Rating the United Kingdom: The British government's sovereign credit ratings, 1976-1978[1]

Scholars have become increasingly interested in the relationship between credit rating agencies and sovereign states. Economists, lawyers, and political scientists have conducted a wide range of research, much of which informs this article.[2] Curiously, historians remain largely silent. Economists and political scientists have provided the only historical accounts of credit rating agencies and sovereign ratings to date.[3] Although valuable, such efforts can neglect significant details about the sovereign ratings process and its participants. The extant literature's preference for generalisation often threatens to obscure the importance of historical context.

This article provides the first detailed account of one relationship between a government and the two leading New York-based credit rating agencies. It focuses on Moody's and Standard and Poor's first contemporary assessments of the United Kingdom's public sector foreign currency borrowing requirements. Cautious timing and extensive preparation, coupled with economic recovery, allowed the British government to secure two 'triple-A' ratings in 1978. The Treasury and the Bank of England had decided to pursue a credit rating to promote better borrowing rates in the New York bond market, which in turn reflected a sensible strategy to manage external debt. Between 1979 and 1984, the government faced repayments totalling almost $20bn. Borrowing from the New York marketplace, in conjunction with the Euro-dollar market, smoothed a pronounced hump in the

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[2] For examples in each field, see Cantor and Packer, 'Determinants and Impact of Sovereign Credit Ratings'; Partnoy, 'Not Like Other Gatekeepers'; Archer, Biglaiser, and DeRouen., 'Sovereign Bonds and the "Democratic Advantage"'.

[3] Gaillard, *Century*; White, 'Credit Rating Agencies'; Sinclair, *New masters*, pp. 22-30; Biglaiser and Derouen, 'Sovereign Bond Ratings and Neoliberalism', pp. 124-26.

repayment schedule of maturing debt. Although a rating was not essential for access to the New York bond market, it could influence the borrowing costs of any bond issue by encouraging investor confidence and expanding the breadth of the market. Financial regulations increasingly restricted institutional investors to the purchase of securities bearing creditworthy ratings.[4] Brazil and Mexico, for example, were borrowing over five years at about 9½ per cent without a rating, whereas 'triple-A rated' institutions were borrowing at 8½ per cent in 1976. Moreover, the prestige associated with a favourable rating could potentially help to lower borrowing costs in other markets.[5]

The British government entered the New York bond market shortly after receiving its first credit ratings. The offering, which totalled $350m, met with high investor demand on the primary and secondary markets. Recognition of such successes makes an important contribution to the historiography concerning Britain's economic performance in the late 1970s. Eighteen months earlier the United Kingdom had required a significant bailout from the International Monetary Fund (IMF). To be sure, support from the IMF did not begin in 1976. Although it is important not exaggerate the influence of the IMF on British policy, previous borrowing had taken place in 1956, 1961, 1962, 1967, 1969 and 1974-5, all renegotiated annually under Article XIV of the Fund Agreements.[6] Nevertheless, the historiography tends to focus on the economic difficulties of the period. Yet, as this article reveals, in contrast to headlines like 'Goodbye, Great Britain', American investors welcomed the United Kingdom with open arms.[7] Appreciation of these successes, curiously overlooked by historians and practitioners[8], complements research concerning Britain's economic

[4] The National Archives, Treasury file (Hereafter, T), 381/49, Poor to Walker, 'Confidential outline', 26 October 1976.
[5] T 381/49, 'Government borrowing', 2 August 1976.
[6] Clift and Tomlinson, 'Negotiating Credibility'.
[7] 'Goodbye, Great Britain', *Wall Street Journal* (29 April 1975), p. 1
[8] Healey, *Time of my life*; Callaghan, *Time and change*; Thatcher, *Downing Street years;* Howe, *Conflict of loyalty*.

successes between the IMF bailout of 1976 and the political difficulties of the 'winter of discontent' in 1979. Such events have tended to distort accounts of the period.[9]

Scrutiny of the British government's pursuit of a sovereign rating also offers a rare glimpse into the process itself. Indeed, the details of discussions between governments and agencies have previously been confidential.[10] Economists have spent considerable amounts of time, and adopted a wide variety of approaches, attempting to determine the causes of sovereign ratings.[11] Archival research suggests that existing analyses have downplayed the importance of governments in affecting ratings decisions. Senior officials in the Bank of England and the Treasury went to considerable efforts to influence the ratings process. The British government employed external advisors familiar with the process and then controlled the flow of information available to its assessors accordingly, stressing the strengths of the British economy whilst downplaying the weaknesses. Although the rating agencies admitted they were 'eager to be persuaded', Standard and Poor's was clear that the United Kingdom was not an 'open and shut' case.'[12] The government made every effort to 'persuade' and 'convince' them that the United Kingdom deserved a 'triple-A' rather than a 'double-A' rating or lower.[13] The comparatively inexperienced staff of the rating agencies, operating many years before the agencies sought to 'professionalize' their sovereign debt teams, complemented such efforts.[14] 'Triple-A' status therefore reflected more than an improvement in economic fortunes; qualitative factors played an important role in the process. Both major credit rating agencies openly admit that assessments of creditworthiness 'necessitate a more qualitative approach', explaining that 'a mechanistic approach based on quantitative factors

[9] Burk and Cairncross, *'Good-bye'*, pp. xi; Shepherd, *Crisis?*; Hennessy, *Prime minister*, pp. 382, 393-94.
[10] Correspondence, HM Treasury, May 2013.
[11] Gaillard, *Century*, 73.
[12] T 381/52, 'US borrowing', 8 March 1978; T 381/149, 'New York Bond Issue', 6 July 1978.
[13] T 370/471, 'HMG's application', 7 March 1978.
[14] Sinclair, *New masters*, p. 27; Gaillard, *Century*, pp. 34, 63; Kruck, *Private ratings*, p. 31; Author's interviews with David Levey, 23 April 2012, 2 May 2014.

alone is unable to capture the complexity of […] sovereign credit.'[15] Nevertheless, economists readily concede that such nuances certainly remain underdeveloped in the extant literature.[16]

This article also contributes to a general account of the history of sovereign credit ratings. Scholars have divided the last century into the 'inter-war years' and 'the modern era' or instead 'emerging', 'consolidating', 'globalizing', and 'contemporary' periods.[17] Few focus on events between 1974 and 1985, suggesting that the sovereign debt market remained a 'sleeping beauty'.[18] However, a distinct period of 'revival' is evident. As the rating agencies returned to the sovereign market, the number of rated countries grew to approximately one dozen but was limited to predominately 'triple-A' borrowers (see figure 1 and table 1). This period was therefore unique in both its limited size and its lack of ratings diversity.[19] Geographical differences are more difficult to establish. A paucity of data from other archives inhibits comparisons between countries' approaches to the rating process. Moreover, most governments would only seek a public rating when confident of the outcome.[20] The archives do reveal, however, that many countries relied on American investment banks as intermediaries when seeking their first sovereign ratings in this period. The United Kingdom, Australia, and Venezuela, for instance, all relied on advice from Morgan Stanley. Many states were therefore likely to have approached the rating process in similar ways.

Figure 1 here

[15] Standard and Poor's 2008; Moody's 2008.
[16] Cantor and Packer, 'Determinants and Impact', pp. 39, 43; Bissoondoyal-Bheenick, 'Determinants of sovereign ratings', p. 279.
[17] Gaillard, *Century*, pp. 1, 3-10; Sinclair, *New masters*, pp. 22-27.
[18] Flandreau, Flores, Gaillard, Nieto-Parra, 'End of Gatekeeping'.
[19] Gaillard, *Century*, pp. 40-42.
[20] T 450/111, 'Seminar', 20 November 1981.

Table 1 here

This article divides into four parts. Part I details the historical context surrounding the British government's pursuit of a sovereign credit rating in 1976. A 'triple-A' credit rating would help the performance of British bonds in the New York bond market. Good demand from American investors, in addition to borrowing from the Euro-dollar market, would in turn help the government to manage existing debt more effectively. Nevertheless, fears of a low rating and economic tumult inhibited progress. Part II explains the shifting attitudes within the government concerning a credit rating in 1977. As confidence grew, encouraged by economic improvement and market insights from leading investment banks, the government eventually decided to contact Standard and Poor's and Moody's to discuss a rating. Part III considers the British government's preparations and subsequent discussions with both agencies in early 1978. The meetings were a success. Although the consequent 'triple-A' ratings reflected the improved state of the economy, the government's efforts to influence the process were also important. Part IV details the subsequent success of the government's bond issuance in New York in the spring. American investors appeared to share the same opinion as the credit rating agencies that the United Kingdom was a 'triple-A' borrower.

I.

International interest in the New York bond market emerged in the mid-1970s. Since 1963, US capital controls in the form of the Interest Equalisation Tax (IET), a domestic levy designed to reduce the outflow of US capital that restricted foreign debt issuances, had made the issuance of debt prohibitively costly to foreign borrowers.[21] By 1974, the American

[21] Gaillard, *Century*, pp. 6-7.

government had begun to eliminate the long-standing balance of payments measures restricting the sale of foreign securities in the US.[22] There followed a significant growth of sovereign bond issuances on the New York market, with securities first issued by Australia, Austria, and Norway in 1975.[23] The British government began recording details of sovereign issuances in the US from 1976 onwards (see figure 2). The majority of issues had been for sovereign governments or government-owned agencies. Most states had had secured 'triple-A' ratings before entering the market (see figure 1 and table 1). The two exceptions—Mexico and Brazil—had paid significantly higher borrowing rates.[24]

Figure 2 here

American credit rating agencies had declined to rate most foreign securities prior to 1974, citing differences in financial and accounting practices and the difficulty of adapting quality standards to foreign securities.[25] Between 1968 and 1974, for instance, Standard and Poor's suspended its sovereign rating activity, excluding Canada and America.[26] The revocation of the IET, and regulatory rule changes led by the Securities and Exchange Commission, encouraged the rating agencies to reverse their position.[27] By the end of 1975, Moody's and Standard and Poor's were rating eight countries.

Throughout 1976, during private discussions with senior civil servants, representatives from leading American investment banks expressed surprise that the British government had not applied for a sovereign credit rating in preparation for borrowing from the New York bond market. Following several informal conversations with Al Hayes, former

[22] Bank of England Archive (hereafter, BE), 8A406/5, Shepheard-Walwyn to Edgley, 'Issue costs', 24 January 1974.
[23] Gaillard, *Century*, pp. 8-9.
[24] BE 2A50/1, 'Why Mr Healey turned to New York', *Financial Times*, 13 April 1978.
[25] T 381/49, Poor to Walker, 'Confidential outline', 26 October 1976.
[26] Gaillard, *Century*, p. 7.
[27] White 'Rating agencies' pp. 213-14; Kruck *Private ratings*, ch. 2, esp. Pp. 39-40.

head of New York Federal Reserve and chairperson of the investment bank Morgan Stanley, Sir Douglas Wass, Permanent Secretary to the Treasury, began to consider informal discussions with the credit rating agencies. [28] Although Morgan Stanley appeared to 'have their claws into Sir Douglas', its efforts reflected more than mere salesmanship.[29] The investment bank had a good relationship with both agencies, having assisted them in developing criteria for the rating of sovereign governments, and could guide inexperienced British officials through the ratings process.[30]

The Bank of England and Treasury remained strongly opposed to seeking a credit rating. They stated that the borrowing opportunities in New York were small, noting that borrowers rarely exceeded $250m on an issue.[31] Furthermore, the Euro-dollar market presented a more convenient source of future funds, which avoided 'going through the hoops' of a formal credit rating. Declassified papers reveal that the government was also reluctant to apply for a credit rating in case it failed to secure a 'triple-A' assessment.[32] A lower rating could harm borrowing opportunities in the existing Euro-dollar market, consequently worsening the present situation.[33]

Such fears were reasonable. By summer, the Bank of England was '[f]airly clear', after discussions with American investment banks, that the United Kingdom could not reasonably expect a 'triple-A' rating.[34] The weaknesses and instabilities of the British economy in the mid-1970s reflected a series of global shocks and structural tensions. Sterling had struggled to adjust to the collapse of the Bretton Woods system and the adoption of floating exchange rates.[35] Oil crises, motivated by the Arab-Israeli war of 1973, had a severe

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[28] T 381/49, Note, 'Government borrowing', 2 August 1976; Watts to Walker, 'Government borrowing', 2 August 1976.
[29] T 381/49, Walker to Mitchell, 'Possibility of borrowing', 26 October 1976.
[30] T 381/49, Poor to Walker, 'Confidential outline', 26 October 1976.
[31] T 381/49, Quinn to Walker, 'Triple-A rating', 5 August 1976.
[32] T 381/49, 'Mitchell's visit', 5 January 1976.
[33] Ibid; T 381/49, Quinn to Walker, 'Triple-A rating', 5 August 1976.
[34] Ibid.
[35] Schenk, *Decline of sterling*, ch. 10; Schenk, *International Economic Relations*, ch. 4.

inflationary effect on the economy.[36] Fraught government-industrial relations throughout the United Kingdom and concerns about the public sector borrowing requirement exacerbated all such difficulties. Lack of economic growth and rising unemployment further contributed to the United Kingdom's woes. Sterling faced tremendous speculative pressure throughout 1976, culminating in Prime Minister James Callaghan's decision to seek further IMF support.[37] Although few viable alternatives were available, many historians share Kathleen Burk's opinion that Britain had been 'humiliated', not only because of the type of loan, but because it was treated the same as any other indigent country.[38] Scholars routinely describe this period with reference to 'decline and fall', 'crisis', 'humiliation', and 'collapse.'[39] In an understated note, the Bank of England concluded that it was a 'particularly unfavourable time to embark on the search for a [credit] rating'.[40] Indirect feedback from Moody's in September was clear that the United Kingdom was unlikely to secure a 'triple-A' rating.[41]

Yet, as Roger Middleton explains, 'the government was not impotent for the remaining two and a half years of its time in office'.[42] Historians should not exaggerate British decline in this period.[43] Problems with balance of payments, growth, unemployment, sterling, inflation, and public sector borrowing all began to show improvement after 1976.[44] Furthermore, the Labour government had reversed its economic policies well before the most recent application to the IMF; the loan gave a seal of approval to those changes.[45] Chancellor

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36 Ziegler, *Heath*¸ pp. 401–27; Clark, *Tories*, pp. 350–3.
37 Callaghan, *Time and chance*, pp. 413-50; Healey, *My life*, pp. 427-32; Burk and Cairncross, '*Good-bye'*¸ pp. 14–5; Rogers, 'Problem of Sterling', pp. 353-4; Burk, *Old World*, p. 628; Healey, *My life*, pp. 428–9; Schenk, *Decline of sterling*, pp. 368-378.
38 Burk, *Old World*, p. 629.
39 Burk and Cairncross, *'Good-bye'*; Wass, *Decline to Fall*; Hickson, *The IMF Crisis of 1976*, *passim*; Schenk, *Decline of sterling*, 357-58; Beckett, *When the lights went out*, ch. 7.
40 T 381/49, Note, 12 October 1976.
41 T 381/49, Clegg to Walker, 24 September 1976.
42 Middleton, *British economy*, p. 93.
43 Tomlinson, 'Inventing "decline"'; Tomlinson, 'Decline of empire'; Broadberry and Crafts, 'UK Productivity Performance'.
44 Artis and Cobham, *Labour's economic policies*, passim; Coopey and Woodward, *Britain in the 1970s*; Burk and Cairncross, *'Good-bye'*, pp. 215-228, esp. 227; Cairncross, *British economy*, pp. 182-7; Schenk, *Decline of Sterling*, pp. 394-95; Callaghan, *Time and Change*, p. 462.
45 Ludlam, S., 'The Gnomes of Washington'.

of the Exchequer Denis Healey suggests that the loan marked a turning point, which the markets regarded as a guarantee of responsible economic management.[46]

As old problems receded, however, new challenges emerged. The government needed to manage the debts it had accrued since 1973. In his memoirs, Healey stresses the importance of financing the government's deficits.[47] In the 13 years between 1978 and 1990, the British government would need to repay $22bn. Between 1979 and 1984, it faced a pronounced hump in the schedule of maturing external debt, with just under $20bn falling due during this period (see figure 3). In 1981 alone, the amount totalled more than $5bn.[48]

Figure 3 here

The government decided to spread the repayment of maturing debt by adopting a two-leg strategy of early repayments and fresh borrowing. The Treasury and the Bank of England correctly believed that the balance of payments would soon benefit from the proceeds of North Sea oil, a recent and valuable addition to the national coffers.[49] As these benefits would last until the end of the century, it made little sense to run a large current account surplus over the following years simply to wipe out any outstanding debt by 1984. Such a policy could encourage deflation and damage the regeneration of British industry.[50]

The British government's debt management strategy was well underway by the end of 1976. The government had already repaid or arranged to repay about $2bn of debt in advance of maturity. Indeed, Healey would manage to repay the most recent IMF loan before he left

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[46] Healey, *My life*, p. 435.
[47] Healey, *My life*, pp. 422-23.
[48] BE 7A174/2, Couzens to PPS, 16 September 1977, attached, 'Debt repayment'.
[49] Toye, 'New Commanding Height'; More, *Black Gold*; Cairncross, *British economy*, p. 184.
[50] BE 7A174/2, Couzens to PPS, 16 September 1977, 'Debt repayment'; T 370/471, 'HMG's application', 10 March 1978.

office.[51] The government had also begun to consider issuing a bond in the New York bond market. Borrowing from American investors, in conjunction with the Euro-dollar market, provided more options with which to smooth out the repayment schedule of maturing external debt. The government's strategy nevertheless carried risks. If economic recovery stalled and confidence collapsed, consequently forcing the rapid depletion of reserves and heavy short-term capital outflows, the government would struggle to borrow money. The whole cost of debt would have to be financed from a current account surplus. In the absence of any such surplus, the government would be 'confronted with a 1976-type crisis of illiquidity.'[52] Furthermore, for the strategy to work, the British government believed it needed to secure an excellent sovereign credit rating. Beyond harming marketability, a poor rating could limit the breadth of the American market. US regulations required many institutional investors to purchase securities bearing specific ratings.[53] In addition, a good rating could reduce the cost of borrowing in other markets.[54] Throughout 1976, then, the British government chose to wait patiently before seeking a sovereign credit rating.

II.

In early 1977, Morgan Stanley resumed its efforts to persuade the British government to seek a sovereign credit rating. Senior officials all recognised the 'civilised but quite high-pressure salesmanship' at play.[55] Morgan Stanley would certainly benefit from managing the British government's debt issuance.[56] Mangers of an issue obtain most of their fees from 'the spread', which refers to the discount at which all bonds are sold by the issuer to the

[51] Healey, *My life*, p. 433.
[52] BE 7A174/2, Couzens to PPS, 16 September 1977, 'Debt repayment'.
[53] T 381/49, Poor to Walker, 'Confidential outline', 26 October 1976.
[54] T 381/50, 'External debt management', Attachment, Hancock, 21 October 1977,
[55] T 381/49, 9924-27, Walker to Wass, 'Visit of Al Hayes', 24 February 1977.
[56] For more on fees, see Flandreau, Flores, Gaillard, Nieto-Parra, 'End of Gatekeeping'.

underwriters, representing a reduction in net proceeds.[57] The costs of the 'spread' would exceed $3,225,000, including a 'management fee' for any managing banks.[58] A precise figure remains unclear, but an early estimate put the management fee at $100,000 for Morgan Stanley.[59] The investment bank would also go on to be involved in subsequent UK bond issuances, even following a change in government, so such rewards were ongoing.[60]

Claims of a one-sided arrangement are nevertheless simplistic. Exaggerating the United Kingdom's chances of securing a 'triple-A' rating could potentially damage Morgan Stanley's reputation and a poorly performing bond issuance would produce limited rewards. Indeed, the bank sometimes advised against bond issuances.[61] The British government also benefited from the relationship, recognising Morgan Stanley's professional approach and closeness to the agencies.[62] Officials noted Morgan Stanley's 'very considerable experience in guiding foreign borrowers through the rating process', especially its role in helping Venezuela to secure a top rating.[63] Indeed, during this period of revival in the sovereign ratings industry, many countries relied on investment banks as intermediaries.[64] New Zealand, for instance, had sought expert advice prior to re-entry into New York much as it had when entering the Euromarkets in the 1960s.[65] Many states were therefore likely to have handled the rating process in ways similar to the United Kingdom. The British government nevertheless remained anxious about choosing one bank to manage its rating application.[66] Indeed, the government would ultimately employ a three-manager syndicate headed by Morgan Stanley, and supported by First Boston and Salomon Brothers, to oversee the bond

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[57] T 381/53, Gill to Taylor, 'New York Bond Issue', 31 March 1978.
[58] T 381/54, Gill to Hancock, Wass, 'Bond Issue', 4 April 1978, attached note.
[59] T 381/51, Note, 'Borrowing operation', 12 December 1977.
[60] T 381/152, Gill to Hancock, 'Visit to New York', 21 November 1978; Note, Morgan Stanley, 21 May 1979.
[61] T 381/152, Hancock to Monck, 'New York capital market', 4 June 1979
[62] T 381/50, Smeeton to Payton, 'External borrowing', 10 October 1977.
[63] T 381/49, 'New York Borrowing', 25 October 1977; Poor to Walker, "Confidential outline', 26 October 1976; Note, 3 February 1977.
[64] Levey, 2014.
[65] Archives of New Zealand, W4446, 237, 44/456 (hereafter ANZ), 1, Kirkland to Cook, 'New York Loan', 2 August 1977; Singleton, J. 'The Euromarkets'.
[66] T 381/49, Mitchell to Walker, 'Possibility of borrowing', 20 October 1976.

issuance. Officials selected these banks because of their perceived expertise concerning the New York market. A rotating leadership therefore allowed the British government to build valuable relationships amongst a range of advisors.[67]

Other investment banks had begun to share Morgan Stanley's confidence by 1977. Representatives from First Boston encouraged the British government to launch a borrowing operation in New York. They stressed significant improvement in US market sentiment in favour of the United Kingdom. The *Wall Street Journal* held a much more favourable view, which stood in stark contrast to the infamous 'Goodbye, Great Britain' headline run by the same newspaper less than two year earlier.[68] Growing American interest was a welcome change. In the preceding years, the financial markets had been hesitant to support the British government's efforts to borrow.[69] The Treasury and the Bank of England agreed that conditions were now very much better than a year ago. Borrowing from the New York market would help to smooth out external debt repayments in the early 1980s, and was now 'the only real option'.[70]

In August 1977, Morgan Stanley encouraged the British government to approach the credit rating agencies 'whilst the tide was in their favour'. The investment bank dismissed Whitehall's concerns about the impact of a potential early election on the agencies' decision, which seemingly supports work arguing that political factors have limited effect on bond ratings.[71] Such arguments are questionable. To be sure, approximately ninety percent of variance in sovereign credit ratings relates to six factors: GDP per capita, real GDP growth, the inflation rate, external debt relative to export earnings, level of economic development,

[67] T 381/50, EAJG to McMahon, 'New York borrowing', 22 November 1977; Note, 16 November 1977.
[68] T 381/49, Note, 'Borrowing', 4 February 1977; *Wall Street Journal* (29 April 1975), p. 1.
[69] Burk and Cairncross, *'Good-bye',* pp. xiv, 52.
[70] T 381/49, Walker to Wass, 'Visit of Hayes', 24 February 1977.
[71] T 381/50, Watts to Gill, Note, 9 August 1977; Howe, *Conflict of Loyalty*, p.96; Callaghan, *Time and Change*, pp. 514-518; Archer, Biglaiser, and DeRouen, 'The "Democratic Advantage"'.

and default history.[72] Nevertheless, as economists and political scientists accept, qualitative social and political considerations are also important determinants.[73] Indeed, the majority of sovereign rating differences between agencies reflect qualitative aspects of risk analysis.[74] Morgan Stanley would certainly stress the importance of political factors in securing a favourable sovereign rating later that year.[75] None of this is to suggest that credit rating agencies sought only one particular type of government. Given rating analysts' focused interests, industrial democracies had 'room to move' in international financial markets.[76]

Confidence was growing within the British government towards the end of the year. Healey believed his own international reputation was secure, having improved the position of sterling and eliminated the current account deficit.[77] Making reasonable assumptions about economic performance and the likely liquidity of international credit markets, analysts believed that the British government could secure around $2bn a year from sources other than New York. Familiar options included the Eurocurrency, Eurodollar, deutschemark, franc, guilder, and yen markets.[78] Exotic options existed in the Middle East and possibly Brunei. The chancellor had also previously borrowed from commercial banks, Iran and Saudi Arabia.[79] Nevertheless, improvements in the economy encouraged, rather than dissuaded, interest in New York.

The Treasury recognised that securing a major additional source of finance was a sensible precaution: 'The conclusion therefore is that we should plan to add the US string to our bow.'[80] Officials throughout the government believed that a good credit rating would also

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[72] Lake, 'Rightful Rules', p. 605; Langohr and Langohr, *The rating agencies*, p. 287.
[73] Cantor and Packer 1996; Bissoondoyal-Bheenick 2005, p. 279; Gaillard, *Century*, p. 73; Beaulieu, Cox and Saiegh. 'Sovereign debt and regime type'.
[74] Gaillard, *Sovereign ratings*, p. 90.
[75] T 381/49, Poor to Walker, "Confidential outline', 26 October 1976.
[76] Beaulieu, Cox and Saiegh. 'Sovereign Debt and regime type'; Mosley, *Global Capital*; Mosley, 'Room to move'.
[77] Healey, *My life*, pp. 432, 434, 437.
[78] T 381/50, Smeeton to Payton, 'External borrowing' 10 October 1977.
[79] Healey, *My life*, pp. 422-23.
[80] T 381/50, 'New York borrowing', Attachment, 25 October 1977.

enhance national status in other markets. It was therefore more than merely a preparatory step into the New York market.[81] The Treasury did recognise 'the burden and additional discipline' of securing and maintaining a sovereign credit rating, which could be publically downgraded, but reasoned that such discipline has always applied to British borrowing.[82] The Bank of England agreed, and noted that the risk of future downgrades was remote.[83] Further encouraging confidence, the smaller economies of Venezuela and Sweden had recently secured 'triple-A' ratings prior to tapping the New York market.[84]

Debate moved onto how best to approach the New York market following a rating. The government considered approaching the short-term and limited risk commercial paper market, but only the public bond market could provide maturities into the 1980s. The latter approach would also serve as what Treasury officials termed a 'virility test' for the United Kingdom, which they believed to be a risk worth taking.[85] After an additional debate about whether the borrower should be a nationalised industry, the Treasury and the Bank of England ultimately chose the government, which was the preferred choice amongst American investment banks. The government accepted that a nationalised industry might prove less popular amongst investors. 'It is not enough simply to have a "triple-A" rating. The issue must be well received in the markets and achieved at the finest possible terms.'[86]

Rising confidence helps to explain the chancellor's eventual decision to contact the rating agencies. In October, Morgan Stanley, Deutsche Bank, and First Boston all advised that the United Kingdom would get a 'triple-A' rating without much difficulty.[87] All of these investment banks stressed that the rating agencies would, in the main, focus on long-term

[81] BE 7A174/2, 'Debt management', Attachment, Gill to Couzons, 1 December 1977.
[82] T 381/50, 100-110, Smeeton to Payton, 'External borrowing', 10 October 1977.
[83] T 381/50, 'New York borrowing', Attachment, 25 October 1977.
[84] Gaillard, *Century*, pp. 8-9.
[85] T 381/50, Smeeton to Payton, 'External borrowing', 10 October 1977.
[86] T 381/50, Ryrie to Couzons, 21 October 1977; Poor to Waas, 21 October 1977; Attachment, 'New York borrowing', 25 October 1977.
[87] T 381/50, 117, Battishill to Couzons, 'New York bond issue', 13 October 1977; Ryrie to Couzons, 21 October 1977; Poor to Waas, 21 October 1977.

considerations. This is a claim borne out in the extant literature, known as 'rating through the cycle'.[88] It therefore made sense to approach the agencies, when expectations for economic improvement were justified.[89] The chancellor, conscious of the need to take full advantage of market confidence, encouraged action.[90] Appreciating a potential four-month lead-time to obtain credit ratings, and fearing that delay might signal a lack of confidence, the Treasury wished to launch an application soon.[91] The Bank of England concurred, but remained cautious about approaching the New York bond market: 'it goes without saying that unless the U.K. obtained the top, 'triple-A' rating from both agencies no issue could be contemplated.'[92]

The Bank of England believed it was 'essential' for a US investment bank to guide the government through the rating process.[93] Given its reputation, Morgan Stanley was the preferred choice, reflecting its professionalism, experience, and closeness to the agencies.[94] Healey only formally approved the use of Morgan Stanley in November, but its influence on the British approach was clear many weeks earlier.[95] The investment bank had presented a plan of action based on intimate experience with the ratings process as early as October. A team from Morgan Stanley would join with a small task force from the Treasury and the Bank of England to produce what would serve as the basis for a formal registration document for the New York issuance. The draft document would provide the agencies with a comprehensive and wide-ranging survey of the United Kingdom economy. Once complete, representatives from Morgan Stanley could approach the rating agencies on an unofficial

88 Loffler, 'Rating through the cycle'; Loffler, 'Avoiding the rating bounce'.
89 T 381/50, Ryrie to Couzons, 21 October 1977, Poor to Waas, 21 October 1977.
90 T 381/50, Battishill to Couzons, 'New York bond issue', 13 October 1977.
91 T 381/50, Smeeton to Payton, 'External borrowing', 10 October 1977.
92 T 381/50, Couzons, 'New York borrowing', 25 October 1977.
93 Ibid.
94 T 381/50, Smeeton to Payton, 'External borrowing', 10 October 1977. T 381/49: 'New York borrowing', 25 Oct. 1977; Poor to Walker, 'Confidential outline' 26 October 1976; Note, 3 February 1977.
95 T 381/50, Jones to Hancock, 'Debt repayment', 11 November 1977; Lever to Chancellor, 'Debt repayment', 15 November 1977.

basis. No formal meeting would take place until the British government was satisfied with the high probability of good rating.[96]

The Bank of England suggested that a task force should start work with Morgan Stanley in December, in an effort to make a formal approach to the rating agencies in January. Assuming this timetable, the 'triple-A' rating would be in place by March. Thus, a first issue in the US should not occur until next spring, around the time of the Budget in April. Bank officials noted that it was inadvisable to make a first issue any earlier, while there was any remaining risk of industrial confrontation over pay and until it was clear that domestic inflation was under control. Timing would also depend on the state of the US capital market, so flexibility until autumn was useful.[97]

The size of the initial offering was still open to debate. The Bank of England suggested that \$200m would be respectable.[98] Assuming a 12-year maturity, the associated costs would total almost \$3m or 1.5% of the issued sum, which would include everything from paying 'the spread' to covering legal fees. These costs compared with just over 2¼% for recent issues in the euro-dollar bond market. Sovereign credit ratings were included in this bill. In the early 1970s, the rating agencies had changed from a 'subscriber pays' to an 'issuer pays' model, whereby the entity issuing the bonds pays for a rating instead of institutional investors seeking advice.[99] Moody's would charge related to size of issue, which the government correctly predicted would cost \$30,000. In contrast, Standard and Poor's bill included the work involved, and ultimately exceeded initial government assumptions of

[96] T 381/50, Poor to Waas, 21 October 1977.
[97] T 381/50, 'New York borrowing', Attachment, 25 October 1977.
[98] Ibid.
[99] White, 'Credit rating agencies', pp. 14-15; Kruck, *Private ratings*, p. 22.

$20,000.[100] The final combined bill ultimately totalled $80,000, revealing some variation in the approaches adopted by the rating agencies.[101]

Despite the costs involved, the pursuit of a credit rating had become an increasingly important element of the Treasury's economic strategy. In a draft paper intended for the chancellor, Treasury officials sought approval to quicken the existing repayment programme. National reserves were now over $21bn, exceeding short and medium-term debt, and the current account was firmly in surplus. Keen to exploit this success by lowering the 1979-84 debt hump, the Treasury sought the chancellor's approval to authorise plans for new borrowing. If the government became a 'triple-A' borrower in New York, they believed that the cost of borrowing in other markets would also reduce. Beyond lowering costs, enhancing national creditworthiness in international markets was 'vital, since our strategy for managing external debt over the next few years presupposes fresh borrowing on a large scale.'[102] The Treasury estimated that the government could expect to raise $3-3.5bn in New York over the coming years. It ultimately recommended accelerating the programme to make a net repayment in 1978 of around $3bn, in addition to the existing schedule for repayment in that year (see figure 3).[103]

The Treasury's debt management strategy did not enjoy universal support. Healey was certainly uneasy with proposals considered in isolation from other medium-term policies.[104] He believed his job as chancellor was not just the pursuit of high growth and low inflation but also the maximisation of social welfare.[105] Chancellor of the Duchy of Lancaster Harold Lever, who had taken responsibility for gilt markets in 1976, was certainly

[100] T 381/54, Gill to Hancock, Wass, 'Bond issue: Costs', 4 April 1978; T 381/50, Sharp to George, 'Public Bond Issue', 22 November 1977.
[101] T 381/55, Gill to Chief Cashier, 'New York bond issue', 6 June 1978; T 381/149, Gill to Taylor, 'New York Bond Issue', 29 June 1978; Kruck, *Private ratings*, p. 27.
[102] T 381/50, 'External debt management', Attachment, Hancock, 21 October 1977,
[103] BE 7A174/2, Gill to Couzons, 'Debt management', 1 December 1977.
[104] T 381/50, EAJG to McMahon, 'New York borrowing', 22 November 1977; 'Note', 16 November 1977.
[105] Healey, *My life*, pp. 391-92, 402-3.

unimpressed.[106] Lever questioned the Treasury's prioritisation of the swift repayment of debt, which he believed constrained the domestic economy. Nevertheless, he remained enthusiastic about borrowing from New York and helped Healey to overcome his doubts on the issue.[107] On 22 November 1977, the chancellor gave immediate authority, pending agreement by Callaghan, to prepare for a confidential approach to the New York rating agencies via Morgan Stanley.[108]

In early December, Treasury and Bank officials met with representatives from Morgan Stanley to begin work on the comprehensive survey of the United Kingdom for use in its discussions with the rating agencies. Successive governmental memos stressed the need 'to remain in control' despite 'the impression of heavy-handiness (professional zeal) that Morgan Stanley have given'.[109] Working together, the task force planned to make contact with the agencies at the end of January 1978, securing a rating by early March. Morgan Stanley broadly confirmed the Bank of England's suspicions regarding costs, raising them to \$3.06m for an issue of \$200m.[110] Addressing British caution, Morgan Stanley was clear that if the government decided not to approach the rating agencies, the only costs incurred would be a small proportion of that figure, for its own expenses.[111] During this period, bargaining from a position of strength, Morgan Stanley argued against a rotating leadership for future issuances. The case for sole management, which had prevailed in Australia and New Zealand, failed to impress senior officials.[112] The British government remained in control; Morgan Stanley was useful but dispensable.

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106 Burk and Cairncross, '*Good-bye'*, p. 76; Healey, *Time of my life*, p. 384.
107 BE 7A174/2, Lever to PM, 'Debt repayment', 6 October 1977; BE 2509, Holland to McMahon, 18 November 1977; Healey, *My life*, pp. 388-89.
108 T 381/50: Jones to Hancock, 'Debt repayment', 11 November 1977; Lever to Chancellor, 'Debt repayment', 15 November 1977; EAJG to McMahon, 'New York Borrowing', 22 November 1977; Note', 16 November 1977.
109 T 381/50, EAJG to McMahon, 'New York borrowing', 22 November 1977; 'Note', 16 November 1977.
110 T 381/51, 'New York borrowing operation', 12 December 1977.
111 Ibid.
112 ANZ, 2, Kirkland to Cook, 'New York Loan', 2 August 1977; T 381/51, Sallnow-Smith to Hancock, 'Visit', 11 January 1978. Kirkland, Kidder and Peabdoy managed the New Zealand issue.

The task force completed a draft prospectus for submission on 20 January 1978. Morgan Stanley had advised officials about 'tactics' for dealing with rating agencies. They would look favourably on the government's intention to pay off its debts and the proceeds of North Sea oil. Political factors were also important. The government's commitment to profits and personal incentives, reducing inflation, and tackling industrial tensions with trade unions were also valuable.[113] As Morgan Stanley made clear, the agencies' 'general bias is for less government in the economy rather than more.'[114]

The draft for submission was a skilful construction. The United Kingdom's strengths were maximised, with the government especially bullish about North Sea Oil. Conversely, the prospectus downplayed or obscured doubts about the economy. Tensions with trade unions, which would eventually culminate in the 'winter of discontent', featured only briefly.[115] As a further example, the Treasury had been worrying for months about 'a tricky and potential formidable legal obstacle', which stemmed from the government's default of First World War debts to the Americans.[116] In an effort 'to tell as good a story as they can', officials limited the wording to a footnote, to 'present as low a profile as possible' without risking legal action concerning the 'suppression of material information'.[117]

Such insights from the archives highlight the potential influence of governments on the rating process. The data provided to the rating agencies were certainly not neutral. Given the nature of the preparation, the archives also reveal that the political element of the rating process did matter. Officials were aware that analysis could move 'well away from narrow, balance-sheet-type considerations' at times.[118] With the document now complete, Morgan

[113] T 381/52, Hancock to PPS, 'HMG's application', 13 March 1978.
[114] T 370/471, 'Telex from Morgan Stanley', 9 March 1978.
[115] See T 381/55; BE 2 A50 1.
[116] T 381/50 (entitled, 'First World War Debt') Walker to Hosker, 6 May 1977; Allan to Crawford, 11 May 1977; Walker to Quinn, 6 May 1977; Allan to Crawford, 11 May 1977; Walker, 17 June 1977; Smeeton to Allan, 'Credit rating', 8 July 1977; George to Gill, 'New York borrowing operation', 15 July 1977.
[117] T 381/51, 390, Note from Barratt, 24 January 1978; T 381/51, Gill to Hancock, 'Submission', 26 January 1978.
[118] Sinclair, *Masters of capital*, 136-45, esp. 140.

Stanley's subsequent meetings with the credit rating agencies were scheduled for February and would take place in the bank's, rather than the government's, name. The group agreed that a formal submission would only follow if a 'triple-A' rating appeared likely.[119]

III.

Morgan Stanley reported that their discussions in February went 'as well as any reasonable man could expect'. On 7 March, after several weeks' silence, Standard and Poor's suddenly indicated to the Bank of England, 'as clearly as can be expected', that the outcome of a formal application would be favourable.[120] In a curious admission, the rating agency was apparently 'eager to be persuaded of AAA', although why remains unclear.[121] Moody's response also proved positive.[122] The chancellor subsequently advised the Treasury to proceed with a formal application.[123] Both agencies thought it more fruitful to venture to London rather than receive a high-level presentation in New York, presumably to make a better assessment of the British economy.[124] The written report produced by the visiting 'country analysts' would then serve as the basis for discussions during a final rating committee meeting held in New York. With the chancellor's blessing, the government invited both agencies to London. In the meantime, Treasury officials began preparations for what they termed a 'mini-IMF' visit.[125]

The British government exercised subtle influence over its visiting assessors. Although Treasury officials worried that the agencies might ask to see experts outside of the Treasury, no such requests arose. Beyond publically available sources, the government

[119] T 381/51, Hancock to PPS, 'New York borrowing operation', 20 January 1978.
[120] T 381/52, Hancock note, 'HMG's application', 7 March 1978.
[121] T 381/52, E.A.J.G note, 'US borrowing', 8 March 1978.
[122] Ibid.
[123] T 370/471, 'HMG's application', 9 March 1978; T 381/52, Jones to Hancock, 'HMG's application', 10 March 1978.
[124] T 381/52, Gill to Hancock, 'New York borrowing operation', 14 February 1978.
[125] T 370/471, 'HMG's application', 7 March 1978.

therefore provided all of the information received by the agencies.[126] During their talks, for instance, Standard and Poor's asked Morgan Stanley for a confidential 'IMF report'. The government, however, declined to share the information despite a potential delay to the rating process.[127] Indeed, although having sent a great deal of written information to the rating agencies via Morgan Stanley, the government never provided any classified material.[128] Curious as it may seem, the agencies have always been reliant on published information and what governments were willing to share.[129]

The small and inexperienced ratings staff of both agencies involved in the process, operating several years before the agencies sought to 'professionalize' their sovereign debt teams, complemented the efforts of the government.[130] A Treasury briefing document noted that, 'It is very unlikely that the rating agencies will be as well informed about the UK as, for example, IMF or OECD staff.'[131] David Levey, who joined Moody's Sovereign team in September 1985, agrees with this assessment. Due to the inexperience of the analysts, Levey did 'not attach a whole lot of credibility to ratings from that earlier period.'[132] Even by 1980, treasury officials noted that the agencies' knowledge of the national economy appeared 'remarkably patchy'.[133] The revival of the sovereign ratings industry therefore provided a valuable opportunity for the British government. These 'ratings visits' presented a chance to press favourable interpretations of British economic performance to comparatively inexperienced ratings analysts.

[126] Ibid.
[127] T 381/52, Gill to Hancock, 'New York borrowing operation', 14 February 1978; Gill to Mitchell, 'Approach to US rating agencies', 24 February 1978; Leech to Norgrove, Michell, 'Approach to US rating agencies', 24 February 1978.
[128] T 370/471, 'HMG's application', 7 March 1978.
[129] Flandreau, Flores, Gaillard, Nieto-Parra, 'End of gatekeeping'; House of Lords, *Sovereign credit ratings*.
[130] Sinclair, *New masters*, p. 27; Gaillard, *Century*, pp. 34, 63; Kruck, *Private ratings*, p. 31.
[131] T 370/471, 'HMG's application', 7 March 1978.
[132] Levey, 2012; Flandreau, Flores, Gaillard, Nieto-Parra, 'End of Gatekeeping'.
[133] T 381/228. Note for the record, 11 August 1980.

The details of dealings between governments and credit rating agencies have previously been confidential.[134] The archives therefore provide rare insights into the rating process. Much of the review process was subjective in nature. The purpose of meeting with rating analysts, British officials acknowledged, 'will be to persuade' and 'to convince the rating agencies that lending to the UK, is at least a good a bet as lending to Canada, France, Australia, Sweden'.[135] One note stated, 'interpretations and observations which tend to refute certain negative impressions created by U.S. press coverage of the UK in recent years will be particularly helpful.'[136] There were certainly no professional economists in the Standard and Poor's team, an absence likely to please the chancellor given his doubts about the value of economics.[137] Because the agencies did not expect access to sensitive or privileged information, '[t]hey will be actively seeking attitudes, insights and interpretations from individuals giving presentations.'[138] As such, British officials understood that the competence of people talking was essential. 'Impression of confidence, professionalism and personal commitment [...] cannot help but have a significant impact [...] Their purpose in these meetings is to determine what to believe.'[139]

The government was obliged to hold two separate talks on 13-15 and 20-21 March as each agency preferred to make judgements independent of each other. Morgan Stanley warned that the rating agencies would expect a series of 'sales talks'. These short talks, although 'not the natural style of British civil servants', presented a useful opportunity to put the British economy 'in the best possible light'.[140] Healey also eventually agreed to meet

[134] Correspondence, HM Treasury, May 2013.
[135] T 370/471, 'HMG's application', 7 March 1978.
[136] T 370/471, 'Telex from Morgan Stanley', 9 March 1978.
[137] T 370/471, 'HMG's application', 15 March 1978; Message to George, 14 March 1978; Healey, *Time of my life*, pp. 377, 383.
[138] T 370/471, 'Telex from Morgan Stanley', 9 March 1978.
[139] Ibid.
[140] T 370/471, 'HMG's application', 9 March 1978; Note from Gill, 15 March 1978.

representatives at the end of each first day of talks.[141] Morgan Stanley had repeatedly stressed that it would be useful for the chancellor to participate, even if only briefly, in order 'to flatter them'.[142]

The chancellor met with representatives from Standard and Poor's and Moody's on 13 and 21 March. Both meetings took the form of a question and answer session, although the minutes detail only the chancellor's replies. Given his responses, it is possible to infer the nature of the conversation. Although it is difficult to discern differences between the two agencies using only ratings decisions in this period (see table 1), the archives reveal that the agencies did place emphasis on different issues during their visit. The minutes of the two meetings are similar, but Moody's appears to have been more focused on the reduction of direct tax as stimulus for economy.[143]

Throughout both talks, the chancellor put the British economy in the best possible light. He stressed the benefits of North Sea Oil, growth in the private sector, and proposed reductions in the size of the public sector over the next ten years. Healey stressed that he was not proposing further nationalisation, agreed that there was too much tax on income, and conceded that the profitability of British industry was too low. The chancellor explained the causes of the recent sterling crisis and expressed confidence that there would be no return to such problems, presumably due to his recent efforts in office. In an interesting insight, which supports recent revisions to the historiography, Healey confirmed that he did not want to re-establish sterling as a reserve currency.[144] Asked about the United Kingdom's relatively poor economic performance over last few years compared to other OECD countries, the chancellor

[141] T 370/471, 'HMG's application', 9 March 1978; T 381/52, Jones to Hancock, 'HMG's application', 10 March 1978.
[142] T 381/51, 'Economic view from Britain', 18 January 1978.
[143] T 381/53, 'Note', 22 March 1978.
[144] Schenk, *Decline of sterling*.

struggled to provide an answer. He responded that 'no tree grows to the sky' meaning growth in Germany and Japan was beginning to ease, putting Britain in a better light. [145]

The accuracy of Healey's claims is debatable, especially his confidence about the viability of economic reforms within the Labour Party. In his memoirs, for instance, his opinions on matters such as taxation and industrial performance were far more complex.[146] Nevertheless, his performance played to his audience and recognised the importance of convincing his assessors. Still cautious of a lower rating, these discussions all occurred in the strictest confidence. Indeed, given the risk of a leak following a formal application, the government had already prepared a number of vague but ultimately disingenuous statements concerning its pursuit of a rating.[147]

The efforts of the British government paid dividends. Morgan Stanley said 'some very flattering things about quality of Treasury's presentation to Standard and Poor's'.[148] The Moody's presentation went equally well.[149] None of this is to suggest that the rating analysts unquestioningly accepted all of their hosts' claims. Analysts may have lacked experience of the sovereign ratings process, but there is no reason to believe that they were gullible.[150] To be sure, the question for the credit rating agencies was likely only whether the United Kingdom deserved a 'triple-A' rather than a 'double-A' rating. Nevertheless, the rating agencies had come to London, 'eager to be persuaded', and British efforts would prove sufficiently convincing.[151]

IV.

[145] T 381/52, 'Note', 14 March 1978.
[146] Healey, *My life*, pp. 402-403, 404-407.
[147] T 381/52, Gill to Dixon, 'HMG's application', 10 March 1978.
[148] T 370/471, 'HMG's application', 16 March 1978.
[149] T 381/53, Hancock to Ryrie, 'Bond issue', 22 March 1978.
[150] Levey, 2014.
[151] T 381/52, 'US borrowing', 8 March 1978.

By mid-March 1978, the government remained confident of a 'triple-A' rating from both agencies. The Treasury and the Bank of England informed the chancellor that they wanted to be in a position to make a New York bond issue as soon as they received confirmation. The three-manager syndicate headed by Morgan Stanley urged the government to bring an issue as soon as possible. Although analysts had expected a slowdown of economic activity in the US to strengthen bond sales towards the end of the year, the market instead appeared to have stabilised. By coming immediately on the heels of a recent Canadian issue, the British government could potentially secure similarly aggressive terms. Furthermore, by announcing early, the United Kingdom might pre-empt other potential issuers. The Bank of England's own view of the markets was certainly consistent with such advice.[152] Domestic politics, however, crept into the government's decision-making process. The chancellor indicated he wanted to announce the issue in his Budget Speech, delaying progress until 11 April, which risked the worsening of market conditions.[153]

In early April, officials began to prepare for the Budget speech, working on the assumption that the United Kingdom would secure the highest ratings.[154] Following advice from Morgan Stanley, the British government decided to follow the announcement with a sale campaign or 'road show' conducted in the United States to publicise the offering, although the chancellor declined to participate.[155] If announced on 11 April, the road show would begin on 17 April.[156] Officials developed a series of short briefs, categorised as either defensive points to remove popular misconceptions about the British economy or positive points to sell the bond.[157] The costs associated with a New York bond issue, however, were still unclear. By early April, the Treasury anticipated an issue of over $300m, with half for 7

[152] T 381/53, 'Borrowing in New York', 17 March 1978
[153] T 381/53, Hancock to PPS, 'Bond issue', 21 March 1978; Hancock to Ryrie, 'Bond issue', 22 March 1978.
[154] T 381/53, Gill to Hancock, 'Budget speech', 3 April 1978.
[155] T 381/55, Rawlinson to Couzens, 'New York bond', 10 May 1978.
[156] T 381/53, Hancock to Ryrie, 'Bond issue', 22 March 1978.
[157] T 370/471, Note from Hancock, 'HMG's bond issue', 31 March 1978; T 381/148, passim.

years and half for 15 years. Total costs would therefore exceed $3.8m, just over 1¼% of the total issue but in line with recent sovereign issues in New York. [158] This figure requires some perspective. Subsequent issues in the New York market would be cheaper. Legal expenses, printing costs, rating agency fees, and possibly 'the spread' itself, would reduce. British officials believed that costs could next time be in the range of 1-1¼%. The only other alternative with borrowing on similar terms was the Euro-dollar bond market, but amounts were considerably smaller and the overall costs would be upwards of 2%. Borrowing from New York therefore represented the most attractive option.

The archival record is unclear as to when Moody's gave its 'triple-A' verdict, but they had certainly informed the government by early April. Concern grew within the Treasury as to whether Standard and Poor's would produce its rating in time for the budget, although few doubted that 'they will come up with the right answer.'[159] By 10 April, the day before the Budget announcement, the rating agency confirmed a 'triple-A' rating.[160] Standard and Poor's later explained the delay by suggesting that 'the UK was not an "open and shut" case' for a 'triple-A' rating', but provided no further details.[161] It is unclear whether Standard and Poor's was more pessimistic than Moody's. The archives provide no insights into the latter's position. There were certainly differences in the rating process, as evidenced by the dissimilar assessments of Finland's creditworthiness (see figure 1 and table 1), but such a delay could also simply reflect procedural differences in the decision-making process.[162]

If the UK was not an 'open and shut' case, British efforts during the review process had been all the more important. The core recommendation provided by the country analysts assigned to the United Kingdom would have led the discussions in the larger rating

[158] T 381/53, Gill to Taylor, 'New York bond issue', 31 March 1978; T 381/54, Gill to Hancock, Wass, 'Bond Issue: Costs', 4 April 1978, attached, 'Costs'.
[159] T 381/54, EAJG to McMahon, 'US borrowing', 5 April 1978.
[160] T 381/54, Hancock to PPS, 'HMG's bond issue', 10 April 1978.
[161] T 381/149, 'Bond Issue', 6 July 1978.
[162] Ibid.

committees that made the final decision. Neither Standard and Poor's nor Moody's publish minutes of such committees. There is no certainty as to whether the ratings decisions were unanimous or passed by a slim majority, so every effort by the British government may well have been important.[163]

On 11 April 1978, Healey took to the Dispatch Box. The chancellor exuded confidence as he addressed a crowded House of Commons and, for the first time, a national radio audience.[164] 'I can now tell the House that we propose to make a British Government bond issue in the New York market. [...] The United States rating agencies have said they will rate such an issue 'triple-A', the highest credit rating they can award.' His explanation remained consistent. 'I believe that by spreading the burden of debt repayment forwards and backwards in this way we can ensure that it does not unduly restrict our ability to expand our economy.'[165] Healey had thus announced to the world that the United Kingdom was a 'triple-A' borrower.

The press response was largely favourable. Although unable to complete a write-up in time for its flagship publication, *Fixed Income Investor*, Standard and Poor's press release was supportive: 'Britain's inherent strengths as a developed country, its improving economic prospects and its moderate external debt burden are the basis for [...] U.K. AAA.'[166] Moody's bond survey concurred: 'The traditional stability afforded by the strong political and social institutions of the United Kingdom have recently been enhanced by a return of confidence, partly induced by good management.'[167] The government had certainly convinced the rating agencies. The *Financial Times* noted that Moody's report, 'may strike British readers as portraying a somewhat better Britain than the one they know, but it made a good story.'[168]

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[163] Younglai and Costa, 'When ratings agencies judge the world'; Levey, 2012.
[164] Howe, *Conflict of loyalty*, p.96; BE 2A50/1, 'British budget', *New York Times*, 1 April 1978.
[165] Hansard, HC Deb 11 April 1978, Vol. 947, cc1185-6 1185.
[166] T 381/55, 'S&P rate U.K. issue "AAA"', 25 April 1978.
[167] T 381/55, *Moody's bond survey*, 24 April 1978.
[168] T 381/55, 'A triple A', *Financial Times*, circa May 1978.

The same newspaper nevertheless explained that although this move might appear to be a 'publicity gimmick', which 'makes a useful international status symbol', it did provide access to the largest capital market in the world.[169]

On hearing the rating, the investment banks managing the issue telephoned the Bank of England with unanimous advice to proceed with a bond of $350m split into two tranches; £200m at 7 years and £150m at 15 years.[170] Since mid-March, when the government had decided to move ahead, the market had fallen.[171] Keen to act, the chancellor formally approved the bond issue in New York later that day. The British bond offering would be the largest non-US offering in the market to date.[172] Following advice from the banks managing the issue, the chancellor agreed to bring forward the issue from 8/9 May to 26/27 April because interest rates in New York were moving against the government.[173] The seven-year tranche was issued at an agreed coupon of 8½%. The 15-year tranche was issued at a coupon of 8⅞%. There was good demand for the bonds, especially for the 7-year tranche, which quickly sold out.[174] Performance remained respectable after the conclusion of the underwriting syndicate, with Morgan Stanley subsequently reporting that 'U.K. bonds stand at the top of the list' in the secondary market.[175] The British government had managed to secure rates as good as any sovereign borrower. There was also the added bonus of opening up opportunities for British firms to borrow in New York.[176]

Sir Douglas Wass attributed success to, 'Hard work, diligence and some luck.'[177] A good credit rating had also helped. Scholars continue to debate credit ratings' informational

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[169] BE 2A50/1, 'Why Mr Healey turned to New York', *Financial Times*, 13 April 1978.
[170] T 381/54, Hancock to PPS, 'HMG's bond issue', 10 April 1978.
[171] T 381/54, EAJG to McMahon, 'US borrowing', 5 April 1978.
[172] BE 2A50/1, 'Prices drop again', *New York Times*, 12 April 1978.
[173] T 381/148, Hancock to PPS, 'New York bond issue', 24 April 1978; Jones to Hancock, 25 April 1978; Gill to Couzens, 'New York bond Issue', 25 April 1978. See also BE 2A50/1.
[174] T 381/55, Gill to Smith, 'Morgan Stanley: First Boston', 10 May 1978.
[175] T 381/149, Petito to Healey, 21 June 1978; ANZ, 3, Kirkland to Cook, 20 September 1977.
[176] T 381/55, Hancock to Barratt, 'HMG bond', 27 April 1978.
[177] T 381/55, Wass to Hancock, "'HMG bond', 27 April 1978.

value in the market.[178] To be sure, a credit rating was not necessary for British entry in the New York bond market, as evidenced by Brazil and Mexico. In addition, good timing and competitive pricing had helped the issuance. Nevertheless, the British government and Morgan Stanley consistently assumed a relationship between a 'triple-A' rating and good borrowing rates.[179] Regulatory changes in America during the 1970s meant that investment groups, insurance companies, and pension funds could only invest in financial products with a certain level of creditworthiness.[180] The British government certainly recognised ratings' 'important influence' on 'the breadth of the market [...] in that some U.S. institutional investors are required by law to purchase only securities bearing at least certain specific ratings.'[181] Rewards also extended well beyond the New York market. The prestige associated with a favourable rating could help to lower borrowing costs in existing markets and served to highlight skilful economic management to a domestic audience.[182]

The British government's efforts to secure a 'triple-A' rating cast light on an important period of revival in the history of sovereign credit ratings. Between 1974 and 1985, the two major agencies were rating approximately a dozen countries, the majority of which were 'triple-A' borrowers. This period was therefore unique in both its limited size and its lack of ratings diversity. The archives also reveal that many states sought the advice of financial experts to guide them through the ratings process. Morgan Stanley's insights, and advice concerning the prospectus and subsequent talks, certainly strengthened the British

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178 See, for instance, Cantor and Packer, 'Determinants and impact'; Afonso, Furceri, and Gomes, 'Sovereign credit ratings'; Reisen and Maltzan, 'Boom and Bust'; Hand, Holthausen, and Leftwich, 'Bond Rating Agency Announcements'; Hite, Gailen, and Warga. 'Bond Price Performance'; Pinches and Singleton, 'Adjustment of stock prices'; Weinstein, 'Effect of rating change'; Partnoy, 'The paradox of credit ratings'.
179 T 381/49, 'Government borrowing', 2 August 1976.
180 White 'rating agencies' pp. 213-14, 218-19; Kruck *Private ratings*, pp. 39-40; Flandreau, Gaillard, and Packer, 'To err'.
181 T 381/49, Poor to Walker, 'Confidential outline' 26 October 1976.
182 T 381/49, 'Government borrowing', 2 August 1976.

government's efforts. If Standard and Poor's suggestion that 'the UK was not an "open and shut" case' was accurate, such guidance likely made a crucial contribution.[183]

The British government used its knowledge of the sovereign ratings process and the relative inexperience of the credit rating agencies in this period to its advantage. Despite international investors' wariness about the country, the leading rating agencies awarded the United Kingdom the highest ratings possible in 1978. Improving economic conditions were important, but 'triple-A' status reflected more than just quantitative analyses of national performance.[184] Senior officials in the Bank of England and the Treasury went to considerable efforts to 'persuade' and 'convince' their assessors of the United Kingdom's creditworthiness. As Edward Emmer, former Executive Managing Director at Standard and Poor's, explains, 'Credit analysis is an art, not a science.'[185]

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[183] T 381/149, 'New York bond issue', 6 July 1978.
[184] Burk and Cairncross, *'Good-bye'*.
[185] Quoted in Ganguin and Bilardello, *Standard & Poor's fundamentals*, p. xi.