, as well as reductions in subsidies to nationalized industries, to force firms to cut costs, shed labor, and become more competitive.[7]

In the autumn of 1980, British industrialists mounted a sustained but ineffective campaign against the government's monetary policy. Many of the prime minister's friends in industry told her that interest rates and sterling were too high, and in an unprecedented move Maurice Hodgson, chair of ICI, visited Thatcher privately to inform her of the company's first quarterly loss. In November the CBI annual conference approved a motion criticizing the government's interest-rate and exchange-rate policies and advocating an active policy to depreciate sterling. The CBI's director-general, Terence Beckett of Ford, emphasized the devastating effects of rapid sterling appreciation on British manufacturing firms. Michael Edwardes, chair of British Leyland, argued that if North Sea oil were the cause of sterling appreciation, he would prefer to "leave the bloody stuff in the ground."[8] In contrast, most representatives of the City as well as the Institute of Directors supported the government's priority of reducing inflation quickly. Members of the Treasury's panel of academic and City economists consistently expressed more concern about a premature loosening of monetary policy than did the CBI. Financial firms as well as some prominent economic journalists were strong and early supporters of monetarist ideas and

Figure 3.3 Index of Real Effective Exchange Rate of Sterling, 1978–1988 (1990 = 100)



Source: International Monetary Fund, *International Financial Statistics,* various years.

used their positions to convince investors that adherence to monetary targets should be an important part of their assessments of government policy.[9]

The effects of sterling appreciation on British industry concerned moderate Conservatives, but they had little influence on cabinet discussions and never were able to come up with a viable alternative to the monetarist program of Thatcher, Howe, and their advisers. British industry lacked a "champion" in the cabinet, since the first minister for industry, Keith Joseph, was fundamentally opposed to government intervention and wedded to the MTFS. His successor, Patrick Jenkin, was afraid of being too outspoken on industry's behalf for fear of seeing his influence reduced. The government took only modest steps to mitigate the effects of currency appreciation in 1980. For example, the Bank of England created a small team to analyze the "distress borrowing" by industrial firms during the recession and to serve as an honest broker between the firms and their bankers to restructure short-term liabilities. The focus was on avoiding short-term, strictly financial crises, and the Bank of England never advanced credit to these firms or their bankers.[10]

Sterling Depreciation, 1982–1986

Monetary targeting and higher interest rates were effective in stopping inflation, albeit at the cost of a deep recession. But technical problems made monetary targeting an inaccurate policy guide beginning in 1981, which led ministers to give more weight to the exchange rate when making monetary policy decisions. From late 1980 to September 1981, the government reduced interest rates gradually and saw sterling's effective exchange rate depreciate gently by about 10 percent. It also acquiesced in the overshooting of its money supply targets, which many blamed on unpredictable changes in the velocity of money produced by the elimination of restrictions on bank lending. But this modest shift in the government's monetarist strategy did not reduce its commitment to keeping inflation low. The Bank of England and Treasury became concerned about inflation when depreciation accelerated in September, and they responded by raising interest rates to 16 percent. Until this point, policy had been dictated (with decreasing effectiveness) by the behavior of monetary aggregates, and sterling appreciation was either ignored or encouraged. But now the authorities would raise interest rates when the still overvalued currency threatened to depreciate precipitously, although they did not adopt an explicit exchange-rate target.[11]

Dissatisfaction with monetary targeting and large exchange-rate swings led ministers to discuss but reject the possibility of bringing sterling into the ERM in late 1981 and early 1982. Thatcher emphasized that the

ERM offered no positive advantages since currencies were subject to frequent realignments. Nigel Lawson at the Treasury, Governor Gordon Richardson of the Bank of England, and Foreign Secretary Peter Carrington expressed interest in the ERM. But Chancellor Howe had serious reservations, arguing that such a dramatic shift in policy would reduce the government's credibility with the financial markets. He and Thatcher were particularly concerned that predictions of a Labour victory in the run-up to an election could lead to sterling depreciation and force them to raise interest rates to defend the currency at a politically sensitive time.[12]

January 1985 marked the effective end of using monetary targets for setting monetary policy. Hereafter, interest rate changes were dictated almost exclusively by the exchange rate: the government would cut interest rates when sterling was stable or appreciating and would raise them when sterling depreciated and fed domestic inflation. In early January, Thatcher's press secretary, Bernard Ingham, told journalists off the record that an increase in interest rates the previous July to support sterling's exchange rate was now considered a mistake and would not be repeated. Nigel Lawson, now chancellor, raised interest rates from 9.5 percent to 10.5 percent to ward off sales of sterling when news services reported Ingham's comments. Later the same day, Ingham gave reporters the impression that Thatcher preferred a hands-off exchange-rate policy. When this story appeared in the Sunday newspapers on 13 January, Lawson feared that sterling would come under severe selling pressure. He persuaded Thatcher to raise interest rates a further 1.5 percent as well as to agree to foreign exchange market intervention coordinated with other industrialized countries. Unpredictable episodes of sterling depreciation such as these threatened to fuel domestic inflation and convinced many in the government, Lawson in particular, of the advantages of a more activist exchange-rate policy.[13]

The Debate over the Exchange-Rate Mechanism

The end of targeting the rate of growth of the money supply led Chancellor Lawson, Bank of England governor Robin Leigh-Pemberton, and Geoffrey Howe, now the foreign secretary, to support ERM entry.[14] In his Mansion House speech in October 1984, Lawson noted the importance of the exchange rate as an indicator of monetary tightness. The same month Leigh-Pemberton pointed to some of the disadvantages of relying on monetary targets and the potential utility of entering the ERM.[15] Another reason for new interest in the ERM was a weakening in industry's demands for depreciation and more calls to stabilize the exchange rate. After depreciation of sterling from late 1981 to 1984 and some evidence of an increase in domestic demand as the recession began to moderate, industrialists muted their criticisms of government policy. Eight months earlier the CBI had launched a concerted attack on the government's "crazy" interest-rate policy and called for sterling depreciation, but by late 1982 industrialists were reluctant to criticize the Conservative government in the run-up to an election campaign. At its annual conference, CBI members formally voted nearly two-to-one against a resolution calling on the government to "adopt an exchange-rate policy that will encourage manufacturing industry," although procedural problems masked the fact that a larger number probably favored depreciation.[16] Some in the CBI also called for consideration of entering the ERM to stabilize sterling.[17]

In February 1985, Lawson raised the issue of ERM entry with Thatcher. He argued that monetary discipline was available by targeting either monetary aggregates or the exchange rate and that the choice between the two came down to political and technical factors that favored the latter course. The sterling crisis of January 1985 had revealed that the government could not ignore rapid depreciation, and participation in the ERM might make such incidents less likely. Lawson thought that since the majority of Conservative members of Parliament and business leaders favored ERM entry, the discipline of a fixed exchange rate would be useful when it came time to persuade them to accept tight monetary and fiscal policies. Thatcher was not persuaded by his arguments, and they agreed that any immediate moves were not feasible because of continued turbulence in the foreign exchange market.[18]

Support for ERM entry increased within the government in the spring of 1985. Senior Treasury officials supported ERM entry on "hard" terms (i.e., at a high level for sterling) so as to maintain downward pressure against inflation. Changing economic fundamentals in 1985 also encouraged interest in the ERM. A fall in the price of oil from about $30 per barrel to about $20 per barrel led sterling to depreciate further, wiping out much of the accumulated overvaluation of the currency. The fall in oil prices greatly undercut the argument that Britain could not enter the ERM because of its "petro-currency" status, and the CBI, Association of British Chambers of Commerce, and Institute of Directors came out in support of entry to stabilize the exchange rate.[19]

But Thatcher remained opposed to joining the ERM. In August 1985, Lawson again brought up the issue, and Thatcher reluctantly agreed to hold another meeting of senior advisers the next month. Lawson emphasized that entry would bolster the government's anti-inflationary credentials by making "it clear to industry that they could not look to exchange-rate depreciation to solve their difficulties." Thatcher was not prepared to support British participation in the ERM, arguing that it would increase the volatility of interest rates and eliminate the government's monetary policy autonomy. Lawson replied that, based on recent experience, the exchange rate already had a strong influence on interest-rate policy and that after the fall in the price of oil earlier in the year, the markets no longer considered sterling a petro-currency. Thatcher vetoed immediate entry until she could hold another meeting with a wider circle of advisers. At the ministerial meeting to discuss ERM entry on 13 November, Lawson, supported by all but one of the ministers present, reiterated his reasons for advocating ERM entry. Leon Brittan of the Department of Trade and Industry said that industrial firms were pressing for entry, and the party chairman, Norman Tebbitt, and the chief whip, John Wakeham, told the prime minister that she could expect support for entering the ERM from Conservative members of Parliament. Thatcher still disagreed and refused to join the ERM.[20]

"Shadowing" the Mark, 1986–1988

Events in 1986 further strengthened Lawson's support of ERM entry. A minor sterling crisis in January, brought about by another fall in oil prices, forced him to raise interest rates until March to prevent a run on sterling. Between June and September 1986, sterling depreciated continuously, threatening to fall below 3.00 marks. This process provided further encouragement to industry to support ERM entry since sterling was now at a more competitive level (much of the appreciation of the early 1980s had been reversed—see Figure 3.3), and the CBI and others were concerned about limiting its volatility.[21] At the same time, some opposition to entry appeared in the City and among economists based on fears that the current exchange rate was too inflationary.[22]

By early 1987 at the latest, Lawson decided to "shadow the mark," keeping the sterling-mark exchange rate within a secret fluctuation band. Shadowing would be a first step toward entry into the ERM after the general election expected for 1987 and would prevent any inflationary depreciation of sterling now that oil prices had stabilized. Lawson also thought that successful foreign exchange market intervention coordinated with the Bundesbank in October 1986 and in the Group of Seven in early 1987 could provide support for his informal exchange-rate target. After having the Treasury consult with industrialists about a competitive level for sterling, Lawson decided that 2.90 marks was a good medium-term target, with 3.00 marks as sterling's ceiling.[23] As the election in June approached, predictions of another Conservative victory led sterling to rise toward 3.00 marks, and Lawson authorized foreign exchange market intervention and cut interest rates to prevent further appreciation.[24]

Increases in domestic inflation led Lawson to stop shadowing the mark in 1988. In August 1987, Lawson raised interest rates from 9 percent to 10 percent to offset the inflationary effects of sterling depreciation and expected that future changes in interest rates would be in the same direction. This

projection was temporarily proven false in the wake of the worldwide stock market crashes of October 1987, after which the government cut interest rates as part of coordinated monetary policy changes among the Group of Seven countries. This coordination was successful and reversed sterling's earlier depreciation. Although Lawson emphasized that these interest-rate cuts were aimed at restoring confidence to financial markets and stopping depreciation of the dollar, they also accorded with his informal exchange-rate policy. Reducing interest rates allowed Lawson to ease upward pressure against his secret 3.00-mark ceiling on sterling as the currency appreciated.[25] These interest-rate cuts, as well as heavy foreign exchange market intervention, began to arouse concerns about inflation in the government and Bank of England in late 1987 and early 1988.[26] On 17 December 1987, Lawson decided that intervention and interest-rate cuts could not continue for much longer and that an informal "revaluation" of sterling might be necessary to reduce inflation. By early March, the Bank of England was intervening on a massive scale to restrain the appreciating currency, and on the advice of bank and Treasury officials Thatcher ordered Lawson to let sterling appreciate above 3.00 marks.[27]

Summary

The exchange rate was a contentious issue in British politics in the 1980s. Sharp appreciation from 1979 to 1982 led to an intense lobbying campaign from industry and trade unions against the Thatcher government's policy of reducing inflation with high interest rates. But this policy mix pleased many banks and financial firms because it maintained the value of their assets and restored London's role as a leading international financial center. British authorities chose to treat the exchange rate as the residual of domestic macroeconomic policy throughout the 1980s. The goal of the policy choices of the Conservative government from 1979 to late 1981—pursuing monetary targets and encouraging currency appreciation—was to reduce inflation as quickly as possible. Once sterling peaked in late 1981, the authorities tried to prevent rapid depreciation that threatened to increase inflation. Two factors led authorities to consider more comprehensive exchange-rate arrangements, such as bringing sterling into the ERM, in the mid-1980s. First, monetary targeting became an unreliable policy guide, leading some to see the exchange rate as a natural nominal anchor for stabilizing investors' expectations. Second, economic fundamentals—the overappreciation of 1979–1981, along with decreases in the price of oil in 1982, 1985, and 1986—led to a secular decline in the value of sterling, and some believed that entry into the ERM could reduce the likelihood and severity of currency crises. This belief did not mark a shift to a competitiveness-oriented exchange-rate policy; rather, ERM entry was interpreted as a way to stabilize expectations, discourage depreciation, and increase the government's credibility in the financial markets. Thatcher opposed ERM entry because it would reduce the government's ability to implement an autonomous monetary policy but consistently authorized short-term increases in interest rates to support sterling. Although there was not a consensus on ERM entry, there was a consensus on preventing rapid depreciation or levels of interest rates that could fuel domestic inflation. For example, when ministers, with the exception of Lawson, concluded that the exchange rate in mid-1987 was inflationary, the consensus in favor of ERM membership weakened, and the Treasury stopped "shadowing" the mark.

France: Devaluation and Competitiveness

Like their British counterparts, French authorities in the 1980s tightened monetary policy and attached greater importance to reducing inflation, but they implemented these policies in ways that mitigated exchange-rate pressures on French industry. After instituting an expansionary fiscal policy in 1981, the government tightened macroeconomic policy in 1982 and 1983 but accompanied this with devaluations in the ERM to prevent real appreciation of the franc. Further real appreciation in the mid-1980s also was countered with devaluations in 1986 and 1987.

Reflation and the 1981 Devaluation

From late 1979 to early 1981, the mark was one of the weak currencies in the ERM because of German current account deficits and high U.S. interest rates. In late October 1980 and February 1981, the mark closed at its lower band in the ERM, and the Banque de France had to sell francs in the foreign exchange market to support the German currency.[28] This period of mark weakness and franc strength ended in early 1981. One reason was that the franc was overvalued by perhaps 10 percent because of relatively high inflation in France (see Table 3.1). Another was investors' worries about Valéry Giscard d'Estaing's chances of retaining office in the May 1981 presidential election. When the candidate of the Parti Socialiste (PS) and the Parti Communiste Français (PCF), François Mitterrand, began performing well during the election campaign, many investors began selling the franc even though Mitterrand's macroeconomic platform was quite conventional in many respects.[29]

The depreciation of the franc accelerated after Mitterrand won the second round of the presidential election on 10 May 1981. The next day the franc fell to the floor of its fluctuation band in the ERM for the first time, and during the next two weeks the Banque de France intervened on the foreign exchange market to support the currency. Although he would not be inaugurated until 21 May, Mitterrand immediately began receiving contrasting advice on the problem of the exchange rate. Many senior advisers favored either a large devaluation of 10–15 percent or withdrawing from the ERM and allowing the franc to depreciate in order to boost competitiveness; others advocated defending the franc's ERM parity. On the day of his inauguration, Mitterrand and the new prime minister, Pierre Mauroy, discussed the issue. Mauroy conveyed the opinions for and against devaluing or withdrawing from the ERM and stated that he favored a devaluation. Mitterrand objected that devaluation would ruin the PS's credibility with voters in the forthcoming legislative elections. That evening Mauroy, Finance Minister Jacques Delors, and senior advisers from the Treasury and Banque de France agreed to raise interest rates, tighten capital controls, and limit import credits to stabilize the franc.[30]

The debate over exchange-rate policy continued into the summer of 1981. Many business leaders expressed concern about the overvalued franc and the high interest rates necessary to support it, and ministers Jean-Pierre Chevènement and Michel Rocard both advised withdrawing from the ERM because French firms faced strong competition from imports. Mitterrand refused to devalue or withdraw, hoping that the pressure on French industry would ease during a recovery in the domestic and international economy in early 1982. He decided to implement his electoral promises to promote growth and employment through deficit spending, and in July 1981 the government announced a 1982 fiscal deficit of 90 billion francs.[31] This prompted heavy selling of the franc; for the next two months the Banque de France had to intervene regularly on the foreign exchange market to stabilize the exchange rate, and in late September the authorities raised interest rates and further tightened capital controls.[32]

Delors and senior Treasury and Banque de France officials concluded from this continual downward pressure on the exchange rate that a devaluation was inevitable, although they opposed withdrawing from the ERM. Delors hoped to negotiate a devaluation of about 12–15 percent to offset the overvaluation of the franc but was willing to accept a smaller parity change.[33] At the meeting of European Economic Community economics and finance ministers on 4 October, Delors secured revaluations of the mark and Dutch guilder of 5.5 percent and devaluation of the franc by 3 percent. The result was an overall devaluation of the franc by 8.5 percent against the mark. To accompany the devaluation, Delors proposed a six-month wage and price freeze, cuts in the 1982 budget deficit of 20 billion francs, and fiscal measures to increase investment. Mitterrand, Mauroy, and Budget Minister Laurent Fabius rejected this plan at the cabinet meeting on