

The Political Economy of Credit Rating Agencies. The Case of Eurozone Sovereign Ratings.

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Abstract

This paper investigates the nature and scope of Credit Rating Agencies (CRAs), and in particular the macroeconomic importance of sovereign ratings. Contrary to the mainstream perception which views CRAs as opinion providers, capable of dealing with information asymmetries, our view suggests that CRAs are of a more complicated nature. Based on the concepts of power and uncertainty, we argue that CRAs can be seen as an important and often neglected dimension of financialization. To understand such dimension we need to view CRAs as part of the convention in the Keynesian sense. As such we can claim that once the convention starts failing to explain reality, i.e. once genuine uncertainty reveals itself- as in the case of the crisis nowadays- CRAs come in a position where they can fail to grasp and forecast economic dynamics. Moreover, due to their authoritative placement in the economy, such a possibility links with CRAs' capacity to generate self-fulfilling prophecy mechanisms. From our perspective, although the argument can be applied to all different sorts of issuers of debt instruments that CRAs evaluate, it becomes of paramount importance at the level of sovereign ratings due to the macroeconomic and social implications of public debt. Most notably, the ongoing Eurozone crisis offers some important evidence that supports our thesis.

Key Words: credit rating agencies, sovereign ratings, financialization, power, uncertainty, convention, Eurozone

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