Carleton University

Casting a Shadow from the Shadows:
An examination of the power & authority of rating agencies in an era of neoliberal globalization

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of the requirements for the degree of
Master of Arts

Institute of Political Economy

by

Heather Whiteside, B.A. (Adv.)

Ottawa, Ontario

May 2006

Your file Votre référence
ISBN: 978-0-494-16449-5
Our file Notre référence
ISBN: 978-0-494-16449-5

Abstract

This thesis argues that rating agencies have come to occupy a position of power and authority in the contemporary era of neoliberal globalization through their consolidation of information exchange and knowledge production within international financial markets. Rating agencies are examined in this thesis from a neo-Gramsican framework which serves to contextualize their activities and suggests that their ratings act as ideational and institutional support systems which underpin the enforcement of a more disciplinary and new constitutionalist world order aimed at privileging finance capital and promoting its operational logic. As but one measure of their increased power and authority, the impact of ratings on various levels of government is examined theoretically and empirically. Case study evidence demonstrates that credit ratings are now a salient consideration within the formulation of public policy and thus the global rating agencies are able to influence the activities of governments to an unprecedented degree.

Acknowledgements

As a small expression of my gratitude and appreciation for those who have helped me in this endeavour, I would like to especially acknowledge the following people: my mom and dad for all their love and support throughout the years; Noah Young, whose insight and depth serves as a source of immeasurable inspiration; Donna Coghill and Randall Germain, as well as all of my fellow students at the Institute of Political Economy for all of their contributions to my academic experience; and most importantly, Cyril Sharman for teaching me what is really important in life.

Table of Contents

List of Tables

Introduction

There is wide agreement in the field of international political economy (IPE) that some fundamental changes have been occurring in the processes of capitalist development and inter-state relations since roughly the 1980s. Though the exact nature and impact of these changes may be widely debated, the term 'neoliberal globalization,' however imperfect it may be, will be utilized in this thesis to denote the contemporary period of capitalist development whereby accelerated and large-scale transnational integration is seen to produce transnational capitalist interests, and new challenges to and patterns of state governance.

The specifics of the particularly 'neoliberal' component of these changes will be discussed in further detail in chapter 2, for now suffice it to say that neoliberalism is at heart an ideology, it is a set of beliefs pertaining to how things *ought* to operate, yet it is frequently depoliticized and passed off as an ineluctable feature of modernity. It is the position of this thesis that neoliberalism, and neoliberal globalization more broadly, is not in fact an inevitable condition but rather is the result of an explicit attempt to restructure political and economic relations within the latter decades of the twentieth century. For instance, neoliberal market reforms characterized by a focus on supply-side economics, fiscal austerity, liberalization, re/deregulation, privatization, and a rollback of previous gains made by labour, are all examples of the tangible effects of this change in orthodox ideology within the modern political economy. However, it ought to be acknowledged that this description of neoliberal globalization should only be regarded as an overall tendency as there remain

historically and culturally specific elaborations of this process which may conform to varying degrees with this ideal-type.

Thus the larger economic and political changes that have occurred under the rubric of neoliberal globalization cannot occur without being underpinned by various normative or ideological support systems. As a result, it should be emphasized that a crucial aspect of the neoliberal project has been the emergence of new sources of authority in the area of knowledge and information provision which have been essential to the overall implementation and functioning of this new accumulation model. Credit/bond rating agencies (rating agencies) are one important non-state and non-market actor to have captured authority and power through their ability to inform investors and debtors, both public and private, and to support new ideas generated by the neoliberal model. Rating agencies therefore represent an important agent in neoliberal globalization, yet are often overlooked in favor of more overt sources of state or corporate power and authority. Therefore, it is the contention of this thesis that neoliberalism and its disciplinary manifestations are underpinned in part by the work of rating agencies, and to properly understand these larger shifts in economic and political structures we must take into account the actors who solidify their normative base.

Rating agencies are not the first thing that comes to mind when one thinks of power in the contemporary era. However, this is in part the result of a low level of scholarly IPE interest in the actions of knowledge brokers more generally, an untenable situation given the inherent subjectivity and informational needs of participants in the newly globalized financial markets. In addition, rating agencies

have in the past been mostly studied by economists using positivist econometric techniques which inherently suggest that rating agencies' judgments are neutral, as is their presence in the global economy. In this sense they have been passed off as being merely part of the mechanics of the global financial system, without reference to their larger associations to the ideational construction of neoliberalism. This thesis therefore aims to add to the body of scholarly knowledge on rating agencies, and to remedy the orthodox omission of power and ideology from the study of ratings and rating agencies.

The Argument of this Thesis

The central argument of this thesis is that rating agencies exert power and authority in the global political economy through the control of information exchange and knowledge production within financial markets. As such, in neo-Gramscian terms,[1] rating agencies operate as important sources of intersubjective meaning and as informal institutions within the neoliberal world order. As a manifest example of these effects, this power and authority will be related in this thesis to its impact on the state. Therefore, as sources of intersubjective meaning their expert judgments are seen to be underpinned by neoliberal ideological values which privilege the role and interests of investors, and thus conceptually narrows the range of policy options available to public debtors who seek to improve their credit rating. Their ability to impose judgments however is tied to their role as institutions which stand between states reliant on private capital markets and the credit they require to fund their

[1] See chapter 1 for a more detailed explanation of neo-Gramscian theory and how it relates to rating agencies.

operations. Interestingly, their institutional status is perpetuated by ratings-dependent regulation imposed by states themselves as a means to smooth out some of the possible dislocations that could arise from the disembedding of finance capital from more formal state oversight. Therefore, this thesis is not in any way attempting to suggest that the state is withering away under the authority of rating agencies, only that rating agencies have now become an important enforcer of neoliberal policy given the reasons suggested above.

It also should be emphasized that this thesis is not attempting to suggest that rating agencies are in any way the direct cause of the larger changes in the form and function of state behaviour or of patterns of economic relations, only that they are an under-addressed actor which has come to occupy a position of influence in financial markets, and thus in policy making when states require funding from the global marketplace. Rating agencies remain behind the scenes yet nonetheless play an important role in constraining and guiding public policy toward neoliberal ends. As such, the aim here is simply to politicize the actions of rating agencies, and demonstrate that they are an important force within the construction of world order.

The argumentation of this thesis is supported primarily through the use of scholarly literature, both from the field of IPE and Economics. Additionally, a few government press releases and newspaper articles have also been used in the last chapter. Interviews were not possible given the elite nature of the industry and time constraints; however interviews conducted by others, namely Sinclair, have been incorporated into various chapters. As mentioned, there exists a relative lack of critical scholarly material on this subject and thus the general theoretical observations

of neo-Gramscian authors have been applied to more orthodox econometric studies in an effort to tease out both the theoretical and empirical implications of ratings and rating agencies.

There is also an implicit debate woven into this thesis which considers the arguments of both Sinclair, where it is believed that the power of rating agencies is derived from their endogenous role within financial markets, and Kerwer, where the power of rating agencies is believed to stem from state-imposed ratings-dependent regulations. However, it is the perspective of this thesis that this debate is misleading, if not erroneous, given that a synthesis of the two has a stronger explanatory power. Thus, Sinclair is correct in asserting that rating agencies, derived from their years of expertise and embeddedness, are perceived by financial market participants to be part of the mechanics of the financial system itself, which can be demonstrated through interest rate fluctuations in inverse relation to ratings. However, Kerwer is also correct in asserting that regulations entrench ratings into the operation of global finance, and this can be demonstrated through the positive association between ratings and the number of investors capable of funding that debt. Therefore, the power of downgrades to alter government policy is related to the significant costs imposed by higher priced debt and a dramatic decrease in the number of potential investors, and not one or the other as the Sinclair/Kerwer debate suggests.

Definitions and Explanations

Rating agencies are defined in this thesis as both non-state and non-market actors who assess the willingness and ability of a debtor to repay their loans as scheduled. They are definable in this sense given that they are indeed sources of private authority, and thus not to be confused with state-based institutions such as the International Monetary Fund, yet cannot be considered to be a financial market participant as they are in the business of selling information and expertise to financial market participants rather than engaging in the buying or selling of financial assets such as bonds, stocks or derivatives.

Another important component to the discussion of rating agencies in this thesis is their link to finance capital. Finance capital is employed throughout this thesis to refer to a constituent element of Marx's concept of *fractions of capital* which refer to functional divisions within total capital (finance or money, commodity, and productive capital), around which capitalist relations and state action are organized.[2] Therefore, while at other stages of historical development we are able to point to the relative dominance of other fractions of capital, for example of productive interests during the postwar era, we are now witnessing a situation whereby money is increasingly invested for the sole purpose of making more money rather than adding to the productive process. As such, the rise to prominence of rating agencies within the past few decades is seen to be connected to the rise in relative importance of finance capital and thus, although they may be formally independent from finance capital, rating agencies are imbued with its logic given their organic relation to its functioning.

---

[2] Kees van der Pijl, Transnational Classes and International Relations, Routledge: London, 1998, p. 3.

Although ratings have come to feature prominently in both public and private debt issuances, this thesis is solely concerned with the interaction of state/municipal debtors and rating agencies, as the implications of this relationship are seen to hold a greater significance for the construction of world order, and more importantly, in the lives of citizens affected by public-policy changes. Ratings assigned to sovereign borrowers will be defined in this thesis as a "measure of the ability and willingness of a country's central bank to make available foreign currency to service debt, including that of the central government itself."[3]

The Organization of this Thesis

In order to examine the contemporary power and authority of rating agencies this thesis has been split into four interrelated chapters, each informing the other yet with an internal logic of their own, and with a concluding chapter to summarize and widen the implications of this research. Chapter one focuses on describing the theoretical framework of this thesis, and thus proposing a particular method by which it is felt that rating agencies can be best studied. Here it is argued that neo-Gramscian theory, and Coxian methodology, is the most appropriate toolkit with which to account for the rise of power and authority of rating agencies as information networks and knowledge producers. In particular, it is argued that the emphasis placed by neo-Gramscian theory on contextualizing occurrences within the historical structures in which they arise, the centrality of ideology and normative values in the transformation and stabilization of world order, and historical materialist views

[3] Dieter Kerwer, "Standardizing as Governance: The Case of Credit Rating Agencies," in Adrienne Heritier, ed., Common Goods: Reinventing European and International Governance, Rowman & Littleman Publishers, Inc.: Maryland, 2002, p. 301.

concerning the profound impact that changes within capitalist relations have on other social structures, are all integral aspects to consider when studying new sources of authority. Thus, the influence of rating agencies must be situated within the larger context of changes in world order, including the rise to prominence of finance capital, and the dominance of neoliberal theory and practice. In this sense rating agencies serve important intersubjective and institutional roles in the global political economy.

Chapter two builds on these theoretical insights by examining the postwar era, changes in world order during the 1970s and early 1980s, and the implications of neoliberalism on the operations of the state. Here it is argued that the Bretton Woods system was designed in such a way as to embed finance capital within a national context of capital controls so as to meet the needs of the domestic economy and the funding of productive endeavours. At this time the activities of rating agencies were largely marginalized and rested with rating only the most creditworthy borrowers, nullifying their potential for authority within financial markets. However, once finance capital began to re-emerge to a position of prominence within the global economy we see a corresponding change in world order and thus an increase in the relevance of ratings. Five interrelated changes (the rise of globalizing elites, the decline in Keynesian ideology in the formulation of public-policy, securitization, disintermediation, and the emergence of low-grade debt) and their connection with the increased importance of rating agencies are also discussed, as are the implications of disciplinary neoliberalism and new constitutionalism.

Chapter three investigates historical and contemporary aspects of the rating process itself. The chapter begins by examining how rating agencies were able to

consolidate power within the US where they emerged for the first time in the early twentieth century. This section of the chapter describes how the work of rating agencies effectively merged the activities of credit-reporting agencies, a specialized business and financial press, and investment bankers in order to secure a position of power through their role as information providers for financial market investors. The second section of the chapter then explains how ratings-dependent regulations have played an influential role in entrenching the institutional authority of ratings, and reduced the industry to a handful of firms, on a global level. Next is a discussion of the contemporary debt rating business. Finally, this chapter discusses the methodology that informs the rating process. Here the constituent variables are examined, which are seen to be a mix of neoliberal assumptions and a fair amount of subjective opinion.

Chapter four implicitly relies on the content of the other three chapters to examine the empirical implications of the rating process for government borrowers. Here short case studies are provided as a means to demonstrate the heterogeneous impact of rating agencies around the world. For instance, for municipalities and sovereign borrowers within the rubric of an Anglo-American development model, ratings are shown to encourage and justify the adoption of neoliberal policies. However, within the context of different development models, or in times of economic crisis, the applicability of US-based standards of creditworthiness is more readily questioned. Interestingly, this does not imply that credit ratings themselves are the focus of critique for it seems to be confined to the ratings emanating from the

global agencies. Thus there is an expressed need for more local forms of knowledge production.

Finally, the concluding chapter summarizes the central arguments and key issues addressed in this thesis, discusses the implications for IPE more generally, and proposes a number of areas of potential future research.

Chapter 1: Theoretical Framework

Rating agencies remain an understudied aspect of the neoliberal globalization project. The bulk of existing research on the matter has been conducted by neoclassical economists seeking to examine limited econometric aspects of their behaviour. Similarly, within the discipline of political science or political economy few authors are engaged with producing a critical understanding of their role, power, and authority in the global political economy, as most research is focused strictly on discussing their day-to-day actions. A central reason behind the lack of attention focused on rating agencies is not that they remain insignificant, as the recent explosion in size and type of financial flows which incorporate ratings ought to attest to their relevance, but rather it may be attributed to the marginalization of their role given the limitations imposed by particular theoretical frameworks on the understanding of new forms of power in the global political economy. It is the position of this thesis that a neo-Gramscian perspective can appropriately address the shortcomings of theories that would otherwise obscure the influence of rating agencies. As a result, this chapter is intended to introduce the importance of selecting a theoretical framework which can appropriately account for the increase in power and authority now afforded to the control of information exchange and knowledge production at the global level. Additionally, this chapter will discuss how a neo-Gramscian perspective will be used to ascribe significance to rating agencies in the contemporary era.

Theory in IPE

The core set of concepts and assumptions that are employed to research the nature of particular phenomena within the field of international political economy (IPE) will have a tendency to establish the parameters of that enquiry. In other words, the central tenants of one's theoretical framework enable or constrain areas of study and determine which events will be perceived as significant, and thus choosing an appropriate theory is fundamental to the research process. Currently there exists a set of orthodox theories in IPE, namely liberalism and realism, which prevail within the discipline and conduct research in predictable ways. Despite the obvious differences in the focus and rationale of these theories, at base this orthodoxy purports that it is both necessary and possible for theoretical enquiry to make a distinction between facts and values, and subject and object.[4] As a result, these orthodox perspectives may be thought of as not only a set of theories, but also a particular mode of knowledge production within the discipline of IPE.[5]

However, it is the position of this paper that the positivist separation of subject and object is not only erroneous, since subjectivity cannot be removed from the research process given that theory cannot be divorced from a standpoint or purpose,[6] but it is also insidious as it is integral to the organization of ruling. As described by Smith, objectified forms of knowledge, or the production of 'facts,' claim to be value-

---

[4] Richard Devetak, "Critical Theory," in Scott Burchill and Andrew Linklater, eds., Theories of International Relations, 149.
[5] Craig N. Murphy and Roger Tooze, eds., The New International Political Economy, Rienner: Boulder, Colorado, 1991, p. 13.
[6] Robert W. Cox, Approaches to World Order, Cambridge University Press: Cambridge, 1996, p. 87.

free yet are inherently bound up within social organization.[7] Therefore, by suggesting that a theoretical perspective is objective it succeeds at masking the social relations of power which underpin the subjectivity of knowledge.[8]

This orthodox production of knowledge within IPE has been categorized by Cox as being 'problem-solving' in nature. Problem-solving theories are helpful in that they serve the distinct purpose of dealing with particular sources of trouble between relationships or institutions, yet they take the given power relationships and the institutions into which they are formed as the point of departure for their enquiry.[9] Correspondingly, the central problem with utilizing a problem-solving theory is that it implicitly claims to be methodologically value-free, for it treats variables as objects, yet remains value-laden as it implicitly accepts the prevailing order as its own framework.[10] This is not to say that it is unnecessary to consider the products of a problem-solving theory, only that the products of this type of knowledge generation remain shallow and thus cannot adequately explain complex phenomena related to power and change.

In contrast, there exists a heterodox set of theories which stands apart from the prevailing order of the world and asks how that order came about.[11] Cox refers to these as 'critical theory'. As opposed to problem-solving theory, the purpose behind critical theory is to analyze the origins and processes of change within and between institutions or social power relations.[12] Furthermore, critical theory attempts to avoid

---

[7] Dorothy E. Smith, The Conceptual Practices of Power, University of Toronto Press: Toronto, 1990, p. 62.
[8] Ibid.
[9] Robert W. Cox, Approaches to World Order, p. 88.
[10] Ibid, pp. 89-90.
[11] Ibid.
[12] Ibid.

any unnecessary analytical subdivision of the topic at hand, and rather it attempts to deal with the larger picture of the whole in which the contemplated part is simply one component.[13] These two types of theories are also related to types of understanding. For Cox, problem-solving theory is related to a synchronic understanding, which it contemplates the coherence of a social relationship within its own terms, whereas critical theory is similar to a diachronic understanding which seeks out the contradictions and conflicts inherent in a social structure and identifies emerging social forces.[14]

Neo-Gramscian theory is an example of a critical theory that has emerged in IPE within the past two decades. Neo-Gramscian theory is founded on the writings produced by Antonio Gramsci, leader of the Communist Party and the official opposition, during his imprisonment under the rule of Mussolini in Italy. Under these conditions, Gramsci's intellectual products were in the form of working notes, deliberately coded in places, and later condensed into *The Prison Notebooks*.[15] This work deals with national states, domestic economics, and life in Italy in particular. However, in his seminal piece published in 1981, Cox used these writings to formulate a new theory within IPE which projects some of Gramsci's key concepts to the global level of socio-economic and political interaction. This has led some scholars to critique the ability of Cox and subsequent neo-Gramscians to apply Gramsci's work to the international and transnational level.[16] These critiques

---

[13] Ibid.
[14] Sinclair, "Beyond International Relations Theory: Robert W. Cox and approaches to world order," in Robert W. Cox, Approaches to World Order, p. 8.
[15] Randall D. Germain and Michael Kenny, "Engaging Gramsci: international relations theory and the new Gramscians," Review of International Studies, (24) 1998, pp. 7-8.
[16] See Randall D. Germain and Michael Kenny, "Engaging Gramsci: international relations theory and the new Gramscians."

notwithstanding, the contributions of Gramsci to the study of historical materialism ought to not be overshadowed. Among his many accomplishments was that his work provides an alternative to the economism of structural Marxists through the introduction of subjectivity, identity and ideas, and other socio-cultural aspects of state formation and class domination, all of which have been useful in Cox's formulation of a new historical materialist methodology.

A central aspect of neo-Gramscian theory, as described by Cox, is the notion of hegemony. Hegemony in the Gramscian sense stands in contrast to the neo-realist version of hegemonic stability theory which posits that an international order may exist should it be supported by a powerful state which dominates all other states based on its military and economic capabilities.[17] The neo-Gramscian version of this concept is broadened to become more than simple state dominance. Rather, hegemony is seen as a "class-bound expression of broadly-based coercion and consent, manifested in the acceptance of ideas, and supported by material resources and institutions."[18]

Hegemony is then expressed in a historical structure constituted by three interrelated spheres of activity, the first of which is the *social relations of production.* This is a broad category which "covers the production and reproduction of knowledge and of the social relations, morals and institutions that are prerequisites to the production of physical goods social forces engendered in the production process."[19]

---

[17] Robert Gilpin, Global Political Economy, Princeton University Press: Princeton, 2001, p. 97.
[18] Adam David Morton, "The Grimly Comic Riddle of Hegemony in IPE: Where is Class Struggle?" Politics, (26) 1, 2006, p. 63.
[19] Robert W. Cox, "Production, the State, and Change in World Order," in Ernst-Otto Czempiel and James N. Rosenau, eds., Global Changes and Theoretical Challenges: Approaches to World Politics for the 1990s, Lexington Books: Toronto, 1989, p. 39.

Through this sphere of activity we are able to discern how production processes give rise to particular social forces which then serve as the basis of power within and across states.

The second sphere of activity is *forms of state* as derived from state/society complexes, which draws on Gramsci's notion of a historical bloc. As explained by Rupert, "For Gramsci, a historic bloc is more than a simple alliance of classes or class fractions. It encompasses political, cultural, and economic aspects of a particular social formation, uniting these in historically specific ways to form a complex, politically contestable and dynamic ensemble of social relations."[20] A historical bloc is then understood to be an expression of the way in which leading social forces within a national context establish a relationship over other contending social forces, a concept which can be cast outward with the recent development of a transnational capitalist class and formation of a global historical bloc.[21] Ultimately this concept is taken to suggest that different forms of state are related to different historical blocs.

Third, Cox's method includes a sphere of activity known as a *world order*. A world order can be defined as how things 'actually' are in a particular historical period, and thus not necessarily equated with stability or with a normatively desirable condition, but rather refers to a recurrent pattern of social forces and structures over time.[22] Correspondingly, "hegemonic world orders [exist when] a system has

---

[20] Mark Rupert, "Alienation, Capitalism and the Inter-State System," in Stephen Gill, ed., Gramsci, Historical Materialism and International Relations, Cambridge University Press: Cambridge, 1993, pp. 80- 81.
[21] Adam David Morton, "The Grimly Comic Riddle of Hegemony in IPE: Where is Class Struggle?" p. 65.
[22] Stephen Gill, "Theorizing the Interregnum: The Double Movement and Global Politics in the 1990s," in Bjorn Hettne, ed., International Political Economy: Understanding Global Disorder, Zed Books: London, 1995, pp. 65-68.

relatively universal appeal with institutions in place to deal with conflict so as to make certain concessions and minimize the use of force."[23]

A final crucial component to Cox's method is the addition of a synchronic element in the form of three central forces that interact within any historical structure, which are represented as ideal types, or in his words "a simplified representation of a complex reality and an expression of tendencies."[24] The three forces identified by Cox are material capabilities, ideas, and institutions. Material capabilities refer to productive and destructive potentials. The realm of ideas encompasses intersubjective meanings which are a commonly held view of social relations that tend to produce similar expectations within a historical structure, and rival collective images of social order held by different groups of people on issues such as the nature and legitimacy of prevailing power relations.[25] An important aspect of neo-Gramscian theory is that ideology in the form of intersubjective meanings is accepted as a part of the global political economy itself rather than being part of a superstructure in more rigid Marxist interpretations.[26] As Morton points out, "this is significant because ideas, developed for example by key organic intellectuals, can play a crucial role in forging a hegemonic project in times of structural crisis."[27]

---

[23] Stephen Gill, "Theorizing the Interregnum: The Double Movement and Global Politics in the 1990s, p. 67.
[24] Sinclair, "Beyond International Relations Theory: Robert W. Cox and approaches to world order," in Robert W. Cox, Approaches to World Order, p. 10.
[25] Robert W. Cox, Approaches to World Order, pp. 98-99.
[26] Adam David Morton, "The Grimly Comic Riddle of Hegemony in IPE: Where is Class Struggle?" p. 68.
[27] Ibid.
Gramsci's explains his term 'organic intellectuals' in the following way: "Every social group, coming into existence on the original terrain of an essential function in the world of economic production, creates together with itself, organically, one or more strata of intellectuals which give it homogeneity and an awareness of its own function not only in the economic but also in the social and political fields." Thus every new class creates certain organic intellectuals alongside itself which function to

Finally, for Cox the inclusion of institutions as a central force is important because they serve a stabilizing and perpetuating function within a historical structure. Institutions in this sense are defined as "broadly understood and accepted ways of organizing particular spheres of social action" and thus within the operation of the global political economy they can be thought of as formal or informal mechanisms attempting to dealing with conflicts so as to minimize the use of force.[28]

These conceptual and theoretical tools will be useful in providing a basis for understanding the complex whole in which shifts in power and the emergence of new sources of authority occur within the international system. From this perspective it becomes crucial to not only explain what it is that rating agencies do, how they do it, and how their authority might be best explained, but also to firmly situate the discussion within the context of the historical structures of the contemporary era. As a result, it is understood that the rise to prominence of rating agencies within the global economy, and their ability to influence public-policy, cannot be explained without reference to the restructuring of world order in a more disciplinary, and thus less hegemonic, fashion that began with changes in the social relations of production (the privileging of finance capital) in the late 1970s/early 1980s, the details of which will be examined in chapter 2. As we will see, the work of rating agencies in the generation and enforcement of neoliberal intersubjective meanings, their role as informal institutions within financial markets, and how they uphold the privileged position of investors in the formulation of public-policy are all relevant aspects of their role in the contemporary world order.

---

elaborate the course of its development. Antonio Gramsci, Selections from the Prison Notebooks, International Publishers: New York, 1971, pp. 5-6.

[28] Robert W. Cox, Approaches to World Order, p. 149.

Knowledge as an Overlooked Source of Authority in the Global Political Economy

Apart from their own internal contradictions generated by claims to be value-free, orthodox theoretical tools may also prove to be inadequate to explain certain processes of contemporary change. Subsequent to the collapse of the Bretton Woods system in the 1970s, there are many new qualities that have emerged within the global political economy which remain unacknowledged by theories such as realism which is trapped in a world of inter-state rivalries, or liberalism which assigns rigid boundaries to states and markets. A central problem, particularly relevant for this study of rating agencies, is how well these orthodox theories can account for new forms of power wielded by knowledge brokers which are non-state and non-market actors within the global political economy. Aside from the work done by Strange and her contemporaries on the presence of a knowledge structure which interacts with the finance, production, and security structures, there is typically little mention of the connection between knowledge and authority. One reason why this might be so is presented by Strange when she concludes that "the knowledge structure is often overlooked and is typically underrepresented in the IPE literature because its power is by nature diffuse and unquantifiable, and thus does not conform to more 'scientific' approaches to IR."[29]

Another example of this nod to an emergent source of authority found in knowledge production is the work of Lincoln on epistemic authority and Haas on epistemic communities. In Lincoln's work there is a crucial distinction made between executive and epistemic authority: between the authority of those who are

[29] Susan Strange, States and Markets, Printer Publishers: London, 1988, p. 115.

"in authority" (e.g., political leaders, parents, military leaders) and that of those who are "an authority" (e.g., technical experts, scholars, medical specialists).[30] Despite some pertinent differences between each type, one commonality is that both forms of authority have the capacity to produce consequential speech which operates to quell doubts and win the trust of the audiences whom they engage.[31] The acknowledgement of sources of epistemic authority in addition to the more commonly studied forms of executive authority is helpful in understanding the power of rating agencies. Simply put, through their capacity to produce judgments of creditworthiness which play and integral role in investment decision-making, rating agencies can be thought of as a form of epistemic authority.

This dimension of epistemic authority is particularly relevant within financial markets, given that these markets are inherently driven by opinion and subjectivity.[32] States and firms now require some guidance surrounding decision-making related to such informationally complex financial markets. Haas has therefore coined the term 'epistemic communities'[33] to emphasize that within the newly restructured global economy states and other actors are increasingly demanding sophisticated knowledge which leads to the proliferation of networks, or communities, of specialists able to produce and provide information.[34] This new classification of epistemic communities

---

[30] Bruce Lincoln, Authority: Construction and Corrosion. The University of Chicago Press: Chicago, 1994, pp. 3-4.
[31] Ibid, p. 4.
[32] To quote Susan Strange's racecourse analogy: "it is the opinions [of participating bettors] not the objective prowess of the horse that moves the prices." Cited in V. Spike Peterson, A Critical Rewriting of Global Political Economy, Routledge: London, 2003, p. 115.
[33] Epistemic communities are defined as networks of professionals with recognized expertise and competence in a particular domain and which have an authoritative claim to policy-relevant knowledge within that domain or issue area. Peter Haas, "Epistemic Communities and International Policy Coordination," International Organization, (46) 1, Winter 1992, p. 2.
[34] Peter Haas, "Epistemic Communities and International Policy Coordination," p. 4.

is also useful in the study of rating agencies. Their role as information networks is a crucial part of the current functioning of financial market, and rating agencies are increasingly capitalizing on the role of information as a commodity by carving out a specialized and profitable market in information provision. Furthermore, Haas suggests that once the views of epistemic communities are incorporated into policy and planning determinations their epistemic judgments take on an added dimension of authority.

However, despite the insightful nature of their work, Lincoln and Haas are inherently contributing to a problem-solving exercise. In addition to identifying phenomena, a critical study of the growth in importance of authority and knowledge in the global political economy is also required to explain how and why it is that *particular* actors are able to assume this new responsibility, a burden which is not met by problem-solving theorists. Therefore, questions of whose knowledge and authority, how that knowledge and authority came to be privileged, and in what ways that knowledge and authority works to sustain the prevailing order, are further dimensions that must be accounted for.

The work of Kees van der Pijl is instructive in this regard. He is also interested in accounting for the rise of expertise as a form of contemporary power, yet does so by explaining how it is related to the restructuring of world order. Van der Pijl has identified the presence of what he terms a 'cadre class' which is crucially responsible for the maintenance of social cohesion within a modern capitalist political economy through the integration of otherwise alienated activities. Administrative interfaces, supervision, organization, experts, intellectuals, managerial staff,

professional elites, and so on, are thus explainable as a "requirement for the processes of socialization necessary for the constant expansion of capitalism in terms of both depth and breadth."[35] As a result, he feels that we are now witnessing the rise of the historically specific cadre role of consultancy which develops international norms of behaviour derived from the requirements of virtual accumulation and finance capital.[36] His inclusion of the role of consultancy, or in other words agents specializing in the provision of information and knowledge, is particularly relevant for the study of rating agencies. It highlights that rating agencies, though not members of the fraction of finance capital itself, are agents which are guided by its logic and serve the purposes of ensuring its hegemony through the articulation of standards that help to enforce neoliberal accumulation strategies.

Similarly, Gill has also defined a more sophisticated role for expertise and knowledge brokers in the global political economy. His concepts of disciplinary neoliberalism and new constitutionalism are directly relevant here, and these concepts and their connection with rating agencies will be examined more thoroughly in chapter 2, yet it is noteworthy to mention that the governance of global relations is increasingly directed by what he terms 'globalizing elites' which are "intellectual and practical apparatuses within transnational capitalism."[37] These globalizing elites are a grouping of organic intellectuals and political leaders which occupy key strategic positions such as within transnational companies, banks, universities, think tanks, governments, and international organizations; and are as a result responsible for

---

[35] Kees van der Pijl, Transnational Classes and International Relations, p. 159.
[36] Ibid, p. 160.
[37] Stephen Gill, "Structural Change and Globalizing Elites," in Yoshikazu Sakamoto, ed., Global Transformation: Challenges to the state system, United Nations University Press: Tokyo, 1994, p. 169.

reconciling the tensions produced by territorial and globalizing aspects of world order.[38] Thus rating agencies can be thought of as acting in accordance with the role assigned by Gill to globalizing elites, since rating agencies operate within localities around the world to enforce the mental frameworks associated with globalizing finance capital through the discipline of their ratings and the subsequent acceptance of the rationale that accompany them.

A Neo-Gramscian Perspective on Rating Agencies

There remains to date little research into the topic of rating agencies in the global economy. What does exist is largely problem-solving and is being conducted by neo-classical economists using econometric analysis. A typical focus of this literature includes using regression techniques to calculate the relative importance of the macroeconomic variables which contribute to the rating itself. Other examples include the impact that ratings changes have on various economic factors such as interest rates and exchange rates, and how rating agencies perform during currency and banking crises. These studies implicitly categorize rating agencies as neutral arbitrators between borrowers and lenders in securities markets. As a result, these econometric analyses focus solely on the surface activities of rating agencies in the global economy, without consideration for the context within which they operate and the role they play in the construction of world order. This is, by its nature, a limited view of what rating agencies "actually" do. However that is not to say that these studies are of little value, they are in fact highly instructive up to the limit of what

[38] Stephen Gill, "Structural Change and Globalizing Elites," in Yoshikazu Sakamoto, ed., Global Transformation: Challenges to the state system, p. 182.

they are intended to accomplish. Therefore, these studies have been diligently incorporated within subsequent chapters of this thesis, yet interjection of critical analyses remains necessary in order to assign a larger significance to these findings.

In addition to these economic explanations is a second body of literature, conducted largely by academics in the field of IPE, which seeks to contribute to a larger understanding of the function and power of rating agencies. Within this IPE framework the authority of rating agencies is seen to be derived from expertise and then solidified in one of two ways, either through state imposed regulations or through their inclusion within the architecture of the financial market itself. The work of Kerwer and Sinclair are respective examples of each perspective.

Kerwer's central argument is that rating agencies are best explained as standard setters. He attributes them this function given that their creditworthiness standard establishes a common understanding for borrowers and lenders, and defines more generally what creditworthiness is and how it can be improved.[39] Rating agencies are able to set this standard based on a century of expertise, yet he maintains that their power in the global economy to impose this standard is augmented through their incorporation in financial market regulations within the US.[40] As a result, the importance of US financial markets for global investors coupled with the desire to emulate their ratings-dependent regulation has secured the global position of a handful of select rating agencies.

---

[39] Dieter Kerwer, "Standardizing as Governance: The case of credit rating agencies," in Adrienne Heritier, ed., Common Goods: Reinventing European and International Governance, Rowman & Littlefield Publishers, Inc.: Maryland, 2002, p. 300.
[40] Ibid, p. 304.

On the other hand, Sinclair argues that rating agencies are best explained as acting like what he terms 'embedded knowledge networks' (EKNs). EKNs are defined as analytical and judgmental systems that, in principle, remain at arms length from market transactions, yet are perceived as legitimate by market actors because they are seen to be endogenous, rather than imposed, actors in financial globalization.[41] Based on their acceptance within financial market transactions, their knowledge output, or in other words the debt ratings they produce, then serve as a benchmark around which market players will subsequently organize their affairs.[42] Correspondingly, rating agencies adjust the "ground rules" within international capital markets thereby shaping the norms surrounding what is perceived as acceptable and in turn the actions of those seeking funds.[43]

Both of these arguments share the common understanding that rating agencies have come to occupy a privileged position where they are able to assume a certain degree of power over the direction of investment within capital markets, whether that is through standard setting, or through the production of benchmarks of behaviour. However, as a matter of debate, there remains an essential incongruity between these accounts as Kerwer roots their ability to shape market behaviour in ratings-dependent regulation imposed by the US and many other states contemporarily, whereas Sinclair ascribes power to their embeddedness within the operation of financial markets themselves.

While this debate is useful in fleshing out the basis of rating agencies' power in the global economy, each argument on its own becomes problematic if it does not

---

[41] Timothy J. Sinclair, The New Masters of Capital, p. 15.
[42] Ibid.
[43] Ibid, pp. 15-16.

take into account the merits of the other. For instance, Kerwer's work lacks a certain depth of explanation by omitting the context in which these events occur. He does not provide an account of why it is that ratings-dependent regulation is increasingly adopted around the world, or the underlying nature of their version of creditworthiness, and what implications this may have on the construction of world order. For his part, Sinclair's embeddedness argument has trouble explaining how ratings remain authoritative when rating agencies operate within a market where financial actors do not consider them to be endogenous, such as Japan and Europe, to be discussed in chapter 4.

Reframing these observations within a neo-Gramscian perspective, the subsequent chapters of this thesis will incorporate both of the arguments of Kerwer and Sinclair, yet will root the newfound power of rating agencies, and their version of creditworthiness, firmly within recent changes in the historical structure of the contemporary era. From this perspective, the judgments produced by rating agencies ought not to be seen as neutral, or simply the result of expert knowledge, but rather they serve an important perpetuating function in the ideational and institutional realm of a neoliberal world order. Thus, the central implication of the power of rating agencies in the global economy is that they contribute to a neoliberal project via their fostering of intersubjective ideas surrounding the appropriate policies of debtor governments seeking funds from international capital markets. As will be examined in chapter 3 and 4, their views on creditworthiness are congruent with prevailing neoliberal assumptions on aspects such as maintaining low debt and deficit levels, low political intrusion in the accumulation processes, and low inflation rates.

In addition, rating agencies are also important institutions within the global economy, a position which is solidified by ratings-dependent regulations. As an institution, rating agencies act as important information gathers and distributors in complex and fast moving international capital markets that are otherwise less than transparent. Ratings have been incorporated into regulations out of necessity due to the disembedding of financing markets from the controls and concessions that were a prominent feature of the postwar era, and thus ratings act as important institutions in a more disciplinary era. Given the presence of these regulations, rating downgrades encourage states to conform to neoliberal policy ideals which in effect privilege the interests of investors over other subordinate social groups in the formulation of public policy.

The central purpose behind the use of a neo-Gramscian perspective is therefore to examine rating agencies from a critical perspective which can attempt to re-politicize the nature of their judgments. As the next chapter will demonstrate, rating agencies have grown to prominence in the authority structures of the global economy as a result of their organic link to the transnational financial class that has developed since the fall of the Bretton Woods system. Given the previous explanation of their role in the ideational and institutional maintenance of hegemony in the international system, chapter 2 will now delve into the changes in world order which occurred over a series of decades immediately following the Second World War, and situate rating agencies within these changes.

Chapter 2: Historical Developments & Their Implications

A critical understanding of the role and power of rating agencies in the contemporary global economy must account for the restructuring of world order that took place in the latter decades of the twentieth century. As will be examined, the formation of a new global historical bloc required as a basis of support the inclusion of rating agencies, among other select organic intellectuals within the group of globalizing elites, to provide support for the enactment of neoliberal policies and to work out technical solutions to the dislocations that could arise from the new form of disembedded financial accumulation. Rating agencies have in turn become a new source of global authority through their privileged role as information providers and as informal institutions which function as surveillance mechanisms capable of imposing narrow standards of behaviour on those who require access to credit from the now largely privatized allocation arrangements. Thus, an examination of the reconstruction of world order is necessary as a backdrop to understanding their underlying power and authority, as well as to provide an explanation of the processes which enabled them to emerge from a position of the relative obscurity in the US for nearly a century. A closer look at central dynamics of the postwar era, the ensuing crisis of the postwar hegemony in the 1970s, and the neoliberal restructuring process is now in order.

The Postwar Era

The occurrence of two world wars and a major global economic depression during the first half of the twentieth century precipitated the dissolution of previous global economic and political power structures and thus prompted a renegotiation of world order in its wake. Given recent memory of the problems associated with liberal internationalism under the gold standard centered on British finance capital, and the rampant inter-state protectionism that occurred during the interwar period, the architects of the postwar era designing the Bretton Woods agreements opted for the creation of an alternative set of arrangements aimed at rejuvenating global accumulation. In contrast to the previous order which relied on market-based rule over the determination of flows and prices of capital, a salient feature of the postwar era (roughly 1945 to the mid- 1970s) was the support for institutional arrangements which publicly regulated capital flows.

Capital controls therefore became a prominent feature of the Bretton Woods arrangements as a means to prevent the competitive devaluation associated with the Great Depression, and as a way of facilitating economic planning and reconstruction.[44] The postwar era has thus been described as a time of 'embedded liberalism,' for as will be discussed, despite encouraging liberalized international trade flows, the Bretton Woods system was designed in such a way as to render finance flows subservient to the need for autonomy of the welfare state. Helleiner

[44] V. Spike Peterson, A Critical Rewriting of the Global Political Economy, Routledge: London, 2003, p.122.

considers this "a dramatic rejection of the liberal financial policies that had been prominent before 1931."[45]

The re-establishment of liquidity in the international system was an urgent requirement of postwar reconstruction due the collapse of the gold standard in 1931. In order to avoid the mistakes that led to the Great Depression, the dominance of market-driven flows of British finance capital was replaced with the stability of US control over the liquidity, purchasing power, and productive capacity of the world-economy.[46] An agreement was then established with the member countries whereby they would peg their currency to the US dollar and the dollar would be pegged to the price of gold at $35 an ounce. The result was a monetary system which directed capital towards productive purposes (international trade and real investment) while allowing national governments to react autonomously to domestic economic change. This system, in conjunction with the Marshall Plan and the rearmament before and after the Korean War, served to inject massive amounts of liquidity into the system which led to a "take off" of the expansion of world trade and production in the 1950s and 1960s.[47]

In order to more accurately identify the nuances of this monetary system a closer inspection of its principal sources of credit and the form that credit took are both necessary. To begin, the most important source of long-term capital within the industrialized world was the US economy.[48] As a result, the dominant form of credit

---

[45] Eric Helleiner, States and the Reemergence of Global Finance, Cornell University Press: New York, 1994, p.25.
[46] Giovanni Arrighi, The Long Twentieth Century, Verso: London, 1994, p. 295.
[47] Giovanni Arrighi, The Long Twentieth Century, pp. 296-297/
[48] Randall D. Germain, The International Organization of Credit, Cambridge University Press: Cambridge, 1997, p. 78.

from 1947-1950 was public as over $18 billion worth of long-term American government credit was sent abroad.[49] These funds were aimed largely at the reconstruction of Europe during the prime years of the Marshall Plan, yet when this reconstruction effort ended American multinational corporations began to move into Europe seeking out profitable investment opportunities. Thus from 1956 and onward, long-term capital movements shifted from being mostly public in origin, to being centered on private foreign direct investment.[50] Germain believes this to indicate "a major change in the way in which the world-economy was provided with credit," as it "represented a loosening of political and regulatory control over a crucial element of the international organization of credit."[51] This will later prove to be a major cause of the collapse of capital controls, to be discussed later.

At the national level, the major capitalist countries sought to rejuvenate capital accumulation through a combination of new policy and production techniques. Although each nation-state was afforded the autonomy necessary for the development of unique local social structures of accumulation,[52] in the industrialized West what can be broadly described as a Keynesian social structure of accumulation emerged throughout. Two key pillars of this social structure of accumulation were Keynesian demand management and Fordist production.

Keynesian demand management was popularly employed by governments seeking to counter the cyclical upswings and downswings in profitability that

---

[49] Ibid, p. 79.
[50] Ibid.
[51] Randall D. Germain, pp. 80-81.
[52] A social structure of accumulation is a set of mutually reinforcing social, economic, and political institutions and cultural and ideological norms that fuse with and facilitate a successful pattern of capital accumulation over specific historic periods. Cited from William I. Robinson, A Theory of Global Capitalism, The John Hopkins University Press: Baltimore, 2004, p. 74.

appeared to be associated with the regular functioning of the capitalist system. Keynesian policy was therefore grounded on the assumption that governments *should* intervene in the economy via regulations and incentives, and redistribute surpluses through taxes, the credit system, and other mechanisms in an effort to overcome crises, assure long-term growth and employment, and stabilize capitalist society.[53] From these policies flowed the practice of direct state involvement in the economy. As a result, we see at this time that the state itself became an economic actor playing a vital role in the accumulation process through the undertaking of tasks not profitable for private industry, as well as assuming the political responsibility to cushion vulnerable social groups when the market threatened to penalize them, such as with the development of a social safety net.[54]

In conjunction with Keynesian economic policy was a Fordist mode of production. Fordism represented a class compromise between workers and capitalists, mediated by the state, whereby it was felt that stability in national industrial production would be achieved by incorporating workers into the production system through higher salaries and benefits and tight control and regimentation of the work force.[55] Thus the essence of the postwar domestic order, at least within the advanced industrial countries, was that of insulating key elements of economic life from the whims of the free market within a redistributive welfare state system. Economic liberalization was, as a result, partial and incomplete, as it was politically

---

[53] William I. Robinson, A Theory of Global Capitalism, p. 42.
[54] Cox, Production, Power, and World Order, Columbia University Press: New York, 1987, p. 220.
[55] William I. Robinson, A Theory of Global Capitalism, p. 17.

embedded in a consensus between labour, capital, and the state.[56] Notwithstanding local peculiarities, we may broadly assert that the dominant forms of state in the West were at this time a reflection of a hegemonic historic bloc which afforded many concessions to subordinate groups in return for their lack of contestation over being incorporated within the dominant the system.

The international and domestic arrangements established during the postwar era were incredibly successful while they lasted, for as McCormick elaborates, this was "the most sustained and profitable period of economic growth in the history of world capitalism."[57] However, by the mid-1960s difficulties with the Bretton Woods system were becoming increasingly apparent. While the overwhelming, albeit short-term, success of the postwar era was founded on the balance of capital controls, massive flows of foreign direct investment originating from the US, and stable exchange rates, the growing strength of *multi*national capital produced contradictory tendencies in a system founded on the premise of nation-state exchange. The system would then collapse when it was no longer able to reconcile the problem of the 'unholy trinity': the intrinsic incompatibility of exchange rate stability, capital mobility, and national policy autonomy.[58] The predominant form of capital control evasion, and ultimately a leading factor behind the collapse of the system, was the emergence and growth of offshore finance.[59]

---

[56] Stephen Gill, "Structural Change and Global Political Economy," in Yoshikazu Sakamoto, ed., Global Transformation: Challenges to the State System," United Nations University Press: Tokyo, 1994, p. 172.
[57] Thomas J. McCormick, America's Half Century: United States Foreign Policy in the Cold War, John Hopkins University Press: Baltimore, 1989, p. 99.
[58] V. Spike Peterson, A Critical Rewriting of the Global Political Economy, p.122.
[59] Offshore finance, or what was at this time in history termed the Eurodollar market, refers to "a market in funds denominated in currencies residing outside their legal national boundaries." Definition taken from Randall D. Germain, The International Organization of Credit, p 89.

The offshore, or Eurodollar, market began rather innocuously in the 1950s as a reaction to Cold War rivalries. Various communist countries found it crucial to keep their accumulated dollar balances, necessary for funding trade with the West, in European banks so as to avoid the risk associated with holding the balances in the US itself.[60] These deposits were relatively small and for a decade proved insignificant to the overall operation and stability of the international monetary system. However, this regulatory loophole was increasingly exploited from 1959-1964 with the creation of a short-term money market, centered on the City of London, which borrowed and lent dollars and other currencies that were nonresident from their country of origin.[61] Subsequently, a longer-term capital market developed from 1963-1964, known as the Eurobond market, with maturities of usually over five years.[62] Given that the US Federal Reserve's interest rate ceiling applied only to domestic balances, the largest of the New York banks began to seize on this opportunity to evade controls by setting up branches abroad in order to increase profitability and service US multinational corporations in the booming European markets.[63] By 1961 the largest US banks controlled 50 percent of the Eurodollar market.[64]

The development of an offshore Eurodollar market was encouraged by the US government as it strengthened the role of the dollar as world money, eased the expansion of US corporate capital, and made this expansion self-sufficient through

---

[60] Giovanni Arrighi, The Long Twentieth Century, p. 301.
[61] Jim Hawley, "The Internationalization of Capital: Banks, Eurocurrency and the Instability of the World Monetary System," The Review of Radical Political Economics, (11) 4, Winter 1979, p. 83
[62] Jim Hawley, "The Internationalization of Capital: Banks, Eurocurrency and the Instability of the World Monetary System," p. 84.
[63] Sol Picciotto, "Offshore: the State as Legal Fiction," in Mark Hampton and Jason Abbott, eds., Offshore Financial Centres and Tax Havens, MacMillan Press: London, 1999, pp. 57-58.
[64] Giovanni Arrighi, The Long Twentieth Century, p. 302.

borrowing in Europe.[65] In addition, the Eurodollar market was actively encouraged by British financial authorities eager to restore London's international position in financial markets. The Bank of England refrained from imposing regulations on market activity, and took several important steps, including the notable decision in 1962 to allow the issue of foreign securities denominated in foreign currencies in London, which permitted the growth of the Eurobond market.[66]

The eagerness of capital to evade controls coupled with permissive public-policy fostered an explosive growth in the size of the Euromarkets. For instance, the Eurocurrency market grew from a gross size of $9.0 billion in 1964 to well over $400 billion by 1978 (est.).[67] In 1973, total Eurocurrencies were somewhat larger than total government international reserve assets.[68] By mid-1978 Eurocurrencies were almost twice as large as total official reserve assets.[69]

This combination of profitability and accommodating regulations soon created an organizational structure that was, for all practical purposes, beyond the control of the system of central banks that regulated the supply of world money in accordance with the regime of fixed exchange rates.[70] The explosive growth in world liquidity held in deposits controlled by no single government would then prove to pressure national governments to manipulate their exchange rates and interest rates in order to attract or repel liquidity held in offshore markets.[71] At the same time these

---

[65] Giovanni Arrighi, The Long Twentieth Century, p. 302.
[66] Eric Helleiner, States and the Reemergence of Global Finance, p. 84.
[67] Jim Hawley, "The Internationalization of Capital: Banks, Eurocurrency and the Instability of the World Monetary System," p. 83.
[68] Ibid.
[69] Jim Hawley, "The Internationalization of Capital: Banks, Eurocurrency and the Instability of the World Monetary System," The Review of Radical Political Economics, (11) 4, Winter 1979, p. 83.
[70] Giovanni Arrighi, The Long Twentieth Century, p. 302.
[71] Giovanni Arrighi, The Long Twentieth Century, p. 299.

continuous changes in exchange rate and interest rate differentials enhanced the opportunity for capital expansion through currency trade and speculation.[72] The emergence of offshore finance therefore represents a major shift toward deregulation and featured as the ultimate demise of the pegged exchange rate system and capital controls. By the early 1970s we begin to see a transformation in world order occur out of the increasingly transnational nature of capital flows and the growing contradictions that this capital mobility was producing.

Furthermore, this restructuring is visible at the domestic level as well, where growing problems with the Keynesian compromise were increasingly palpable. While most industrial countries saw their rates of growth double in the decade following the Second World War, by the mid to late 1960s domestic capitalism had entered into an economic downturn. For example, between 1965 and 1973 the rate of profit in the US fell by 40.9 percent in the manufacturing sector, and by 29.3 percent in the private business sector.[73] Given that the success of Keynesian policy was based on a high growth and productivity model which afforded trade-offs for subordinate social groups, the downturn in capital accumulation foreshadowed a disaster for this type of arrangement domestically. It also indicated a looming fiscal crisis of the state given that tax revenues were beginning to rise more slowly than the cost of government expenditures such as unemployment and social insurance.[74] This situation was beginning to apply at all levels of government, as pressure was beginning to be felt by local, regional and national levels alike. The Keynesian social

---

[72] Giovanni Arrighi, The Long Twentieth Century, p. 299.
[73] Robert Chernomas and Ardeshir Sepehri, Is Globalization a Reality, a Tendency, or a Rationale for Neoliberal Economic Policies? p.2. <www.globalization.icaap.org/content/v2.2/sepehri.html>
[74] Stephen Gill, "The Global Panopticon? The Neoliberal State, Economic Life and Democratic Surveillance," Alternatives, (2) 1995, p. 13.

structure of accumulation was thus becoming a major fetter on profit making and accumulation with the onset of capital liberalization. In addition, within the US, domestic stagflation (stagnating growth mixed with rising prices) combined with massive debt/deficit levels and a depreciating dollar spelt disaster for its ability to maintain the stability required to support the pegged exchange rate regime on which the international monetary system rested.

By 1971 the combination of rejuvenated capital mobility, growing macroeconomic problems in the US, and unforeseen international oil price shocks, forced the American administration to abandon the dollar's convertibility into gold. Asymmetries in national views concerning regulatory regimes along with the increasingly transnational nature of capital flows culminated into an acceptance of flexible exchange rates at the Jamaica Conference of 1976.[75] International capital mobility was enhanced further when, in October 1979, the Thatcher government decided to abolish Britain's forty-year-old system of exchange controls, and subsequently to open up the London Stock Exchange to foreign securities firms in October of 1986 in response to the deregulation of New York securities in 1975.[76] Most other states soon joined in on the removal of controls over finance capital, officially signaling the end of embedded liberalism and the postwar order. However, rather than predicting a major collapse of the capitalist system, the crisis of the postwar order indicates the moment where its disintegrating structural properties were

[75] Robert Gilpin, Global Political Economy, Princeton University Press: Princeton, 2001, p. 239.
[76] Eric Helleiner, States and the Reemergence of Global Finance, pp. 150-151.

challenged and subsequently replaced by another, more securely based, leading form of world order.[77]

Thus, by the mid-late 1970s significant changes in world order were increasingly visible. Explaining the contemporary power and authority of rating agencies is not possible without reference to these changes, for this context informs their judgments and illustrates their role in the modern era. It is noteworthy that until now a discussion of rating agencies has been noticeably absent from this chapter, for this is meant to be an implicit demonstration of their lack of relevance either at the global level or even within the US where they had been active from 1906 to the 1930s. The reasons for this are simple enough: national financial controls reduced the scope and importance of this form of accumulation; the relative hegemony of productive capital generated its own form of world order, social relations, and forms of state; the prosperity of the Bretton Woods system meant that states and municipalities were generally not forced to seek out credit from private financial markets; and finally, aside from more tangible implications, Keynesian policy generates its own intersubjective ideas which places an importance on consumption rather than investment. The sum of these occurrences disrupted the conditions under which rating agencies can flourish. However, with the emergence of unregulated Euromarkets and thus fissures in the Bretton Woods arrangements, the politico-economic and ideational conditions of world order were quickly changing in favour of finance capital, resuscitating the role of rating agencies. This section will now discuss five interrelated concepts with reference to their connection with the rise of

[77] Stephen Gill, "Structural Change and Global Political Economy," in Yoshikazu Sakamoto, ed., Global Transformation: Challenges to the State System," p. 182.

rating agencies in the global political economy: the emergence of globalizing elites, the replacement of Keynesian demand management, the phenomenon of securitization, processes of disintermediation, and rising rates of indebtedness.

The Restructuring of World Order

The debates of organic intellectuals as well as enactment of supportive state policy are crucial in the restructuring of world order as they mutually reinforce one another in such a way as to help smooth the transition into a new period of profitable accumulation. As mentioned in chapter 1, Gill has used the term 'globalizing elites' to describe this group of organic intellectuals and political leaders that emerged during the restructuring process, a group which he considers to constitute a directive, strategic element within globalizing capitalism.[78] In his words, "Residing within the newly emergent transnational fraction of capital, these globalizing elites took up the task of reconciling the contradictions produced by the contradictory aspects of the territorial and globalizing world order through a process of political synthesis."[79]

From the early 1980s onward the globalizing elites became the vanguard champion of neoliberal globalization when they began to announce their ideologically laden prescriptions concerned with developing new forms and mechanisms of economic coordination. Of central concern was initiating policy changes which would shift away from reproducing Keynesian social structures of accumulation to

[78] Stephen Gill, "Structural Change and Global Political Economy," in Yoshikazu Sakamoto, ed., Global Transformation: Challenges to the State System," p. 179.
[79] Ibid, p. 182.

servicing the needs of the new pattern of transnational corporate and financial accumulation, crucially involving a rollback of redistributive projects.[80]

Rating agencies are one example of organic intellectuals within the category of globalizing elites to have emerged in conjunction with the relative hegemony of finance capital. This process is two-fold. First, ratings have become a necessary informational and institutional component to financial flows due to the increasingly distanced and deterritorialized nature of these exchanges. Second, ratings represent a synthesis of a particular ideological perspective, namely one which privileges certain policies, such as maintaining low inflation rates, little to no government intrusion on capital flows, and debt/deficit fixation. The privileging of these policies is in line with their organic connection to finance capital, yet constitutes a significant departure from the policies that were supportive of embedded liberalism. Thus as ratings become increasingly prevalent, so too do the intersubjective notions they support.

The ideological rhetoric of globalizing elites was in turn matched with significant policy change. In the early 1980s, newly elected US President Regan enacted deregulation policies, liberalization programs, and regressive taxation in an effort to stimulate trade growth and restore a balance of payments. In England, facing a similar economic situation, Prime Minister Thatcher abolished all capital controls in 1986.[81] The policy choices of the US and Britain forced other states to enact similar neoliberal policies in order to avoid losing investment in a competitive international environment where capital had become increasingly transnational. A central feature of this competitive environment included an overt commitment on the part of the state

---

[80] William I. Robinson, A Theory of Global Capitalism, p. 75.
[81] Thomas Lairson, and David Skidmore, International Political Economy: The Struggle For Power and Wealth, Thomson Wadsworth: Canada, 2003, p.107.

to dismantle the faltering Keynesian welfare state as a necessary measure to restore profitable accumulation.[82] This process of structural liberalization indicates the beginning of a significant disembedding of economic practices, as these policies formally freed emergent transnational capital from the compromises and commitments placed on it by the social forces in the period of embedded liberalism. However, the disembedding of financial capital from state oversight required new forms of institutional support for neoliberal accumulation, a task taken up by rating agencies in the 1980s.

Insofar as monetary policy is concerned, the 1980s ushered in a new era of supply-side focus, known as monetarism, which marks a sharp break from the previous method of demand management and its accompanying high-growth model. This new policy aimed at encouraging investment rather than consumption began when Federal Reserve chairman Paul Volcker responded to the macroeconomic problems in the US with a tight monetary policy that pushed interest rates up to unprecedented levels and led to a deep recession in 1981-2.[83] This is a notable departure from the Keynesian focus on counter-cyclical policies and surplus redistribution, which aimed at stimulating demand during times of recession.

The sum result of these policy changes has been a relative privileging of finance capital over productive capital, which influences the status of rating agencies indirectly through their organic association with finance capital. The disembedding of economic practices, and in particular financial markets from state oversight and directive control, has created a need for the institutional support of a non-state actor

---

[82] Gary Teeple, Globalization and the Decline of Social Reform. Garmond Press: Canada, 2000, p.112.
[83] Thomas Lairson, and David Skidmore, International Political Economy: The Struggle For Power and Wealth, pp.104-105.

imbued with the logic of synchronic finance flows yet one which does not actually engage in the process of financial accumulation itself. Rating agencies thus re-emerged from their dormant position within the US due to their ability to act as this form of institution, producing and disseminating information to aid the investment process in delocalized markets, applying an elite and homogenous standard of creditworthiness to diverse debtors, and disciplining borrowers with alternative development strategies through ratings downgrades.

Meanwhile, as the state began to withdraw from a position of active direction over the globalizing financial market, investors were busy developing a number of new financial instruments designed to offset various risks such as foreign exchange rate and future interest rate fluctuations in order to hedge their bets in currency markets.[84] These financial tools fall into the broad category referred to as derivatives, which are defined as financial contracts whose value is linked to, or derived from, an underlying asset.[85] These assets could include any number of financial products yet are typically stocks, bonds, commodities, loans, or foreign exchange.

Associated with the development of derivatives markets was the emergence of securitization in the 1980s. Securitization refers to the transformation of various types of financial assets, such as bank loans, mortgages, and credit card loans, into marketable instruments (known as "securities") which can be in turn traded on financial markets through the sale of this debt to third-party investors.[86] These two new phenomena augment each other as the process continues to expand with the

---

[84] V. Spike Peterson, A Critical Rewriting of the Global Political Economy, p. 124.
[85] Dennis R. Appleyard and Alfred J. Field, Jr., International Economics, fourth edition, McGraw-Hill: NY, 2001, p. 485.
[86] V. Spike Peterson, A Critical Rewriting of the Global Political Economy, p. 124.

creation of a plethora of new derivatives based on securitized cash flows. It is also an extremely profitable venture, with the value of issued securities reaching $US1, 225 billion in 1999, dwarfing the approximate $US100 billion issued a little over a decade earlier in 1987.[87] The development of these new financial tools has led to significant structural changes with creditor-debtor relations within global financial markets.

More conservative commentators herald securitization as a democratic revolution in finance, leading to decentralization and openness rather than concentration in financial markets. For instance, John Reed, a former chairman of Citicorp, believes that "securitization is the substitution of more efficient public capital markets for less efficient, higher cost, financial intermediaries in the funding of debt instruments."[88] However, critics point out that the net result of the creation of a derivatives market and the technique of securitization has been to greatly increase the volume and complexity of market transactions, as well as to exacerbate instability through the encouragement of short-term, high-risk, and speculative investments.[89]

Securitization and the development of derivatives markets have made the role of information providers central to the operation of the international financial market. These financial transactions have become increasingly difficult for the average investor to fully comprehend, as they are informationally complex and require a well-informed knowledge of the actors and processes involved, and which take place in global markets at the speed of digital technology. As a result, those actors who

---

[87] Torsten Strulik, "Rating Agencies and Systemic Risk," in Adrienne Heritier, ed., Common Goods: Reinventing European and International Governance, Rowman & Littlefield Publishers, Inc.: Maryland, 2002, p. 320.
[88] Leon T. Kendall, and Michael J. Fishman, A Primer on Securitization, The MIT Press: Cambridge Massachusetts, 1997, p. 2.
[89] V. Spike Peterson, A Critical Rewriting of the Global Political Economy, p. 123.

control information and produce an intersubjective knowledge of financial processes may be thought of as important nodes of power in the global political economy. Rating agencies are one important example of informational networks that contribute to the functioning of securities and derivatives markets.

In contrast to such highly volatile patterns of investment, banks used to be the nearly exclusive channel for allocating funds in the global economy. A central feature of this type of intermediated set of credit relations is that risk assessments are conducted within banks which sit between borrowers and lenders of funds and therefore assume the risks involved. However, with securitization and other financial market innovations greatly enhancing access to financial markets, the role of banks in mediating credit relations has correspondingly decreased, a process known as 'disintermediation'. Disintermediation refers to developments within financial markets whereby financial intermediaries, most notably banks, are no longer the predominant force behind the allocation of creditors' funds, as suppliers and users of capital now interact in markets which are outside the purview of banks.

For instance, Sinclair points out that mutual funds, which sweep depositors' funds directly into the capital markets, now contain $2 trillion in assets, comparable to the $2.7 trillion held in US bank deposits.[90] Similarly, for borrowers, in 1970 commercial bank lending made up 65 percent of the borrowing needs of corporate America, yet by 1992 64 percent was covered by various securities.[91] Globally, bank

[90] Timothy J. Sinclair, The New Masters of Capital, Cornell University Press: London, 2005, p. 55.
[91] Ibid.

lending has also dropped from 37 percent of total capital movements in 1977-1981 to 14 percent in 1982-1986.[92]

The process of disintermediation therefore constitutes a new structural feature of the global economy. As such it is indicative of an overall trend toward a more market-based and distanced set of lending and borrowing activities, as well as the possibility for increased volatility and risk in financial accumulation. Correspondingly, in the absence of banks conducting assessments of a borrowers' creditworthiness is the explicit need for ratings to guide investment. As a result, rating agencies have now grown to fill an important role that used to be nearly exclusively associated with banks.

Rising rates of indebtedness and credit expansion are another salient feature of finance market since the 1980s,[93] and the final change necessary to produce the conditions under which rating agencies' ratings became increasingly relevant. The increased role of debt financing has affected traditional instruments, such as bank loans, as well as newer types of securities. In particular, there has been a dramatic increase in the size of the market for low-grade bonds since the late-1970s. Whereas this market was previously limited to risky railroad bond issues, in 1986 new issuances of lower-grade public debt in the US had increased to $63 billion from its 1977 total of $0.56 billion.[94] Burnham estimated that by the end of 1987 the lower-

---

[92] Ibid.
[93] Stephen Gill, The Global Panopticon? The Neoliberal State, Economic Life, and Democratic Surveillance, p. 22.
[94] Edward I. Altman, ed., The High-Yield Debt Market: Investment, Performance and Economic Impact, Dow Jones & Company, Inc.: USA, 1990, p. 4.

grade market amounted to $159 billion – representing about one sixth of all corporate debt securities at the time, and thus a considerable portion of the debt market.[95]

The expansion of the high-yield debt market holds many important implications, including increased financial risk for the portfolios of institutional investors (such as pension funds), as well as becoming a replacement for bank loans by certain risky borrowers. The growing role of low-grade securities is a direct result of disintermediation and securitization. From the point of view of a risky debtor, disintermediated debt is advantageous because banks can better assess default risks than individual investors, and as a result charge a higher rate of interest for risky loans. Thus, risky debt became increasingly securitized and placed on capital markets. On the other side of the equation, for creditors in disintermediated markets these high-risk loans promise higher yields and we therefore see the rise to prominence of holding so-called "junk bonds" in the 1980s. Thus ratings are in demand not only with more creditworthy debtors but also with those looking to make money off the higher interest rates associated with risky investments.

In summary, the explosion in size and type of financial transactions during the 1980s, coupled with disintermediation, required new forms of institutional support for the accumulation process unique to finance capital. With the state increasingly distancing itself from a position of active governance over financial markets, and with banks shut out of their intermediary role through securitization, distanced and deterritorialized transactions required the coordination of a new type of actor capable of providing information to investors. Quickly stepping in to fill this role were the

---

[95] As cited in Edward I. Altman, ed., The High-Yield Debt Market: Investment, Performance and Economic Impact, p. 4.

rating agencies, previously marginalized within US markets, who were now able to act in an authoritative fashion as a result of their control over information within these fast-passed and complex markets. In addition, the rise of indebtedness coupled with a new ideological and policy focus on debt/deficit levels and investor confidence has generated new intersubjective ideas which are supported by the discipline imposed by ratings. The final section in this chapter will now discuss the overall implications of these changes on the state.

The State in an Era of Neoliberal Globalization

By the mid to late 1990s and onward, the intellectual, political, and economic leaders of the neoliberal globalization project had solidified their dominance over the predominant form of contemporary world order. A central feature of the modern era is the increased power of transnational capital, and finance capital in particular. This has not happened by chance as the transnational capitalist class has spent much time, energy and resources to consolidate their power following the crisis of embedded liberalism.[96] Robinson maintains that over the past twenty years two central strategies particular to global neoliberalism have emerged and they remain rigorously pursued by global elites. The first strategy involves worldwide market liberalization and the construction of a new legal and regulatory framework for the global economy, while the second involves the internal restructuring and global integration of each national economy.[97] Thus, the implications of neoliberal globalization cannot be simply reduced to the study of cross-border flows. The combination of the two

[96] Leslie Sklair, The Transnational Capitalist Class, Blackwell Publishers Ltd: Oxford, 2001, pp. 17-18.
[97] William I. Robinson, A Theory of Global Capitalism, p. 78.

strategies amounts to an intention on the part of globalizing elites to create a liberal world order necessary for the renewal of capital accumulation through the free movement of transnational capital between and within borders.[98]

As a result, there is an interesting dual phenomenon which is occurring with respect to the state as a result of the liberalization of the transnational capital. On the one hand, it is undeniable that the rejuvenation of international capital mobility has placed serious structural constraints on the autonomy of state decision-making. Given that by the late 1990s some $25 trillion in currency was being moved daily in financial markets (compared to a daily world trade of only about $10 billion), it would be unimaginable that any one state could seriously attempt to control these flows and direct them toward their own productive ends.[99] However, paradoxically, the overwhelming nature of transnational finance capital is associated with a new form of state action which reveals that it is not withering away under the processes of globalization. Instead states remain central in the restructuring process.

Gill has gone to some length describing the various mechanisms involved with this transformation process, where he argues that the indirect rule of capital is of insufficient strength to deal with the dislocations produced by a disembedding of the global economy from popular control.[100] This increased structural power of capital must therefore be matched with state action to control society in such a way as to avoid a Polanyian 'double movement'.[101] As a result, Gill points to the phenomenon of disciplinary neoliberalism (a socio-economic process) and new constitutionalism (a

---

[98] Ibid.
[99] William I. Robinson, A Theory of Global Capitalism, p. 51.
[100] Stephen Gill, "New Constitutionalism, Democratization, and the Global Political," Pacifica Review, (10) 1, February 1998, p. 25.
[101] Ibid.

politico-juridical mechanism) as the dominant historical structures of the contemporary global political economy.

Disciplinary neoliberalism is the result of a global shift towards both a neoliberal and a more disciplinary world order. It is reflective of the increasing capacity of the market to impose discipline on society following the disembedding of capital from state oversight and a redistribution of wealth subsequent to the collapse of Keynesian policy. Gill maintains that his concept of discipline has both a direct quality to it (e.g. of the superior bargaining power of capital over labour, or that states forced to compete with one another for investment) and an important indirect quality to it (e.g. the ability of financial markets to discipline firms, workers, and governments).[102] States are thus crucially affected as they must prove their credibility in order to gain the confidence of investors, thus underpinning the power of capital over society.[103]

However, this disciplinary neoliberal tendency had also required a quasi-legal restructuring of the state in order to lock in these dislocating reforms and force states to operate with market values and discipline. The main politico-constitutional mechanism associated with the neoliberal restructuring of the global political economy is referred to by Gill as 'new constitutionalism'. In his words, "new constitutionalism operates in practice to confer privileged rights of citizenship and representation to corporate capital and large investors. What is being attempted is the creation of a political economy and social order where public policy is premised upon

---

[102] Stephen Gill, "The Constitution of Global Capitalism," a paper presented to a panel: "The Capitalist World, Past and Present," at the International Studies Association Annual Conference, Los Angeles 2000, p. 2. <www.theglobalsite.ac.uk>
[103] Ibid.

the dominance of the investor, and reinforcing the protection of his/her property rights. The mobile investor becomes the sovereign political subject."[104] This is based on the privileged position of investors in capitalist society given that economic growth is predicated on the maintenance of investor confidence.[105] New constitutionalism therefore insulates capital from centuries of democratic struggle and attempts to protect against any spontaneous social attempt to re-embed the market within popular democratic control.

Disciplinary neoliberalism and new constitutionalism are both prominent features in the reconstruction of world order and thus constitute a salient reconfiguration of power relations in the global political economy. These two institutional practices are necessary in order to solidify the reforms which began during the late 1970s, as disembedded financial flows and capital market liberalization are not spontaneous features of the free market, but rather constitute an actively created condition which takes an enormous effort to implement and maintain. This is indeed reminiscent of Polanyi's description of the "stark utopia" of market society envisioned in the nineteenth century. In his words, "there was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course... The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism."[106] Just as social forces in the nineteenth century acted to curb the

---

[104] Stephen Gill, "New Constitutionalism, Democratisation and Global Political Economy," Pacifica Review, p. 23.
[105] Stephen Gill, "New Constitutionalism, Democratisation and Global Political Economy," p. 25.
[106] Karl Polanyi, The Great Transformation, Beacon Press: Boston, 2001, pp. 145-146.

attempts to create a market society, so too is a resurgence of protectionism feared by liberalizing forces, such as globalizing elites, today.

Instead of ensuring compliance through the construction of a hegemonic order where marginalized social groups are brought into compliance through trade-offs and protection, a new structural feature of neoliberalism is that it relies on the disciplinary nature of the market to ensure acquiescence with the system. The power of rating agency downgrades are an expression of this market discipline and constraint placed on public policy alternatives, empirical examples of which will be provided in the final chapter of this thesis. Insofar as new constitutionalism is concerned, although public debtors are disciplined by ratings through the higher interest rates and loss of potential institutional investment that are associated with a credit rating downgrade, the state is crucially involved in the enforcement of the power of rating agencies through ratings-dependent regulation, a topic discussed in chapter three.

This chapter has intended to examine some of the overriding changes that have occurred in the historical structures that constitute the workings of the global political economy since the fall of the Bretton Woods era. As we see, there has been a salient shift toward a more disciplinary neoliberal vision of world order and the rise of a new global historical bloc premised on the hegemony of finance capital over the past twenty-five years. Rating agencies have thus emerged to prominence in globalized financial markets due to a particular configuration of ideational, economic, and political changes that have occurred through a restructuring of world order. All things considered, if we are to ascribe on central role to rating agencies in the contemporary era it would be that their newfound position as information providers,

as promoters of intersubjective neoliberal ideals, and as informal institutions allows them to help smooth out the potential dislocations that could occur from this disembedded form of financial accumulation. Chapter three will now examine the historical roots of rating agencies as consolidators of financial market information, the willingness of the public sector to entrench rating agencies' authority through the enactment of ratings-dependent regulation, the contemporary nature of the industry, and the methodology and rationale that underpin their ratings.

Chapter 3: The Rating Process

As demonstrated in chapter 2, the power and authority afforded to rating agencies in an era of neoliberal globalization relates directly to changes experienced within financial markets, namely the emergence of disintermediation and securitization, as well as to the renewed importance of finance capital in the constitution of world order. Thus rating agencies were able to emerge from relative obscurity within the US into the role of a global epistemic authority and as a form of institutional surveillance over deterritorialized flows of finance capital. This next chapter is now intended to widen the discussion of rating agencies to include a description of their history within the US, the ratings-dependent regulation that entrench their institutional status, the characteristics of the global players (namely Moody's and S&P), and the procedures of the rating process itself. As will become apparent, rating agencies may have emerged from the particularities of the American financial market, yet due to ratings-dependent regulation and economic globalization two principle agencies have experienced an exponential growth in their level of authority over capital market borrowers from around the world. In addition, the factors that contribute to a rating are based on an odd mix of neoliberal economic assumptions and a fair amount of qualitative opinion, yet little attention is paid to the latter which contributes to the misconception that their ratings are more factual than they are interpretive- and ideologically-based.

Rating Agencies as Consolidated Information Networks

Although securing a rating for one's debt may now feature prominently in international financial market transactions, financial transactions have long existed without the presence of rating agencies. As possibly the oldest example of this, Dutch government bond markets had been functioning over three hundred years prior to John Moody initiating agency bond ratings in 1909.[107] Similarly, England's modern financial system can be traced back to 1688, and in 1795 the US had bond and stock markets in several cities.[108] In other words, the bond rating, a characteristic of the twentieth century, seriously lagged behind the establishment of bond markets.

Although the nuances of the arrangement have changed over time, essentially a bond is a contractual agreement between the investor, who, in exchange for scheduled payments of interest and principal in the future, finances the debt of the issuer. As a result, investor confidence in the debtor is the key to the development of a bond market without ratings. Given that much of the four-century history of modern capital markets involved investing in the sovereign debts of governments that investors trusted, it is likely that bond ratings did not develop at this time because the solvency of the public sector was never in question.[109] Thus, the emergence of ratings in bond market transactions signals the moment when investors required more complex information on the ability and willingness of the debtor to repay the debt as scheduled.

---

[107] Richard Sylla, "An Historical Primer on the Business of Credit Rating," in Giovanni Majnoni, Richard Levich, and Carmen Reinhart, eds., Ratings, Rating Agencies and the Global Financial System, Kluwer Academic Publishers: Boston, 2002, p. 20.
[108] Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 20.
[109] Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 21.

During the mid-nineteenth century, this additional information was uniquely required in US bond markets where a massive market for domestic and internationally bonded debt for the US railroad companies, rather than government debt, had emerged. While at this time European governments were increasingly issuing debt through their bond markets, and business met their needs for capital through bank loans and stock issues, the US government had entirely paid off its national debt in 1836 and the US banking system remained too fragmented to provide the capital required by businesses to finance the development of continental-sized railroads.[110] This essential difference between more trustworthy European publicly bonded debt and investor-uncertainty in US corporate bonded debt explains the rise of ratings within the US.

However, from the 1850s to 1909, in the place of a rating agency, the US bond market has been described by Sylla as operating in conjunction with three sources of information available to investors at which would later become consolidated under the purview of the rating agency. The first is the presence of *credit-reporting agencies*.[111] In 1841 Lewis Tappan founded the Mercantile Agency which gathered information on the business standing and creditworthiness of business across the US through a network of agents and then sold this information to subscribers (who were generally wholesalers, importers, manufacturers, banks, and insurance companies). The Mercantile Agency later became R.G Dun and Company in 1859 and by 1900 covered more than a million businesses in its reports. John Bradstreet founded a similar company in 1849, and would later merge with R.G. Dun

[110] Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 22.
[111] See Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 23.

to form Dun & Bradstreet in 1933. By 1962 Dun & Bradstreet acquired Moody's Investor Services (Moody's). Today Dun & Bradstreet proper should not to be confused with a bond rating agency as it undertakes the mercantile rating of retailers for suppliers.[112]

Secondly, Sylla points to the presence of a *specialized business/financial press.*[113] Railroad companies were America's first big businesses and in 1832 the railroad industry in the US began to be reported on by a specialized publication entitled *The American Railroad Journal.* Henry Poor later served as editor for the journal from 1849-1862 where he gathered and published systematic information on the property of railroads, including their assets, liabilities, and earnings. By 1868 Poor and his son first published their own annual journal entitled "Poor's Manual of the Railroads in the United States" and became widely recognized as the authoritative source of such information for several decades. The Poor's company would later enter into the bond rating industry in 1916, five years after John Moody began rating railroad bonds. Poor's then merged with Standard Statistics, another information and rating company, in 1941 to form Standard & Poor's (S&P). S&P was then taken over by McGraw Hill in the 1960s.

Within this context, Poor's first published *The American Railroad Journal* in the mid nineteenth century, followed by their *Manual of Railroads of the US* in 1868, and John Moody published his *Manual of Industrial Statistics* in 1900.[114] These publications were mainly data sets responding to a surge of failed railroads, land

---

[112] Timothy J. Sinclair, The New Masters of Capital, Cornell University Press: London, 2005, p. 7.
[113] See Richard Sylla, "An Historical Primer on the Business of Credit Rating," pp. 23-24.
[114] Michael R. King and Timothy J. Sinclair, "Grasping at Straws: A ratings downgrade for the emerging international financial architecture," Centre for the Study of Globalisation and Regionalisation, University of Warwick: UK, 2001, p. 6.

schemes and other property deals in the US.[115] Moody's then expanded into rating securities in 1909 when the firm began to rate US railroad bonds. By the mid 1920s nearly 100 percent of the US bond market was rated by Moody's.[116]

Finally, *investment bankers* make up Sylla's third category of information sources for bond investors from the 1850s to 1909. Investment bankers were the financial intermediaries who underwrote, purchased, and distributed securities from railroad corporations, putting their reputations on the line with every deal. They were provided with all relevant information related to the securities issuers' operations and were as a result able to determine the character of the company and its managers as well as to monitor company affairs.[117]

Thus, by 1909 credit-reporting agencies, a specialized business and financial press, and the work of investment bankers had been innovatively consolidated within Moody's, and later S&P. This unique occurrence was largely the result of particularities within US corporate bond markets at the time. As such, the dominance of two major rating agencies within the US during the early twentieth century can be seen as a direct result of their central position within information exchange networks at the time.

The importance of this monopolization of information exchange should not be understated as it continues to serve as a basis of power for rating agencies, especially in modern financial markets given their overwhelming informational requirements.

---

[115] Timothy J. Sinclair, "Passing Judgement: Credit Rating Processes as Regulatory Mechanisms of Governance in the Emerging World Order," Review of International Political Economy, April, 1994, p. 6.
[116] Timothy J. Sinclair, "Global Monitor: Bond Rating Agencies," New Political Economy, (8) 1, 2003, p.148.
[117] Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 24.

Unlike the productive sector which can increasingly rely on sophisticated telecommunications technology to gain instantaneous information on rival competitors, suppliers, distributors, advertising options, investment climates abroad, and so on, international financial markets are now increasingly complex and operate at digital speeds dense with information. Thus, for businesses engaging in real investment it is now relatively easy and inexpensive to acquire information, but for investors operating in complex derivatives or securities markets the costs of acquiring, aggregating, analyzing, and making projections with publicly available information may be prohibitive, and this is without taking into consideration the expertise required to produce an informed analysis. As a result, the work of rating agencies has become central to investment decision-making because it condenses all informational inputs, including confidential information not otherwise accessible, and expertise within an easily understandable symbol of creditworthiness that is cross-comparable with any other rated debtor around the world. The simplicity of the rating requires nothing more from the investor than knowledge of their simple rating scales, saving both time and money.[118]

However, the fact remains that apart from rating agencies there are other sources of information which produce credit-related knowledge such as investment funds, banks, professional associations, and academia.[119] Given the multiplicity of sources that exist it is difficult to explain how rating agencies have been able to consolidate and commodify the business of financial market information and

---

[118] See Table 1 for a list of rating scales, p. 76.
[119] Dieter Kerwer, "Standardizing as Governance: The Case of Credit Rating Agencies," in Adrienne Heritier, ed., Common Goods: Reinventing Europe and International Governance, Rowman & Littlefield Publishers, Inc.: Maryland, 2002, p. 297.

exchange if we do not take into consideration another unique characteristic of US markets in the early twentieth century. In the 1930s, responding to a series of public and private sector solvency crises, ratings-dependent regulations formulated by the Securities and Exchange Commission (SEC) served to institutionalize the information gathering and disseminating capacities of rating agencies alone. As such, the vision of creditworthiness enforced by rating agencies through their ratings, earned originally through expertise gathered in the late nineteenth/early twentieth century, now constitutes a central feature of the US debt market, a trend which has radiated outward since the globalization of finance in the 1970s.

Ratings-Dependent Regulation

NRSRO Status

Ratings-dependent regulation emerged in the US during the Great Depression when bond ratings were grafted into limitations imposed on financial institutions such as banks, insurance companies, and pension funds to protect investors from the insolvencies of these institutions. In 1931 limitations were imposed on these financial institutions which either banned the holding of securities that fell below a specific investment grade, or specified the additional capital required when holding securities below that grade.[120] This created further institutional demand for ratings, yet for the next four decades the issue of whose ratings sufficed for regulatory purposes remained unspecified. In 1975 the creation of Rule 15c3-1, the net capital rule, pulled ratings further into the regulatory system in the US, as it was at this time

[120] Lawrence J. White, "The Credit Rating Industry: an Industrial Organization Analysis," p. 51.

determined that securities ratings were to be the basis of the reserves maintained by brokers who underwrote bond issues.[121]

However it was felt necessary to additionally specify which agencies' ratings were to be incorporated within this legislation. Thus, in 1975 the SEC also created a category termed a 'Nationally Recognized Statistical Rating Organization' (NRSRO). In defining an NRSRO the SEC listed the following five attributes: the rating organization must be recognized as credible and reliable in the US, it must have adequate staffing and financial resources to ensure a reliable rating, it must use systematic rating procedures designed to ensure credible and accurate ratings, it must have sufficient contact with the management of issuers (including senior level management), and it must have internal procedures in place to prevent the misuse of non-public information.[122] Under this rather vague criteria Moody's, S&P, and Fitch were initially deemed NRSROs, in 1982 Duff & Phelps was awarded this status, as was McCarthy, Crisanti & Maffei (MCM) in 1983. This makes a total of five rating agencies to have been deemed NRSROs. However, with the merger of MCM and Duff & Phelps in 1991, and Duff & Phelps and Fitch in 2000, only the original three rating agencies remain approved by the SEC.

There has been much discussion surrounding the issue of ratings-dependent regulation in US financial markets. The rather hazy determination of NRSRO status has frustrated the attempts of many other rating agencies to enter into the much lucrative US debt rating market. This status has even been difficult for the Canadian firm Dominion Bond Rating Service (DBRS) to achieve despite the harmonization of

---

[121] Timothy J. Sinclair, The New Masters of Capital, p.42.
[122] Lawrence J. White, "The Credit Rating Industry: an Industrial Organization Analysis," p. 52.

securities disclosure laws between Canada and the US under NAFTA. While Canadian bonds can be sold in the US without passing through SEC procedures, the sales of such bonds are contingent upon being rated by an NRSRO, thus precluding the use of DBRS ratings.[123] The inability of other non-US firms obtain NRSRO status is therefore synonymous with their inability to gain a strategic position within global finance markets. This effectively eliminates competition in the industry and solidifies the authority of only a handful of agencies. This has caused Kerwer to proclaim that "the regulatory environment is the key to their power, not their pivotal role in financial markets, as is commonly assumed. Public authority plays a key role in constituting private authority for credit rating agencies."[124]

Basel II

Within the next few years the authority of rating agencies may no longer be limited to capital markets. Recently, multilateral negotiations concerned with the enhancement of international capital adequacy standards for banks have culminated into the Basel II proposal whereby the ratings assigned to the securities held in each bank's portfolio will serve as a basis for determining the capital requirements for that bank. This regulation of the banking sector is seen as increasingly necessary ever since banks began to engage with volatile global finance flows, thereby generating solvency problems for those international banks engaged in these processes. For instance, speculation-based foreign exchange trading beginning in the 1970s quickly

---

[123] Timothy J. Sinclair, The New Masters of Capital, p. 44.
[124] Dieter Kerwer, "Standardizing as Governance: the case of credit rating agencies," in Adrienne Heritier, Common Goods: Reinventing European and International Governance, Rowman & Littlefield Publishers, Inc.: Maryland, 2002, p. 295.

became an unstable endeavour given that currency values could swing sharply over a short period of time, culminating in very large losses for the banking sector.[125] In fact, one study has documented as many as 86 episodes of bank insolvency in 69 countries (developed and developing alike) occurring between the late 1970s and the early 1990s.[126] These crises were at times limited to particular countries while on other occasions, such as the debt crisis in Latin America, they spilled over and threatened the stability of the international financial system.

While the post war era featured unilateral banking regulations, the organization of large banks in offshore markets in the 1970s created a situation where the scope and power of domestic banking regulations shrank, and the nature system implied that national banking crises could easily become international in their repercussions.[127] As a result, in 1974 the central banks of the G-10 and Switzerland formed the Standing Committee on Banking Regulation and Supervision under the auspices of the Bank for International Settlements to tackle these growing problems.[128] The committee produced the Basel Concordat in an effort to establish principles for handling a banking crisis, yet due to the lack of specificity with regard to crisis management Kapstein considers this initial attempt to be more of a "gentleman's agreement" with subsequent responses to crises being of an ad hoc nature.[129] The attention of the Basel committee soon turned to the establishment of capital requirements, and in 1988 the Basel Capital Accord was signed by the G-10

---

[125] Ethan B. Kapstein, "Resolving the Regulator's Dilemma: International coordination of banking regulations," International Organization, (43) 2, Spring 1989, p. 326.
[126] Michael R. King and Timothy J. Sinclair, "Private Actors and Public Policy: A Requiem for the New Basel Capital Accord," International Political Science Review, (24) 3, 2003, p. 349.
[127] B. Kapstein, "Resolving the Regulator's Dilemma: International coordination of banking regulations," p. 324.
[128] Ibid, p. 329.
[129] Ibid, p. 330.

member countries addressing credit risk by setting minimum capital requirements for all banks operating within the G-10 countries.[130]

However, many shortcomings of this agreement were soon exposed. Central to these problems were the many political disagreements over the specificities of Basel as it applies to different national banking systems, and the propensity for banks to reduce the impact of binding capital requirements by undertaking further risky off-balance sheet lending and securitization.[131] These problems necessitated additional negotiations which culminated in a new capital adequacy framework introduced in 1999, and modified in 2001, known as Basel II. Basel II has yet to be implemented for various controversial political and economic reasons. Though the details of the proposal are beyond the scope of this discussion, the area of interest for rating agencies is Pillar 1 of the proposal which outlines a new system of capital requirements where banks are given the choice between an approach which calculates capital based on the external credit ratings of each security in their portfolio or of utilizing their own internal bank ratings.[132]

Should this proposal be enacted it would serve to further entrench the authority of rating agencies in financial markets. In practice, since it would force banks to raise more capital, a bank holding an A rated government bond would have to set aside capital amounting to 20 percent of the bond's value in order to cover the risk weighting.[133] This would have the effect of further disciplining borrowers as the

---

[130] Michael R. King and Timothy J. Sinclair, "Private Actors and Public Policy: A Requiem for the New Basel Capital Accord," p. 349.
[131] Ibid, pp. 349-350.
[132] Ibid, p. 351.
[133] Richard Hanson, "Japan's Rating Wars: Whose default is it?" Asia Times Online, May 9, 2002. <www.atimes.com>

regulations placed on banks would add to the investment-grade restrictions placed on institutional investors, thus increasing the hegemony of the judgments of creditworthiness assigned by the global rating agencies.

The ratings-dependent regulation of NRSRO status and the new Basel II proposals create a situation where the authority of rating agencies is no longer dependent on their reputation within capital markets. Instead of market and government actors taking account of their ratings because they are inherently accurate, they must instead take them into consideration because regulations have made them authoritative within financial markets. Furthermore, the NRSRO stipulations were enacted following of the height of postwar era when ratings were largely irrelevant, and thus untested, given the stable economic and financial conditions. Although there are four periods of large-scale defaults on state or local debt in the US from 1830-1930, [134] subsequent to the Second World War only 0.3 percent of the total state and local debt was defaulted by state and local governments in the US.[135] Of the rated corporate and state bonds, the vast majority were of the highest creditworthiness. As an example, from 1944 to 1965, 93.5 percent of corporate bonds (excluding real estate bonds) fell into the top four agency ratings signifying investment grade.[136] Thus, Sinclair has dubbed this an era of 'rating

[134] Volatility in the US debt market occurs from the 1830s to the 1930s, and then drops off completely. The first period runs from 1839-1843 when twelve state and local governments fully defaulted on more than half of their $125 million debt; $13.8 million of the debt was also repudiated and $1.3 million of interest due was never paid.[134] The second period was from 1873-1879 when almost a quarter of the $1 billion outstanding debt was defaulted.[134] Third, from 1893-1899 roughly 10 percent of the total outstanding debt of $130 million was defaulted. Finally, during the Great Depression of the 1930s $2.85 billion of debt was defaulted, amounting to 15 percent of the total outstanding debt. Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 32.
[135] Ibid.
[136] Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 31.

conservatism' because rating coverage was reduced to a handful of the most creditworthy countries, US municipalities and higher-rated US firms.[137]

Once the globalization of finance began to take off in the late 1970s these ratings-dependent regulations in the US became increasingly important for creditors and debtors around the world. It meant that accessing lucrative US markets required ratings from one of three NRSROs, and thus concentration in the ratings market was solidified. Furthermore, innovation in other domestic financial markets around the world and increased sovereign debt issuance on private capital markets meant that the standards set by Moody's or S&P were followed by the local rating agencies that began emerge within other countries as well. This concentration in the debt rating business, and the characteristics of each firm, is thus an integral consideration in the study of the contemporary authority of rating agencies.

The Contemporary Characteristics of the Debt Rating Business

Despite the growth of transnational capital markets, Moody's and S&P continue to dominate the global market, with Moody's rating $5 trillion worth of securities and S&P rating $2 trillion.[138] This concentration is largely due to previously discussed recognition requirements established by the SEC. Moody's, headquartered in New York, is owned by Dun & Bradstreet and is mainly in the debt rating business. Moody's has 4,000 clients for their publications and an estimated 30,000 people read their output regularly.[139] They also regularly release press

[137] Timothy J. Sinclair, The New Masters of Capital, p. 26.
[138] Richard Sylla, "An Historical Primer on the Business of Credit Rating," p. 35.
[139] Ibid.

statements regarding their output findings. Moody's currently rates 85,000 corporate and government securities, 68,000 public finance obligations, and 100 sovereign nations.[140]

S&P, also headquartered in New York, is a subsidiary of McGraw-Hill and focuses on debt rating and equity analysis. S&P's weekly publication *Credit Week* currently has 2,423 subscribers.[141] In addition, S&P has offices and affiliates on every populated continent and took in $370 million in profit in 1999.[142] S&P is also famous for the S&P 500, the benchmark US stock index which lists around US$1 trillion in assets.[143] Unlike Moody's, S&P also offers recommendations on stocks. Both firms have numerous branches in the US, OECD countries, and emerging market countries.

In distant third is Fitch Ratings, the product of a merger between Fitch Investor Services (NY), IBCA (London), Euronotation (Paris), Duff & Phelps (Chicago), and Thomson Bank Watch (NY).[144] However, there is also an increasing number of domestically focused agencies in developed countries and emerging market countries since the 1990s including Japan, China, India, Malaysia, Indonesia, Thailand, France, Canada, Brazil, Israel, Argentina, Mexico, South Africa, and the Czech Republic. These domestic rating agencies service their local markets yet

---

[140] Jason Hackworth, "Local Autonomy, Bond Rating Agencies and Neoliberal Urbanism in the United States," International Journal of Urban and Regional Research, (26) 4, 2002, p. 710.
[141] Michael R. King and Timothy J. Sinclair, "Grasping at Straws: A ratings downgrade for the emerging international financial architecture," p.8.
[142] Jason Hackworth, "Local Autonomy, Bond Rating Agencies and Neoliberal Urbanism in the United States," p. 710.
[143] Timothy J. Sinclair, "Global Monitor: Bond Rating Agencies," p. 149.
[144] Michael R. King and Timothy J. Sinclair, "Grasping at Straws: A ratings downgrade for the emerging international financial architecture," p.7.

continue to receive 'technical assistance' from the major agencies.[145] It is important to note that despite some movement toward greater market participation, these ratings firms do not compete with one another unless an issuer decides to be rated by more than one agency. There are also significant barriers to entry for new firms, largely the result of ratings dependent regulation and the need for a reputation within financial markets.

Until the early 1970s Moody's and S&P earned their incomes by selling publications which contained their ratings and related materials. In essence, this amounts to charging bondholders for the information provided.[146] However, with the advent of growing liquidity crises and economic uncertainty as the Bretton Woods system began to collapse, issuers more actively sought out ratings as a means to reassure nervous investors of the quality of their bonds, thus charging the issuers for the ratings naturally followed.[147] Today at least 75 percent of the agencies' income is derived from fees.[148]

Once the issuer requests the rating it must share certain confidential information that would otherwise not be made public, and it must pay a one-time fee. Both Moody's and S&P have the following "list prices" for the requested ratings: 3.25 basis points on issues up to $500 million, with a minimum fee of $25,000 and a maximum fee of $125,000 (S&P) or $130,000 (Moody's); both charge an additional 2 basis points on amounts above $500 million (S&P caps the amount at $200,000; it

---

[145] Timothy J. Sinclair, Structure and Agency, p. 106.
[146] Lawrence J. White, "The Credit Rating Industry: an Industrial Organization Analysis," in Giovanni Majnoni, Richard Levich, and Carmen Reinhart, eds., Ratings, Rating Agencies and the Global Financial System, p. 47.
[147] Lawrence J. White, "The Credit Rating Industry: an Industrial Organization Analysis," p. 47.
[148] Timothy J. Sinclair, The New Masters of Capital, p. 29.

also has a one-time fee of $25,000 for first-time issuers).[149] Though these fees could potentially cause a conflict of interest for the rating agencies, as they may be inclined to assign higher ratings to satisfy issuers, as Baker and Mansi point out the agencies have a vested interest in maintaining high quality accurate ratings because tomorrow's income is reliant on the accuracy of their ratings.[150] In addition, Sinclair argues that with Moody's reporting revenues of $602 million in 2000, $796.7 million in 2001, and $1.02 billion in 2002, it is unlikely that even the largest issuer would be able to manipulate them through their revenues.[151] Moody's is the only rating agency for which stand-alone profit data are available, yet S&P likely accrues similar revenue earnings.

The Process and Methodology of Ratings

In its simplest explanation, ratings provide financial markets with estimates of the likelihood that borrowers will not fulfill obligations specified in their debt issues.[152] Thus, the higher the rating assigned to a debt issuer, the lower the probability that they will not be able to fulfill their obligations, and vice versa. However, rating agencies profess that their judgments must not be taken as an indication to buy or sell a particular security as higher ratings are not necessarily better than lower ratings. They maintain that individual investors must take into consideration exchange rate fluctuations and the higher yield potential that is

---

[149] Lawrence J. White, "The Credit Rating Industry: an Industrial Organization Analysis," p. 47.
[150] H. Kent Baker and Sattar A. Mansi, "Assessing Credit Rating Agencies by Bond Issuers and Institutional Investors," Journal of Business Finance & Accounting, 29(9), November/December 2002, p. 1383.
[151] Timothy J. Sinclair, The New Masters of Capital, p. 29.
[152] G Ferri, L. G. Liu, and J. E. Stiglitz, "The Procyclical Role of Rating Agencies," Economic Notes. (28) 3, 1999, p. 335.

available from more risky lower rated securities.[153] Nonetheless, ratings do in fact carry significant consequences for issuers as it has been shown that lower ratings force borrowers to pay a larger risk premium in the form of a higher interest rate.[154] This is especially significant for countries with the lowest ratings, which are then unable to borrow from international capital markets altogether.[155]

All major rating agencies use similar nomenclature to summarize their research. Gradations are used to indicate whether or not a government bond is of investment grade or speculative grade (indicating that the issuer is ten times more likely to default). Their goal is to reduce all the factors that surround a debt obligation to a letter symbol that is easily understood.[156] Cross-comparability is also essential to the process of rating. The purpose of this simple nomenclature is so that financial markets may assume that the credit-risk associated with purchasing the bonds or currency of a sovereign government that is awarded an Aa/AA rating represents equally the risk associated with a municipal government having the same rating, or a state-owned enterprise, or a corporation, in any part of the world. Ratings are thus not only judgments but forms of knowledge condensed into an easily understandable symbol.

There is some debate in the orthodox literature as to whether or not ratings actually contain any new information or whether they simply reflect market opinion.

---

[153] Dieter von Kerwer, "Standardising as Governance: The case of credit rating agencies," Paper presented at the 11th annual meeting of the Society for the Advancement of Socio-Economics, Wisconsin, 1999, p.4.
[154] Nadeem Ul Haque, Donald Mathieson, Nelson Mark, "Rating the Raters of Country Creditworthiness," Finance and Development, (34) 1, March 1997, p. 10.
[155] Carmen M. Reinhart, "Sovereign Credit Ratings Before and After Financial Crises," in Giovanni Majnoni, Richard Levich, and Carmen Reinhart, eds., Ratings, Rating Agencies and the Global Financial System, p. 251.
[156] Timothy J. Sinclair, The New Masters of Capital, p. 40

Partnoy argues that there is overwhelming evidence that credit ratings are of scant informational value, particularly since the mid-1970s.[157] He bases his conclusion on a recent history of multiple sudden defaults or credit downgrades involving major issuers such as Enron, Orange County, Mercury Finance, Pacific Gas & Electric, and the governments and banks of several emerging market countries.[158] Implicit to this argument is the assumption that not only do ratings not contain any new information but that they also lag behind market expectations and thus leads to these sudden downgrades and miscalls.

In contrast, in an econometric study aimed at determining what, if any, impact rating changes have on financial markets, Hand, Holthausen and Leftwich, demonstrate that certain ratings changes do in fact have an impact on a firm's bond and stock prices.[159] First the study tracks the associations between warnings of a possible rating change through additions to S&P's *Credit Watch List*, a weekly publication of listings which are considered for potential upgrades or downgrades. Second, it tracks bond and stock price changes associated with actual rating changes announced by Moody's. The results of this study are interesting for both scenarios.

Of the data on possible rating changes, upgrades are not found to be statistically significant. The same result is found for the possible downgrades until the researchers excluded the market-expected rating changes. Once excluded, possible rating downgrades did in fact affect the market, as average bond returns

---

[157] Frank Partnoy, "The Paradox of Credit Ratings," in Giovanni Majnoni, Richard Levich, and Carmen Reinhart, eds., Ratings, Rating Agencies and the Global Financial System, p. 65.
[158] Ibid.
[159] John M. Hand, Robert W. Holthausen, and Richard W. Leftwich, "The Effect of Bond Rating Agency Announcements on Bond and Stock Prices," The Journal of Finance, vol. 47, no. 2, June 1992, p. 733.

dropped by 1.79% and stock returns by 2.14%.[160] Similar results are found with the actual rating downgrades, with investment grade bonds losing an average of 0.55% and stocks losing an average of 0.83%; and below investment grade bonds losing an even more significant 3.82%, and stock returns declining by 4.22%.[161] Weaker positive average stock and bond returns were found for upgrades. Therefore, contrary to Partnoy's claims, this study indicates that once separated from market expectations, ratings do in fact exert an influence on the market.

Sovereign Ratings

Understanding the methodology employed by rating agencies to come to their determinations of creditworthiness is of significance for borrowers because of the interest premiums associated with their rating as well as the constraining impact that ratings-dependent regulation has on institutional lenders (which prohibit them from holding speculative grade assets). However, rating agencies remain highly secretive about their exact processes and methodology for arriving at analytical determinations of solvency. The actual rating process itself is done through a confidential vote in a rating committee on the recommendations of an analytical team. The ratings are generally subject to appeal by the issuer, yet there are no specific regulatory requirements, as the rating opinions fall under the 1st amendment to the US Constitution guaranteeing freedom of speech.[162] What can be affirmed is that the judgments of the top global companies have been found to be typically uniform

---

[160] John M. Hand, et al., "The Effect of Bond Rating Agency Announcements on Bond and Stock Prices," The Journal of Finance, p. 744.
[161] Ibid, p. 746.
[162] Timothy J. Sinclair, "Passing Judgement: Credit Rating Processes as Regulatory Mechanisms of Governance in the Emerging World Order," p. 8.

across the industry, and thus each firm subscribes to similar ratings ideology. In a study by Ferri, Liu, and Stiglitz the authors conclude that ratings assigned to the same sovereign borrower have not been found to differ substantially, and all three rating agencies will tend to change their outlook on these borrowers more or less at the same time.[163] In addition, there is an incentive to be rated by both global agencies, as it has been shown to be associated with lower interest costs if the two bond ratings are identical.[164]

The sovereign debt rating of a country is of great significance not simply for the federal government but because it affects all within the country. Seldom, if never, is it the case that any domestic issuer, whether government or corporate, will be rated higher than the sovereign debtor is. This is called the "sovereign credit risk ceiling," and is in place because creditors facing a defaulting sovereign government have limited legal ability to regain their lost funds. One example of this occurrence is when Moody's downgraded the Japanese credit rating on November 18, 1998, from Aaa to Aa1, all triple A rated Japanese issuers were automatically downgraded as well.[165]

Once approached, the agency will then request an internal financial statement and combine this with information in their private databases and independent research to arrive at a rating. There are potentially numerous economic, social, and political factors which underlie the assignment of ratings, yet little guidance is provided by the agencies as to the relative weights assigned to each factor by the various agencies. As

---

[163] G Ferri, L. G. Liu, and J. E. Stiglitz, "The Procyclical Role of Rating Agencies," p. 336.
[164] CG Moon, and JG Stotsky, "Testing the Differences Between the Determinants of Moody's and Standard & Poor's Ratings," Journal of Applied Econometrics, vol. 8, 1993, p. 63.
[165] D. Johannes Juttner and Justin McCarthy, "Modeling a Ratings Crisis," Sydney, Australia: Macquarie University, 1998, p. 2.

a result, over the past few decades there have been various econometric analyses performed to tease out the relative emphasis placed on each possible macroeconomic indicator.

In a study done by Cantor and Packer in 1996, it is reported that rating agencies claim that the most important determinants of a sovereign rating are per capita income, GDP growth, inflation, fiscal balance, external balance, external debt, economic development and previous default history.[166] Using regression analysis of the average of Moody's and S&P's ratings against the eight variables, the authors conclude that higher per capita income, lower inflation, and lower external debt related decisively to higher ratings. They also found that higher levels of economic development (as measured by industrialization) greatly increased the likelihood of receiving an Aa/AA rating. A history of economic default would limit the rating to a Baa/BBB or below. GDP growth lacked a simple relation because developing countries grow faster than mature economies. Surprisingly, fiscal and external balance were found to lack a clear relationship, however they concluded this was due to the endogenous relationship of fiscal policy and international capital flows (given that countries trying to improve their credit standing will likely adopt more conservative fiscal policies).[167]

---

[166] Richard Cantor and Frank Packer, "Determinants and Impacts of Sovereign Credit Ratings," Federal Reserve Bank of New York Economic Policy Review, October 1996, pp. 39-42.

[167] It is important to note that Cantor and Packer's findings surrounding the relative unimportance of fiscal balances in determining government ratings is not wholly supported by other sources. For instance, in a study prepared by the Bank of Canada it was concluded that based on the average experience of Canadian provinces in the late 1980s and early 1990s, downgrades predictably take place at different levels of debt to GDP ratios. This point will be discussed in chapter 4. Source: Stella Cheung, "Provincial Credit Rating in Canada: An Ordered Probit Analysis," Financial Markets Department, Bank of Canada, Ottawa, 1996, p. 2.

Perhaps one of the most interesting aspects to note about this study is that the model they generated is able to explain large rating differences much better than smaller ones, the precise area that causes so much controversy in financial markets. The reason for this may be, as they note, that there is a significant amount of non-quantifiable data which goes into the rating, inherently limiting econometric analyses, which accounts for qualitative social and political considerations.[168] These qualitative factors could encompass any number of possibilities. For instance, assessing the structures of social interaction has proved important to the major rating agencies, yet this could include a range of aspects such as the distribution of wealth, cultural and ideological differences in society, and tensions between different classes or ethnicities.[169] The political dynamics that are important to rating agencies are wide-ranging yet have been shown to include aspects such as the political intrusiveness on the cultivation of wealth, economic management under stress (the ability or willingness to implement measures to stabilize the economy and meet external payments), and the perceived legitimacy of the regime.[170] Thus, not only do ratings reflect the financial standing of the government, they also reflect a fair amount of subjective judgment on the part of the rating analysts themselves.

Municipal Ratings

Bond issuing governments hire an agency as soon as the decision to issue bonds is made. Three types of bonds are used to fund different municipal activities: general obligation, revenue, and industrial development. General obligation bonds

[168] Richard Cantor and Frank Packer, "Determinants and Impacts of Sovereign Credit Ratings," p. 42.
[169] D. Johannes Juttner and Justin McCarthy, "Modeling a Ratings Crisis," p. 4.
[170] D. Johannes Juttner and Justin McCarthy, "Modeling a Ratings Crisis," p. 4.

are the most typical of the three and are used primarily to finance investments in capital projects. Although these bonds are backed by the issuer's full faith and credit, meaning that the issuer pledges to use tax revenue to back the debt, there is nonetheless an associated risk with these types of bonds because municipalities may be limited in the extent to which they can change tax rates or tax levels.[171] Therefore, as an assurance that the debt will be paid, municipalities typically find it advantageous to seek a rating to further assure investors, and to encourage investment from institutional buyers which are limited to rated investments of a certain quality.

The range of variables that go into a municipality's rating can be even more extensive than a sovereign debtor. In a study conducted by Cluff and Farnham, the often qualitative nature of these agencies' assessments is discussed. A summary of their findings suggests that economic base, financial factors, debt burden, and administrative factors are the most crucial in municipal bond ratings. However, these variables are broken down to include a whole host of subjective sociological sub-variables. For instance, this research indicates that housing variables are significantly (positively) related to a municipality's bond rating. As an example, the authors found that a greater number of one-unit or single-family housing structures related to a higher bond rating. Cluff and Farnham surmise that this variable demonstrates to Moody's the "economic vitality of the community, and is a measure of stability and commitment of the community's citizens."[172] However, the authors recognized that homeownership may also be indicative of a large concentration of elderly citizens,

---

[171] C.G. Moon and J.G. Stotsky, "Testing the Differences Between the Determinants of Moody's and Standard & Poor's Ratings: An Application of Smooth Simulated Maximum Likelihood Estimation," p. 53.

[172] George S. Cluff and Paul G. Farnham, "A Problem of Discrete Choice: Moody's Municipal Bond Ratings," Journal of Economics and Business, (37) 1985, p. 284.

which they have found to be inversely related to bond ratings.[173] They conclude that this variable is negatively related to creditworthiness because rating agencies may be suspicious that the elderly could shift the cost of capital facilities onto younger generations through debt financing.[174]

Population size has been also found to be another subjective aspect which contributes to creditworthiness. In this regard Cluff and Farnham found that with municipalities having a population size lower than 25,000, significant population growth was positively related to bond ratings. However, for those municipalities with populations a size over 100,000, significant growth was inversely related to bond ratings. What this suggests is that there may be an "optimal" size for a city with regard to its bond rating.[175] More controversially, the statistical analysis in this study has also shown that ethnicity is an important factor in bond ratings. Specifically the results of this study show that a greater number of nonwhite citizens translates into a lower municipal bond rating. The authors then suggest that the higher proportion of nonwhite people in a city may be indicative of an increase on the demand of a city's financial capacity.[176]

Ratings and Subjectivity

Despite some discussion of the subjectivity of ratings in academic journals, rating agencies' press releases tend to downplay the inherent role of unquantifiable socio-political data which informs their judgments of creditworthiness. Downgrades

---

[173] George S. Cluff and Paul G. Farnham, "A Problem of Discrete Choice: Moody's Municipal Bond Ratings," p. 286.
[174] Ibid.
[175] Ibid, p. 288.
[176] Ibid, p. 287.

are often justified in their press releases as being the result of deteriorating financial ratios or some other macroeconomic problem.[177] As a result, Sinclair claims that "[rating agencies] are contributing to an elite myth that ratings reflect the facts of the situation, revealed by uncontestable economic and financial analysis. This in turn reinforces the validity of economic and financial thinking by making it seem as if any clear thinking person with all the facts would come to the same conclusion."[178] As they relate to the construction of world order, rating agencies thus "support a key contemporary intersubjective idea surrounding the diminishing salience of non-economic, non-financial ways of thinking in public policy, empowering those social groups with mastery in the economic and financial ways of analyzing what then come to be deemed the major societal problems."[179] However, as this use of socio-political sub-variables demonstrates, though rating agencies would have us believe that their ratings are an expression of fact, with further investigation it becomes obvious that qualitative assessments and ideological assumptions remain a key part of their ratings of creditworthiness.

As these ratings relate to the formulation of state policy, it would seem to suggest that governments which are more reliant on the international capital markets for the financing of their debt would be the most effected by downgrades given their association with interest rate hikes and a decrease in the pool of potential institutional investors. Thus, emerging market countries, municipalities, and certain developed countries have the largest incentive to formulate public policy in anticipation of what will secure them the highest rating. However, given that the more subjective and

---

[177] Timothy J. Sinclair, Structure and Agency, p. 104.
[178] Ibid.
[179] Ibid, p. 103.

under-examined variables, such as the population size or ethnicity of the population, are difficult if not impossible for governments to incorporate within public-policy, attention will be drawn to the more obvious and 'factual' macroeconomic considerations that go into credit ratings. This is a new constitutionalist exercise whereby investor confidence, as guided by elite notions of creditworthiness, is increasingly considered within the formulation of public-policy.

Interestingly, in a study conducted by Mosley concerning advanced capitalist democracies, it is suggested that financial market participants' are in fact focused on a much smaller range of macroeconomic variables, and thus areas of public-policy, than rating agencies are. For instance, through the use of interviews and statistical analysis, Mosley's results suggest that inflation risk and budget deficit-to-GDP ratios are the near exclusive areas of concern for financial market participants when investing in sovereign debt.[180] Correspondingly, investors reported that they pay little attention to the political process or size of government in advanced countries, and a seemingly important issue such as taxation policy was cited as 'unimportant' by 82.4 percent of the respondents.[181] As a result, Mosley's study suggests that the influence of financial markets on advanced capitalist democracies is "strong but narrow," and therefore these countries have retained "room to move" in many areas of domestic policy, in contrast to the 'race to the bottom' hysteria produced by policy convergence theorists.[182]

---

[180] Layna Mosley, "Room to Move: International Financial Markets and National Welfare States," International Organization, (54) 4, Autumn 2000, pp. 747-748.
[181] Ibid, pp. 747-749.
[182] Ibid, p. 737.

This study therefore suggests that financial market participants are much less interested in the details of public-policy than rating agencies are. However, one central shortcoming of this study, which hinders its applicability, is that it does not take into consideration the influence of credit ratings on financial market participants, and thus the larger policy considerations that go into these ratings. Although it is indirect, to the extent that investors are concerned with a country's or a municipality's rating, there is an implicit widening of this "strong but narrow" scope of policy consideration given the plethora of macroeconomic variables, political characteristics, and social/demographic statistics that are used to formulate ratings.

This chapter has aimed to examine the history of rating agencies, the emergence of ratings-dependent regulation, the characteristics of the largest firms, and the methodology which informs their ratings. Taken together, this discussion has demonstrated that the elite debt rating business grew out of the ability of a few firms to consolidate financial market information within the US and thus the history of debt rating is a particular US phenomenon. Moody's and S&P are therefore 'American' in the sense that their history and their knowledge of financial markets are rooted in the US. However, with the increased size and importance of US financial markets in the latter decades of the twentieth century, ratings-dependent regulation has made rating agencies a globally important phenomenon, in line with Kerwer's assessment of the prominence that the state plays in enforcing the authority of rating agencies.

Thus, Moody's and S&P, at one time confined to US markets, are now increasingly transnational in nature. In this respect they are seen to set the standard of creditworthiness for countries of all development stages around the world, feature

prominently within the development of new financial market regulations, and influence the operation of domestic rating agencies abroad. In accordance with Sinclair's notion of EKNs, rating agencies are now a prominent feature within the architecture of global financial markets themselves, and as such their views of creditworthiness act as a guide for the behaviour of debtors and creditors alike. As a result, the thoughts and actions of financial market participants are coordinated by an increasingly transnational debt rating business, yet one which remains essentially American in its mental framework.

With the growth in capital markets, and therefore in the power of the rating agencies who sit as a link between buyers and sellers of debt, the breakdown of traditional bank intermediation is increasingly evident in places such as Europe, Japan and emerging market countries. This shift from credit-based debt relations to capital market disintermediation is significant for these countries because raising debt on the international capital markets implies a much longer time period of repayment than is typically the case with bank lending, and thus rating agencies use different variables than banks in making assessments of a government's creditworthiness.[183] As we have seen in this chapter, this implies a focus on both macroeconomic indicators and more subjective variables which attempt to take into account a broader picture of creditworthiness.

As a result, the impact of rating agencies and their judgments has the potential to be highly contentious depending on the whether a country has fully adapted to a credit market or capital market set of debt relations. This last point will be picked up in chapter four as we will now examine small case-studies to uncover the uneven

[183] Timothy J. Sinclair, The New Masters of Capital, pp. 120-121.

response to the global presence of rating agencies. In conjunction this next chapter will also serve as a guide to indicating the situations in which Sinclair's EKN view of rating agencies holds, and in which cases Kerwer's assessment that it is the regulatory environment which enforces their authority is most appropriate. As we will see, the influence of rating agencies within Anglo-American style countries typically corresponds to Sinclair's views whereas within places such as Europe, Japan, and East-Asian emerging markets, Kerwer's explanations may be more accurate.

Table 1: Rating Scales

Grade	S&P	Moody's
Investment	AAA	Aaa
	AA+	Aa1
	AA	Aa2
	AA-	Aa3
	A+	A1
	A	A2
	A-	A3
	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
Speculative	BB+	Ba1
	BB	Ba2
	BB-	Ba3
	B+	B1
	B	B2
	B-	B3
	CCC+	Caa
	CCC	
	CCC-	
	CC	Ca
	C	C
Default	D	

Source: Timothy J. Sinclair, The New Masters of Capital, Cornell University Press: Ithaca, 2005, pp. 36-39.

.

Chapter 4: Rating the States

Rating agencies have been present in US financial markets in one form or another for over a century. However, with the reconfiguration of world order in the late-1970s states across the globe began to increasingly turn to transnational financial markets to finance their debts, and thus began to engage more actively with the two American rating agencies that inhabited the advantageous position of guarding access to those capital flows. The external scrutiny exerted by these private raters, insulated from democratic accountability and without local embeddedness, holds serious political implications for all levels of government in the developed and developing world alike. Governments seeking funding from the international capital markets must now take into consideration the need for a favourable credit rating in order to decrease the cost of borrowing and increase the amount of potential institutional investors. These two considerations, equally important for many debtors, suggest that the power of rating agencies on the state is the result of both Sinclair's notion of their embeddedness within capital markets (as a form of EKNs) and Kerwer's emphasis on ratings-dependent regulation enforced by the public sector. Therefore, these two accounts, in conjunction rather than isolation, explain their power and authority in the global political economy.

As a result of this authority, ratings are becoming increasingly significant for public borrowers, a process which raises many questions surrounding the internalization of rating agencies' standards within the development of public-policy. For Mosley, as discussed in the previous chapter, financial market participants are

only interested in a narrow range of policy areas, namely inflation rates and debt-to-GDP ratios. However, rating agencies consider a wider range of variables in their assessments of creditworthiness and thus have the ability influence a larger range of policy areas should governments wish to significantly improve their credit rating.

This chapter will now examine empirically the impact that rating agencies are having on a variety of different states, and levels of government, operating within global financial markets. Whereas in previous chapters these impacts were discussed in a general fashion, the purpose of this final chapter is to demonstrate the concrete implications that ratings, and the assumptions that lie beneath, are having on public borrowers. In cases where states or municipal governments belong to similar Anglo-American frameworks, ratings seem to encourage and justify the adoption of neoliberal policies, and thus may be more readily considered to be EKNs. However, in cases where states follow different development models, or in times of crisis, the applicability of US-based standards of creditworthiness is more readily questioned and thus the presence of public regulations, particularly within the large US markets, act as the larger source of authority for rating agencies. Therefore, this chapter is intended to examine the impact of the global growth in the phenomenon of rating state borrowers, and as such will trace the empirical and normative impact of ratings on Anglo-American governments (the US, Canada, and Australia), the Japanese government, Europe, and emerging market countries (Mexico, South Africa, East Asia).

The Implications of 'Getting Rated'

There is a host of literature that exists on the topic of the transformation of state policy and procedure during the course of the past two decades. Chapter 2 was intended to broadly cover the main areas of critical discussion, and thus will not be reproduced here. One key development worth reiterating, as it is directly relevant in this chapter, is the construction of a deficit discourse which lends itself to a political fixation on budget-cutting austerity.[184] Sinclair believes the significance of this deficit discourse to be greater than the mere fiscal implications, as it should rather be seen as "a mechanism of social and political hegemony construction and maintenance, rather than the usual liberal orthodox account of it as an exogenous set of policy ideas."[185] Deficit discourse is thus directly linked to Gill's concept of the new constitutionalist project of the globalizing elites, for as Sinclair elaborates, "deficit discourse... operates as a way, mentally and in practice, of closing off sets of practices from contestation," and furthermore propagates "a framework of thought centering around... synchronic assumptions, in which policy issues are increasingly interpreted in elite circles."[186]

As a result, balanced budgets are now upheld as the goal to be achieved under a neoliberal accumulation model, which is in contrast to the spending practices of the Bretton Woods era. This is not to suggest that running large deficits is a sound practice, only that balanced budget fixation is the product of a particular set of intersubjective ideas propagated during the restructuring of world order. As such, the appropriate size of budget deficits, or lack thereof, is not a factual condition, but

---

[184] Timothy J. Sinclair, "Deficit Discourse: The Social Construction of Fiscal Rectitude," in Randall D. Germain, ed., Globalization and Its Critics, MacMillan Press: Great Britain, 2000, p. 185.
[185] Ibid, pp. 185-186.
[186] Ibid, p. 186.

rather is a socially constructed argument which serves particular interests in the contemporary era.

Rating Municipalities

The impact of global neoliberalism on the political autonomy of municipalities is felt to a greater extent than it is at the federal level. Although certain fractions of capital, namely those contributing to productive processes, no matter how large, must ultimately locate somewhere, in some *place*, finance capital has no such limitations as it is simply interested in the accumulation of more money within financial markets. With the competitive elimination of capital controls on financial flows, and given enormous improvements in technology, these markets have now achieved a level of independence from territoriality that has become extremely influential on the ability of local levels of government, starved for funds, to avoid the uneven bargaining that must take place in order to secure financing. In this sense, following Foucault, autonomy should not be measured by the degree of separation from the wider economic sphere, but rather the degree of control over the social construction of place.[187]

The degree of autonomy that municipalities are able to exercise has declined in recent decades as a result of the same global restructuring processes felt at the state level. Hackworth describes the changes that US cities were forced to undergo, with his analysis applicable to many other countries enacting similar policies. With direct outlays to local governments slashed during the 1980s, US cities were forced to

[187] Jason Hackworth, "Local Autonomy, Bond Rating Agencies, and Neoliberal Urbanization in the United States," International Journal of Urban and Regional Research, (26) 4, 2002, p. 707.

become more entrepreneurial to cover the budgetary shortfall during this transition.[188] Cities thus became increasingly reliant on debt to finance social services and capital infrastructure, yet the postwar bank-intermediated lending they had come to rely on began to dry up in the 1970s. Whereas in the past federally insured commercial banks used to provide short-term notes for budgetary shortfalls and buy small issues of long-term bonds from American cities, with the onset of the New York City's fiscal crisis and the federal government's refusal to intervene, banks became unwilling to cover budgetary shortfalls across the US.[189] The lack of commercial bank support for cities, along with their rising interest rates, forced cities to turn to the burgeoning international financial markets for funding.

Of course, municipalities are not forced to obtain a bond rating when they issue debt. With ratings costing municipalities between an average of $1,000 and $10,000, municipalities must decide whether they would rather pay the fees that rating agencies charge or the higher interest rate they must pay without a rating.[190] This decision may be easy, however, given that the interest rate differentials between rated and non-rated bonds are significant, and thus are often reason enough to push municipalities into obtaining a rating. In a study conducted by Reeve and Herring, it was found that smaller non-rated bond issues would sell for an average of 10 basis points below the lowest investment grade class, and larger non-rated bonds, acting as a signal to investors that they may be risky, pay interest rates at an average of 30 basis

---

[188] Ibid, p. 711.
[189] Ibid, p. 716.
[190] James M. Reeve and Hartwell C. Herring, "An Examination of Nonrated Municipal Bonds," Journal of Economics and Business, (38) 1986, p. 68.

points higher than the lowest investment grade class.[191] In other words, for larger bonds without a rating the underlying market assumption is that only lower quality bonds are not rated, which then translates into higher interest payments for the municipalities.

Given that municipalities are increasingly reliant on bonded debt issued on international capital markets in the funding of projects such as infrastructural renewal, economic development, and the provision of social services, the ratings they secure determine whether or not large institutional investors will be able to purchase their bonds, as well as the interest rate they will have to pay to finance development through the bond market. Rating agencies can, and do, punish local governments that deviate from their logic of creditworthiness, and the impacts of this power are felt more strongly the at the local levels.

A study conducted by the Bank of Canada with regard to Canadian provincial ratings illustrates this point. Though they may have a larger tax base, the constraints placed on provincial governments are more similar to municipalities than to federal governments, and thus are included in this section. During the 1980s many Canadian provinces began to rapidly accumulate debt, and although the likelihood of any of these provinces actually defaulting on their loans would be inconceivable, these provinces were harshly disciplined by the rating agencies eager to impose their newfound will. Whereas most provinces had been upgraded in the 1970s and/or in 1980-1981, and no downgrades took place during the period of 1966-1981, from 1982-1994 21 downgrades affecting 8 provinces took place in the context of rising

[191] Ibid, p. 75.

provincial debt-to-GDP ratios leaving many with their lowest rating ever in 1994.[192] This had serious disciplinary implications on the provinces, as they quickly learnt that the rise to prominence of rating agencies translated into a tangible enforcement of the recent ideological changes in acceptable spending practices. As an example, S&P downgraded the province of Saskatchewan five notches between 1986 and 1992, from an AA+ to BBB+.[193] This decreased the prospective institutional buyers of Saskatchewan's bonds from an estimated 125-140 when they were AA+, to 25-30 when they were rated a BBB+.[194]

As one measure of the result of that rating agency discipline has had in Canada, provincial credit ratings are now considered to be an endorsement of sound government policy, and thus are featured prominently in provincial press releases. For example, in the province of British Columbia's Budget and Fiscal Plan released February 15, 2005, an upgrade by S&P in November, 2004 is touted as a clear sign of approval for BC's record of balanced budgets and relatively low tax-payer supported debt burden.[195] Similarly, the province of Saskatchewan, a have-not province with a large public sector hit hard during the imposition of neoliberal discipline during the 1980s, was eager to announce another credit rating upgrade by Moody's on July 15, 2005. In a press release Finance Minister Harry van Mulligen was quoted as saying that the upgrade makes "it evident that this government has pointed Saskatchewan in

---

[192] Stella Cheung, "Provincial Credit Rating in Canada: An ordered probit analysis," Financial Markets Department, Bank of Canada: Ottawa, 1996, p. 3.
[193] Ibid, p. 1.
[194] Ibid.
[195] Ministry of Finance, "BC Budget and Fiscal Plan 2005/06 to 2007/08," February 15, 2005, p. 2. <www.gov.bc.ca>

the right direction and we are on a solid financial path."[196] Moody's had informed the province that the upgrade was the result of a significant decline in the province's debt-to-GDP ratio, and commended the government for its "strong fiscal policy framework in place for over a decade, which includes the use of conservative revenue assumptions, tight expenditure controls and a fiscal stabilization fund."[197] It is implicit that should the province continue with its fiscal discipline and balanced budgets, it will continue to be rewarded by the rating agencies.

Therefore, in the case of Canadian provincial governments, we see clearly that the arguments of Kerwer and Sinclair are equally applicable. Subsequent to the initial set of downgrades handed out to provinces such as Saskatchewan, ratings-dependent regulations served to dramatically limit the number of potential institutional buyers and thus to enforce tangible losses on debtors who did not conform with rating agency standards. Once internalized, these benchmarks for behaviour quickly became the accepted focus of provinces eager to announce to their citizens and other financial market participants that they were enacting 'sound' policies, and were thus rewarded by upgrades or stable investment grade ratings.

A similar pattern of punishing downgrades, leading to a justification of fiscal austerity aimed at neoliberal restructuring, was reproduced with the Australian state governments. While Australian state governments had strict borrowing regulations up until the end of the 1970s, where the central government conducted all borrowing on behalf of the states, by the beginning of the 1990s this protective financial system

---

[196] Saskatchewan Executive Council Media Services, "Province Receives Credit Rating Upgrade," July 15, 2005. < http://www.gov.sk.ca/newsrel/releases/2005/07/15-688.html>
[197] Ibid.

had been totally disassembled.[198] States were now responsible for securing their own funding on capital markets and thus began to deal with debt ratings for the first time. Downgrades on their creditworthiness were handed out in 1991-1992 and resulted in an estimated A$21.5 million loss over eight years.[199]

The losses made downgrades harmful enough to inspire a change in policy. As Sinclair mentions, a two-notch downgrade in the State of Victoria in October 1992 "helped to create the impression of a debt crisis," and was subsequently used by the newly elected government's treasurer Alan Stockdale to claim that "Moody's downgrading of Victoria… graphically illustrates the consequences of excessive debt."[200] The government then cut A$730 million from Victoria's education, health, and other programs, and just prior to an up swell of public disapproval, S&P and Moody's announced rating upgrades.[201] Premier Kennett was thus able to proclaim this to be "the single most important endorsement to date of the Government's financial management."[202] As with Canadian provincial governments, the case of Australian state governments follows a similar pattern whereby punishing downgrades enforced through regulation inspires an acceptance of the embeddedness of ratings' standards, which then acts to coordinate the future behaviour of these debtors.

Philadelphia, Pennsylvania, is perhaps one of the most instructive cases of the ability of a poor credit rating to discipline cities, and to enforce dramatic neoliberal

---

[198] Geoff Anderson, "Standard Bearers for the Market: International Credit Rating Agencies, New Actors in Politics and Public Policy," Refereed paper presented to the Australian Political Studies Conference, University of Adelaide, September 29 – October 1, 2004, p. 14
[199] Timothy J. Sinclair, The New Masters of Capital, p. 103.
[200] Ibid.
[201] Ibid.
[202] Ibid.

change. From the summer of 1990, when it received a Ba rating from Moody's (the top speculative grade category), to November 1994 when it was finally upgraded to investment grade, the high interest premium attached to accessing credit from the international capital markets had made borrowing from these sources prohibitive, and at the same time fostered a condition where the banking sector was unwilling to back a city with such a low rating.[203] In order to reclaim its investment grade rating, in November 1991 Mayor Edward Rendell produced a draconian five-year plan which called for $1.1 billion in savings through reduced labour costs, management efficiencies, stricter tax collection, and a five-year wage freeze for the city's twenty-five thousand employees.[204] Mayor Rendell likened the city's situation during an era of a speculative grade rating to being, "like a business facing bankruptcy, we were forced to reinvent ourselves," which included privatization, service procurement at the lowest cost possible, and incurring the fewest liabilities.[205]

In this case, the experience of the City of Philadelphia appears to wholly support Sinclair's claims. The creditworthiness assessments of rating agencies in this instance acted as a guide for the views of financial market participants regarding the solvency of the government, and thus a high interest rate was imposed on any debt funded through capital markets. In addition, the banking sector was also unwilling to fund the city given its below investment grade bond rating. As a result, Philadelphia felt no other option but to conform their policies to that which would be acceptable to creditors, as dictated by the standards of rating agencies.

---

[203] Timothy J. Sinclair, The New Masters of Capital, pp. 97-102.
[204] Ibid, p. 100.
[205] Ibid, p. 101.

Thus, fiscal austerity has become a rewarded behaviour strongly encouraged by rating agencies in support of a neoliberal world order. However, as mentioned in chapter 3, there are also a great many socio-political, or qualitative, factors that go into a bond rating as well. This is necessary given the long-term nature of bonded debt, and ought not to be surprising given that the rating agencies are by definition making *judgments* of creditworthiness rather than producing *facts*, and thus subjectivity is inherent in the process. This qualitative aspect of the rating process has proven to be confusing and frustrating for many government representatives who rightfully question how the subjective views of rating agencies fit into their rating. As such, this secretive and ambiguous aspect of the rating process has been the source of much frustration for municipalities.

One such example is the case of Detroit. In 1992, despite balancing its budget through a series of cuts in spending and public works, the city was downgraded by Moody's from a Baa to the speculative grade Ba1, causing a sharp rise in the cost of capital borrowing and a barring of institutional investment in the city.[206] Detroit city officials, including Mayor Coleman Young, questioned the downgrade and contended that Moody's decision was based more on a perception of the direction in which Detroit's economy may be heading rather than an evaluation of Detroit's balance sheets and its tough fiscal policy.[207] For their part, Moody's argued that the budget was nothing more than a short-term fix, and that Detroit's long-term strategy was questionable, and thus Moody's assessment was based on indicators that were beyond

---

[206] Timothy J. Sinclair, The New Masters of Capital, p. 105; Anthony Crowell and Steven Sokol, "Playing in the Gray: Quality of Life and the Municipal Bond Rating Game," Public Management, May 1993, p. 4
[207] Ibid.

the balance sheet.[208] For instance, throughout the 1980s Detroit's median household income had dropped by 20 percent (in real terms); poverty was at 32 percent; the average house sold for $25,000 or less; the unemployment rate was at 15.7 percent, the highest of any American city; between 20 and 40 percent of the buildings were unoccupied; and the city's population was dramatically declining, and should it dip below 1 million the city would be cut off from millions of dollars of federal funding.[209] These types of factors, and many more, would have been the focus of the rating, given the long-term nature of bonded debt. Thus, irrespective of how the city's tough fiscal stance should outwardly appear to financial market participants, rating agency approval of the direction the city was heading in proved to be a crucial factor in the cost of borrowing and possibility for institutional investment, supporting the arguments of both Sinclair and Kerwer.

Rating Sovereign Debt: Canada and Australia

The most recent downgrading of the Government of Canada was handed down by Moody's in 1995 when the agency decreased its foreign currency rating from an Aa2 to Aa1.[210] The main cause for the downgrade was the federal debt, which sat at around 96 percent of total GDP at the time. Peter Cook, a conservative commentator for the Globe and Mail newspaper was not surprised, claiming that

[208] Anthony Crowell and Steven Sokol, "Playing in the Gray: Quality of Life and the Municipal Bond Rating Game," p. 4.
[209] Timothy J. Sinclair, The New Masters of Capital, p. 105.
[210] Ibid, p. 141.

Canada should have never had a triple-A rating to begin with.[211] A subsequent report released by the Auditor General in 1996 assured investors that the federal Government was well aware that the high debt load led to their credit rating downgrade and more volatile interest rates, which negatively impacted their ability to access capital markets, and thus the Government was going to react to these problems by setting firm objectives for more adequately managing their debt.[212] Furthermore, the Auditor General's report claimed that the Financial Markets Division of the Department of Finance was in the process of developing policies to enhance their interactions with credit rating agencies.[213]

By the end of the 1990s the Government of Canada's public finances had improved and this earned them an upgrade by Moody's in 2000.[214] This made something of a prophet out of conservative journalist Peter Cook who, back in his 1995 article claimed that the value of a credit rating downgrade was that it "holds the feet of recalcitrant politicians to the fire," and as history bore out, this proved to be true.[215] Thus with the case of the Government of Canada, perhaps because their downgrade was not severe enough to warrant concern about potential institutional investment, this proves to be another example of rating agencies acting as EKNs guiding the actions of investors, in the form of higher interest rates; and of debtors, through their concerns for cheap access to capital markets as well as an internalization of the standards of behaviour which would ameliorate their standing.

---

[211] Peter Cook, "Is Canada Now a Serious Country?" Globe and Mail, Friday April 14, 1995, B2. This was in response to Moody's downgrade in 1995, yet the triple A rating is in reference to S&P's 1992 rating.
[212] Auditor General of Canada, "Federal Debt Management," 1996, section 21.9.
[213] Ibid, section 21.29
[214] Timothy J. Sinclair, The New Masters of Capital, p. 142.
[215] Peter Cook, "Is Canada Now a Serious Country?"

Australia faced a slightly different set of circumstances, yet again in this case rating agencies acted as EKNs through their imposition of standards of behaviour that are then accepted by debtors and act to narrow behaviour. The Commonwealth was downgraded in 1986 and again in mid-1989, however unlike Canada it was not as a result of a high federal debt burden. In fact, in June 1989 the amount of Australia's bonded debt had decreased to A$30 billion from a peak of A$34.3 billion in 1987, and overseas debt had also dropped to A$9.4 billion from A$15.1 billion.[216] Sinclair points out that the two factors that were central to Moody's decision proved to be a fear that Australia "might have to act as a lender of last resort for major corporate debts and the possibility of a reimposition of exchange controls."[217] The second of the two reasons is the most alarming given that this decision points to the willingness and ability of rating agencies to discipline governments considering policies that are reminiscent of a Bretton Woods-style control over finance capital's autonomy. Australian government officials have since internalized this discipline, and by 2002 Moody's upgraded the country's credit rating to Aaa, and what has been described as "extremely conservative financial settings" is now a fairly accurate characterization of Australian economic policy.[218]

Ratings and Alternative Development Models: Rival collective images and a possible counter-hegemony?

With the onset of globalized finance, rating agencies have also become globalized in their reach and impact. These disembedded financial arrangements then

[216] Timothy J. Sinclair, The New Masters of Capital, p. 140.
[217] Timothy J. Sinclair, The New Masters of Capital, p. 140.
[218] Ibid, p. 141.

preclude an emphasis on local knowledge and custom contributing instead to a homogenization of standards of behaviour. US rating agencies and their internal logic have organically arisen out of the particularities of US markets, and are therefore well positioned to rate US debtors. However, given the high degree of centralization in the debt rating business, these US agencies are chiefly responsible for rating other sovereign states that have their own nuanced forms of economic, financial, and governmental processes. Local knowledge is thus replaced with a synchronic form of knowledge which reduces a variety of dynamic factors to a cross-comparable symbol of creditworthiness. Previously this chapter discussed the effects that the disciplining power of neoliberal surveillance has had on municipal and federal governments in the US, Australia, and Canada. The results have shown that in Anglo-American countries with similar social structures of accumulation rating agencies encourage the further incorporation of a neoliberal synchronic standard into policy making. Now the discussion will turn to the effects that this has had on developed countries where there is a potential for rival collective images to exist in opposition to this standard model. It remains to be seen whether these countries are willing or able to contribute to a successful counter hegemonic project within the debt rating business.

Japan

While developed countries like Canada and Australia experienced downgrades in the 1980s and early 1990s, Japan's credit rating only began to deteriorate during the past ten years. Resulting largely from "an apparent lack of consensus among

policy makers on a medium-term strategy" to recover from a chronic lack of economic growth, Moody's first reduced Japan's sovereign credit rating from its triple-A status in November 1998 to Aa1.[219] From there the downgrades continued. A second downgrade was initiated by Moody's in September 2000. S&P followed by lowering its triple-A rating to AA+ in February 2001, citing Japan's diminished fiscal flexibility, rising debt levels, and "political reluctance to address rigidities in the economy."[220] S&P then downgraded the country once more in November 2001, and Moody's in turn downgraded Yen-denominated debt to Aa3.[221] The local-currency national debt was subsequently downgraded two notches by Moody's on May 31, 2002.[222]

With the loss of its triple-A rating and other frequent downgrades, many in the Japanese government began to question the validity of Moody's and S&P's determinations. Subsequent to the lowering of its credit rating to Aa3 in 2001, below that of Botswana's and other less developed countries, Vice Minister for International Affairs in the Ministry of Finance Haruhiko Kuroda went public with his feelings on the rating agencies. Kuroda is reported as saying, "considering the fundamentals, the current ratings of Japanese Government Bonds are already too low and any further downgrading is unwarranted."[223] The Finance Ministry then demanded detailed explanations from S&P, Moody's, and Fitch IBCA. In response the rating agencies, as expected, reported that a mix of economic, political, and social criteria factor into a

---

[219] Ibid, p. 142.
[220] Ibid, p. 143.
[221] Timothy J. Sinclair, The New Masters of Capital, pp. 143-144.
[222] Ibid, p. 144.
[223] Richard Hanson, "Japan's Rating Wars: Whose Default is it?" Asia Times Online, May 9, 2002 <http://www.atimes.com>

rating decision, and as such are not reducible to any one set of predictably weighted variables. In an article by Ehsan in *The Japan Times*, the author points out that the downgrade was justified to the extent that Japan's high per capita income levels, external balance surpluses, low external debt and high economic development were not strong enough to overshadow the government's negative economic growth, deflation, and large fiscal imbalance.[224] Kuroda remained unconvinced of any such arguments, claiming that, "[rating agencies'] explanations regarding rating decisions are mostly qualitative in nature and lack objective criteria, which invite questions about the larger issue of the reliability of the ratings itself."[225]

The controversies over Japan's downgrades do not end there. Poon reports in his study of ratings conducted by S&P on 265 firms and 15 countries from 1998 – 2000, that Japan has had the highest number of ratings, the majority of which are unsolicited.[226] In fact, S&P has been "very aggressive in entering the Japanese market," handing out 43 unsolicited ratings in 1998, 25 in 1999, and 39 in 2000.[227] Unsolicited ratings are a matter of controversy because they are typically viewed as being biased downward. Most countries and firms find them unfair because they believe that the agencies cannot justify a fair rating without conducting a comprehensive analysis, and one banker reported in Poon's study that they are tantamount to "extortion," or financial blackmail, as it is implicit that the debtor

---

[224] Syed Ehsan, "Should Japan be Rated Below Botswana?" The Japan Times, < http://www.tmt-aba.com/japan_botswana.html>
[225] Richard Hanson, "Japan's Rating Wars: Whose Default is it?"
[226] Winnie P.H. Poon, "Are Unsolicited Credit Ratings Biased Downward?" Journal of Banking and Finance, (27) 2003, p. 605. The other countries in this study include: Brazil, Egypt, Greece, Hong Kong, India, Indonesia, Israel, Italy, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.
[227] Ibid, p. 605.

would receive more favourable ratings should they cooperate and pay for them.[228] Moody's and S&P believe that all ratings are solicited – either by the issuers or the investors, and as such use the terms "investor-initiated rating" and "user-initiated rating" (Moody's) or indicate that they are generated using "public information" (S&P).[229] In any case, Poon concludes that S&P's unsolicited Japanese ratings are in fact biased downward even when controlling for sovereign risk and key financial characteristics.[230]

Japan is not without its own domestic rating agencies, the two most prominent being the Japan Credit Rating Agency (JCR) and Rating and Investment Information (R&I). These agencies have emerged out of the particularities of the Japanese political economy where they arose not as a market response, "but as an infrastructure to deregulate the Japanese direct finance market," and as such are not intimately connected to the American norms held by Moody's or S&P.[231] Interestingly, these Japanese rating agencies have been found to assign fewer speculative grade ratings than the US rating agencies in the past. In a study conducted by Shin and Moore on 92 rated firms in 2000, they concluded that the Japanese rating agencies rarely assigned lower ratings and frequently assigned higher ratings. For example, of the speculative grade ratings, JCR and R&I rated only 7 (or 3.8%) lower than BBB, whereas Moody's and S&P rated 56 (or 30.43%) lower than BBB.[232] In addition,

---

[228] Ibid, pp. 594-595.
[229] Ibid, p. 596.
[230] Ibid, p. 595.
[231] Timothy J. Sinclair, The New Masters of Capital, p. 130.
[232] Yoon S. Shin and William T. Moore, "Explaining Credit Rating Differences Between Japanese and US Agencies," Review of Financial Economics, (12) 2003, p.331.

whereas JCR and R&I assigned 19 AAA ratings, S&P assigned only one and Moody's assigned none.[233]

These split ratings have caused critics to suggest that the large American-based rating agencies ignore the special features of the Japanese economy, including keiretsu affiliation. While Shin and Moore show through regression techniques that keiretsu status does not positively influence ratings for any of the agencies,[234] other studies of a qualitative nature demonstrate that a public sentiment among the business elite runs contrary to this econometric analysis. One such example is a 1999 study conducted by the Japan Centre for International Finance (JCIF) where elite members of 175 major financial institutions and 89 leading industrial firms were surveyed with regards to their thoughts on the rating industry. Ninety percent of the respondents answered that they somewhat or completely disagreed that "the rating standards of the US rating agencies appropriately reflect specifically Japanese factors in areas like corporate governance."[235] Yet nonetheless sixty percent of the respondents agreed that "investors place excessive reliance on the information provided by rating companies and tend to abandon their own investment judgment."[236] Others believe that Japanese rating agencies make more use of local knowledge, such as the hidden financial reserves not listed on financial statements which are not considered by the US agencies.[237]

---

[233] Ibid.
[234] Ibid, p. 339.
[235] Ibid, p. 329.
[236] Japan Centre for International Finance, "Characteristics and Appraisal of Major Rating Companies," 1999, p. 4. < http://www.jcif.or.jp/e/report/rating.html>
[237] Timothy J. Sinclair, The New Masters of Capital, p. 129.

In summary, the Japanese example presents us with an ambiguous counter-hegemonic trend. Although there is increasing dissatisfaction with the ability of American rating agencies to adequately assess Japanese governments and businesses, there remains strong support for rating agencies in financial decision-making. As survey data demonstrates, the Japanese elite do not appear to disparage the presence of local rating agencies, and they continue to distinguish the analysis conducted by JCR and R&I from that of Moody's and S&P despite evidence that keiretsu status, an institutional arrangement dissimilar from the American model, does not alter the ratings of the top global agencies. As a result, Japanese rival collective images appear to suggest that Anglo-American rating agencies are an inappropriate judge of Japanese finances, whereas agencies with local knowledge are acceptable.

In relation to the debate between Sinclair and Kerwer, the Japanese example is also interesting because it demonstrates that government officials (debtors) do not consider the larger global agencies to be appropriate judges of Japanese finances and thus are not seen to be embedded within the architecture of financial markets but rather as imposed actors guided by foreign knowledge frameworks. However, the survey results of the JCIF are more ambiguous as they indicate that investors also share this outlook, believing that the standards of US rating agencies are inappropriate for the Japanese market, yet paradoxically agree that the ratings produced by Moody's and S&P remain an important benchmark for their decision-making.

Europe

With European companies and governments increasingly turning to the disintermediated practice of financing their debt through international capital markets, they too are coming under increasing pressure to have their bonds rated. However, unlike Japan, Europe lacks a truly European rating agency. Although the 1992 merger of IBCA (London) and Euronotation (Paris) was promising at the time, these two European companies have since further merged with Fitch Investor Services (New York), Duff & Phelps (Chicago), and Thomson Bank Watch (NY) in 2000 to form Fitch Ratings, and thus can not be thought of as a European-based rating agency anymore.

The need to create a European rating agency has been accentuated by many factors, including the implementation of the Euro, the new Basel II capital adequacy proposals, and most importantly, a growing sense that US-based rating agencies inadequately address the intricacies of the European financial system. In the most extreme version, a Frankfurt banker is even quoted as saying, "very often, the rating analysts sent by S&P or Moody's display a colonial attitude and often fail to take into account the special characteristics in European accounting, disclosure and management practices. Anonymous so-called 'rating committees' in New York are passing judgment in an unpredictable way."[238] In particular, Germany has been especially concerned with unsolicited ratings, and for good reason given the results of Poon's study as cited above. Despite such harsh sentiments toward the US agencies, attempts to create a pan-European rating agency have thus far not succeeded, in one

[238] Klaus C. Engelen, "A European Nightmare: Unchecked American rating agencies become the continent's new boss-men," The International Economy November/December 1994, p. 46.

case due to the inability of French interests in Fitch Ratings to come to an agreement with a German-based global media giant which would have created a continent-wide agency.[239]

As a result, we may conclude that Europe presents a source of resistance for the hegemony of the current global rating agencies, yet, like Japan, it remains in support of the notion of rating agencies themselves. In this sense it is an especially weak counter-hegemony and set of rival collective images given that Europeans take issue with American dominance in the rating process, with little evidence to suggest that a European rating agency would not to conform to the same elite forms of knowledge and investor-focused development model. However, the European example does point to the desire for more local forms of knowledge and assessment which is counter to the current trend. In addition, continental Europe presents a scenario where rating agencies cannot be generally thought to be EKNs. The sentiment among investors and debtors appears to more generally coincide with the view that the regulatory environment supports the hegemony of particular rating agencies, rather than the view that rating agencies are considered to be endogenous to financial markets.

Emerging Markets

The phenomenon of bond issuance to finance debt, or disintermediation, is not unique to the developed world. In the 1990s emerging markets began to increasingly issue sovereign bonds on international markets in order to secure financing. Most of

[239] Timothy J. Sinclair, The New Masters of Capital, p. 134.

this growth occurred in from 1995 to 1997 when tradable emerging market debt doubled from US$645 billion to US$1.2 trillion.[240] Latin America accounted for the largest share of emerging market tradable debt at this time, which by 1999 stood at US$575.5 billion.[241] In fact by the end of the decade Eurobonds and global bonds replaced Brady bonds as market benchmarks in Latin America.[242] Correspondingly, during the 1990s there has been a pronounced increase in the amount of rated countries in Latin America and the Caribbean. By the end of the decade twenty countries in the region were rated as opposed to the one (Venezuela) that had been rated in 1990.[243]

Although the bulk of this chapter has dealt with the developed world, there is no doubt that securing a favourable credit rating is especially crucial for emerging market countries as it is bears a significant impact on their ability to turn to international capital markets in order to finance their debt. In a study by Larrain et al., the authors found that there is a "highly significant announcement effect" when emerging-market bonds are reviewed by rating agencies with regard to a downgrade.[244] As a result, rating changes feature prominently in government press releases, and should an upgrade occur, they are proudly displayed as indicators of macro-economic policy success.

For example, on March 28, 2000, less than a month after Mexico's first ever upgrade to investment grade status, the Ministry of Finance and Public Credit

---

[240] Ines Bustillo and Helvia Velloso, "Bond Markes for Latin American Debt in the 1990s," United Nations, Santiago, Chile, November 2000, p. 13.
[241] Ibid.
[242] Ibid.
[243] Ibid, p. 31.
[244] As quoted in Timothy J. Sinclair, The New Masters of Capital, p. 146.

released an economic update celebrating their recent achievement. In it the government discussed their March 7, 2000 upgrade by Moody's from a Ba1 to Baa3, and claimed that the upgrade was the result of sound macro-economic policy with regard to its dynamic export sector due to NAFTA, its current account financing through FDI, and its flexible exchange rate policy which had diminished its draw on international reserves.[245] Similar rationales were provided when Mexico was upgraded by S&P in 2002, as it was revealed that "ever deepening integration with the US economy" was a key factor behind the upgrade.[246] Therefore, despite the differences between the Mexican economy and the Canadian or Australian economy, we nonetheless see that rating agency rationales remain in support of identical neoliberal policies, and that governments in these diverse countries consider upgrades to be an endorsement of sound economic policy and thus rating agencies are accepted as part of the financial architecture itself, acting as EKNs coordinating behaviour.

South Africa is another example of this trend. In this case the news was published in a news paper rather than a government press release, yet it demonstrates the same tendency. The only noteworthy difference in this case is that rating agencies are both EKNs and there is an explicit acknowledgement of the potential for an increase in institutional investment with upgrades. In an article in August, 2005, the S&P upgrade from BBB to BBB+ was touted by a chief economist at First National Bank as being, "[a reflection] that we, as South Africa, are continuing to do well and people are taking note. This will mean that we'll qualify for more and more

---

[245] Spokesman's Office, "Mexico's Bi-Monthly Economic News," Ministry of Finance and Public Credit, no. 10, March 28, 2000. < http://www.shcp.gob.mx/english/docs/mben/mben1000.html>
[246] Timothy J. Sinclair, The New Masters of Capital, p. 147.

investments."[247] The reasons cited by S&P for the upgrade are "sensible macroeconomic policies over the past ten years that have been successful in brining about low inflation, low interest rates, reduced fiscal deficits and stabilized debt levels."[248]

As becomes obvious through these examples, the logic behind the rating assignments of the global rating agencies have varied little despite the particular conditions present in emerging market countries. This should be the source of much controversy and criticism given the heterogeneity of participants within the new global finance market compared to the post-war era, yet the work done by rating agencies continues to be an under-examined aspect of the neoliberal project. One instance in which their work had been brought to the forefront of academic study is in the case of the Asian Financial Crisis which instigated many questions regarding the applicability of the Anglo-American logic of ratings in emerging markets and their effects during times of crises. The causes of the Asian Financial Crisis are varied and will not be explored here yet include the accumulation of short-term debt, lack of regulatory oversight of banks, balance of payment problems, contagion, imprudent investments, and capital flight.[249] Of interest in this chapter is the role of that credit rating agencies played prior to and immediately following the actual crisis itself.

---

[247] --- "South Africa's International Credit Rating Upgraded Again," South Africa Online, August 1, 2005 <http://www.southafrica.co.za/the_good_news_72_24.html>
[248] Ibid.
[249] Ibid, pp. 122-125.

Rating Agencies and the Asian Financial Crisis

Although each of the eight countries[250] in the region are particular in their own right, the term 'East Asian model' has been used as a general way to describe the differences between their style of development and the Anglo-American model. The key differences pertain to the nature of government-business relationships (adversarial versus non-adversarial), the direct role of government in economic activity (interventionist versus non-interventionist), and the structure of corporate governance (varying focus on shareholder wealth maximization).[251] This directly challenges the notion that Anglo-American rating standards are appropriate in emerging market countries with different local development models and levels of economic stability. However, most interestingly, despite concerns surrounding the performance of rating agencies, the case of the Asian Financial Crisis appears to affirm the embeddedness of rating agencies within the operation of the international financial market. This does not discount the importance of the regulatory environment in which investment takes place, it simply adds some complexity to the debate, and calls for a synthesis of the views of Kerwer and Sinclair.

Rating agencies are commonly criticized for their in/actions before and after the crisis. For example, Ferri et al. claim that the rating agencies failed to predict the emergence of the crisis, and then downgraded these countries worse than the economic fundamentals would justify, thus exacerbating the crisis by cutting them off

---

[250] These eight include: Japan, the 'tigers' (Hong Kong, South Korea, Singapore, Taiwan), and the newly industrialized countries (Indonesia, Malaysia, Thailand).
[251] Aseem Prakash, "The East Asian Crisis and the Globalization Discourse," Review of International Political Economy (8) 1, Spring 2001, p. 120.

from international capital.[252] South Korea and Thailand were the only two who were downgraded ahead of the crisis, while the other Asian borrowers were quickly placed in the speculative grade category immediately after the crisis hit. Given that a country's sovereign rating also establishes a rating ceiling for all other public and private borrowers, this immediate and drastic downgrade served to accentuate the crisis as commercial banks could no longer issue international letters of credit for local exporters and importers, institutional investors were oblige to sell Asian assets due to their loss of investment-grade status, and it created a situation where foreign creditors were entitled to call in loans following the downgrades.[253]

Private and public actors seized on the mistakes made by the rating agencies and began to question the abilities of the raters themselves. Bond traders and investors' reaction to the intense downgrades of Thailand, South Korea, and Malaysia were that they indicate "a symptom of inadequate credit analysis" and furthermore that "if the agencies had done their job right, they wouldn't need to adjust ratings as severely as they have."[254] Governments involved in the crisis were vocal with their displeasure as well. At the November 1998 APEC summit in Kuala Lumpur, representatives issued "expressions of concern" about the "role and recent performance of the international credit rating agencies" and called for a "review" of agency practices.[255] Little materialized from this call for a review yet it at least

---

[252] G. Ferri, L.G. Liu, and J.E. Stiglitz, "The Procyclical Role of Rating Agencies: Evidence form the East Asian Crisis," Economic Notes, (28) 3, 1999, p. 335.
[253] Helmut Reisen and Julia von Maltzan, "Boom and Bust of Sovereign Ratings," International Finance, (2) 2, 1999, p. 274.
[254] As cited in Timothy J. Sinclair, The New Masters of Capital, p. 162.
[255] Timothy J. Sinclair, The New Masters of Capital, p. 163.

temporarily shook the ideational hegemony of the American rating agencies' in emerging markets.

In addition, rating agencies have been accused of having outdated methods which made them unable to respond to the new global conditions. One typical argument has been that there were too few raters in Asia and their techniques of analysis were inappropriate in these circumstances. For example, before the turmoil Moody's had only a single analyst responsible for the sovereign ratings of five Southeast Asian countries, and moreover analysts were divided into discrete teams covering sovereign debt, banks or corporations, which made it difficult for them to consider factors that link all three.[256] In response to the problems exposed through the crisis the compartmentalized structure is beginning to change, notably with a larger rating agency presence in the region. For instance, in 1998 the number of analysts in Moody's Hong Kong office increased from seven to sixteen.[257]

For their part, rating agencies themselves responded in various ways to these open attacks. S&P defended its ratings as being a statement of opinion which is based on publicly available information, and furthermore claimed that the ratings around the time of the crisis were skewed due to "a lack of transparency" in the East Asian political economies.[258] Fitch, though admitting that mistakes were made, believed their problems were the result of an overestimation of the "sophistication of Asian policymakers, who have proved good fair-weather navigators but very poor sailors in a storm."[259] Moody's defended its actions in the region, but acknowledged

---

[256] Henry Sender, "Moody's Blues," Far Eastern Economic Review, (161) August 13, 1998, p. 12.
[257] Ibid.
[258] Timothy J. Sinclair, The New Masters of Capital, p. 165.
[259] Timothy J. Sinclair, The New Masters of Capital, p. 165.

there were lessons to be learnt with regard to short-term debt and contagion.[260] However, a representative from Moody's made it clear that if they cannot be held responsible for making improper rating assessments if given inaccurate information by government officials, claiming "we aren't auditors; we don't think our role is to verify information."[261]

However, the Asian Financial Crisis is just one example of an inability to deal with crises. In a study conducted by Reinhart, where the links between crises and rating changes were conducted for 62 countries from 1979 to 1999, it would appear that rating agencies have tended to focus on the "wrong" set of fundamentals when it comes to anticipating crises.[262] For instance, much weight is given to debt-to-exports ratios yet the study suggests that these have tended to be poor predictors of financial stress.[263] Little weight is attached to indicators of liquidity, currency misalignments, and asset price behaviour, which are more reliable indicators of financial stress.[264] Thus, the author concludes that sovereign credit ratings systematically fail to anticipate banking and currency crises.[265] Given that rating agencies assess asset solvency, and that the Asian Financial crisis was generally a liquidity crisis, it is no surprise that rating agencies were off the mark.[266]

In addition, this study provides evidence in support of the claim that ratings tend to be reactive to crises, and thus procyclical, as the probability of a downgrade

---

[260] Ibid.
[261] Henry Sender, "Moody's Blues," p. 13.
[262] Carmen M. Reinhart, "Sovereign Credit Ratings Before and After Financial Crises," in Giovanni Majnoni, Richard Levich, and Carmen Reinhart, eds., Ratings, Rating Agencies and the Global Financial System, Kluwer Academic Publishers: Boston, 2002, p. 261.
[263] Carmen M. Reinhart, "Sovereign Credit Ratings Before and After Financial Crises," p. 261.
[264] Ibid.
[265] Ibid, p. 265.
[266] Aseem Prakash, "The East Asian Crisis and the Globalization Discourse," p. 132.

and its magnitude increase significantly during instability. In a study of boom-bust cycles in emerging market lending from 1989 to 1997, Reisen and von Maltzan claim that rating agencies have the ability to attenuate these fluctuations should early downgrades occur during the euphoric phase and thus help to dampen short-term capital flows.[267] However, they also conclude that rating agencies have yet to seize this opportunity to stabilize markets.

Given this poor track record of dealing with the volatilities of globalized finance flows, the incorporation of ratings into Basel II capital adequacy standards becomes a questionable proposition. Of central concern is the pro-cyclical nature of their judgments, as described above. King and Sinclair pick up on this trend and claim that despite their claims to rate "through the cycle," ratings are in fact a point in time assessment.[268] Furthermore the BIS has confirmed that rating agencies give little attention to cyclical economic conditions which leads King and Sinclair to claim that ratings will not have the desired effect of providing stability for the banking sector.[269]

Another complaint has been the lack of accountability that rating agencies face despite their important governance function. Their obvious influence in the Asian Financial Crisis was not matched with any liability for their inaccurate ratings. Whereas public agents can be held accountable and made to answer for their decisions, or are able to be sanctioned when their actions fail to meet a certain standard of prudential behaviour, rating agencies are not subject to this same

---

[267] Helmut Reisen and Julia von Maltzan, "Boom and Bust of Sovereign Ratings," p. 273.
[268] Michael R. King and Timothy J. Sinclair, "Private Actors and Public Policy: A Requiem for a New Basel Capital Accord," International Political Science Review, (24) 3, 2003, p. 351.
[269] Ibid.

process.[270] Rating agencies are able to avoid accountability because they claim to offer *opinions* of creditworthiness, and the imperviousness of their outputs remain upheld in the US under the 1st Amendment right to freedom of speech. As a result, this contributes to a new constitutionalist project by insulating ratings from public oversight.

The empirical evidence suggests that rating agencies are having a mixed impact around the world. One the one hand, within the US, Canada, and Australia, a series of downgrades handed out during the earlier years of the neoliberal restructuring process proved sufficiently costly for these municipal, state/provincial, and federal borrowers to ignore the influence of their judgments. Thus we see an internalization of their neoliberal and new constitutionalist agenda through the increasing focus on maintaining a sound investor climate and placing an emphasis on financial decision-making within policy formulation. These debtors were then rewarded with upgrades, and now rating agency determinations feature prominently within government press releases. Similarly, in countries as Mexico and South Africa, eager to improve their access to international capital markets, there is a comparable internalization of rating agency standards within intersubjective idea sets, as represented by press releases. Despite the differences between each case study presented, we may generally conclude that, in addition to concerns over the potential for institutional investment, these examples broadly support Sinclair's view that rating agencies act as EKNs within global financial markets.

---

[270] Giselle Datz, "Reframing Development and Accountability: the Influence of Sovereign Credit Ratings on Policy Making in Developing Countries," Third World Quarterly, (25) 2, 2004, p. 305.

On the other hand, developed countries such as Japan and those within continental Europe are not nearly as enthusiastic about their subjection to American standards of creditworthiness, and have thus spoken out against the hegemony of Moody's and S&P. However, both Japan and Europe seem to acknowledge the importance of ratings in financial markets given their support for the presence or creation of local rating agencies. In these instances it is apparent that the regulatory environment is the more important factor behind the authority of Moody's and S&P in particular.

Criticism of the global rating agencies was also brought to the forefront as a result of their failures to predict and subsequently dampen the Asian Financial Crisis, which led some to question their incorporation within future ratings-dependent regulation. Thus, in the case of the Asian Financial Crisis, or in cases of financial crises in general, Kerwer's arguments are the most convincing, yet critiques of rating agency performance can operate to implicitly acknowledge the embeddedness of rating agencies within financial markets. However, insofar as the counter-hegemonic movement is considered, so long as Moody's and S&P occupy a privileged position within US regulations, and finance capital remains the dominant form of capital accumulation, it seems unlikely that periodic criticism of regions such as Europe, Japan, and East Asia will be sufficient to topple the power and authority of the global rating agencies.

Conclusion

While the study of historical structures and their constituent forces has often privileged more overt sources of power and authority, this thesis has attempted to shed light on a small group of actors who have come to occupy an often overlooked node of power within the contemporary world order. As organic intellectuals, rating agencies have grown into a position of authority along with the relative hegemony of finance capital which draws strength from their ratings as ideational and institutional support mechanisms. Ideationally, rating agencies enforce the 'common sense' of neoliberal and new constitutionalist versions of creditworthiness with their privileging of investors and fixation on aspects such as budget deficits, inflation rates, and the intrusiveness of government in economic processes. As informal institutions, a status entrenched through the adoption of ratings-dependent regulation, rating agencies also serve to stabilize global finance from the potential dislocations that could occur given the disembedding of finance capital from public oversight and control.

All things considered, the power and authority of rating agencies is therefore of relevance within IPE due to the control they are able to exert over important sources of information and knowledge production in the global economy. This thesis has demonstrated this assertion through the various topics presented in the four previous chapters. Chapter one described for the reader the importance of utilizing an appropriate theoretical framework, in this case neo-Gramscian theory, to

properly address the ways in which the control over knowledge creation constitutes a source of authority in its own right, especially given the informationally dense condition of global financial markets. Chapter two established the world historical context in which rating agencies were able to seize this influential role, for their rise to power cannot be properly explained without reference to larger changes in the global political economy. Chapter three uncovered how ratings were able to take the place of other sources of financial market information, and the methodology that underpins their ratings. Finally, chapter four empirically examined the impacts that ratings, and their underlying methodology, have had on states, in terms of public-policy formulation and the perception of policy makers. In sum, it told a story of how neoliberalism is underpinned by sources of power that extend beyond the regularly studied state and market actors.

Furthermore, this thesis has attempted to show the necessity of utilizing the arguments of both Sinclair and Kerwer when considering the authority of rating agencies. As illustrated in the discussion of mini-case studies, there are particular instances where rating agencies appear to be more accepted as endogenous actors within global financial markets, and other times where their authority is perceived to be imposed on financial markets through ratings-dependent regulation enacted by public authorities, namely the SEC. In general we may conclude that within countries such as Canada and Australia who are accustomed to the inherent Anglo-American mental frameworks associated with the two global rating agencies and capital markets more generally, rating agencies appear to operate as EKNs, though there remains a certain degree of attention paid to the regulations imposed on potential institutional

investment. However, in areas such as continental Europe or Japan, out of a desire for more local sources of knowledge, or perhaps because they are more accustomed to a credit-based debt system, it is evident that Moody's and S&P are generally considered to be imposed on financial markets through the ratings-dependent regulations developed within the US.

Implications for IPE

Notwithstanding the more specific implications suggested in the previous section, a larger implication, which is nonetheless central to this work, has been to enhance a critical understanding of the particularities of neoliberal globalization. In this thesis neoliberal globalization, as the term itself suggests, has been implicitly demonstrated to be both a new dominant theory and practice. It is an ideological change in the sense that it is not a factual or inevitable condition of modernity but rather represents a concerted effort to establish the hegemony of a particular view of how state policy, capital accumulation, and various other socio-cultural processes ought to operate. This theoretical perspective is then simultaneously enforced through the execution of sympathetic policies and practices which serve as an expression of the augmented power of capital, and finance capital in particular, and of the larger transformations in the role of the state since the end of the Bretton Woods era. The term 'neoliberal globalization' therefore describes a sophisticated technique of control which serves to narrow the range of viable alternative options, and once it is considered in this light it also illuminates the supportive role that actors such as

rating agencies play in the normalization, maintenance, and enforcement of this particular set of arrangements and beliefs.

As such, it becomes important for those working within a critical theoretical framework, such as neo-Gramscian thought, to conduct further research into other overlooked sources of power that have emerged within the context of neoliberal globalization. Given the importance of ideology in the construction of Gramscian hegemony, critical theory such as this must not confine itself to a discussion of more typical or obvious sources of authority, but rather focus attention on the plethora of new actors that promote and perpetuate neoliberal globalization, thus broadening the range of counter-hegemonic knowledge. However for neo-Gramsican theory to accomplish this it also must address the limitations it itself imposes on critical study through its implicit privileging of production processes despite the fact that capital accumulation is increasingly taking place in financial or virtual markets, and power is increasingly held by agents like rating agencies who have no direct connection to labour or productive processes, as they are in fact non-state and non-market actors. This is not an easy task to accomplish, however it is the opinion of this author that critical theory must catch up with the empirical changes that are occurring within financial or virtual markets.

Future research suggestions

There are three main areas of future research that are implied by this work. First, this thesis has attempted to broaden the critical debate on rating agencies themselves. There is a relative lack of attention paid to the role that ratings play in the global economy, and what does exist is mostly econometric in its analysis. As

previously discussed, although this research is valuable it is insufficient in its depth of understanding, and thus in its wider applicability. As a result, pursuing a study of rating agencies within the context of any number of critical theories would greatly improve the sophistication of this debate. In addition, a widened appreciation of this new source of authority would vastly improve the potentiality for either establishing or nurturing existent counter-hegemonic forces which could undermine the power afforded to rating agencies, should that be of interest.

More broadly, this thesis has also attempted to illuminate the important role that knowledge and information plays in surveillance of global finance, and thus in the construction of the contemporary world order. It would be interesting if future research were to compare the work of rating agencies to other actors that have either historically or contemporarily performed this role.[271]

Second, future research could include a discussion of the options available to states to avoid the negative performance of rating agencies during periods of financial or economic crisis. On this topic, a widening of the debate concerning the consequences of the further development of ratings-dependent regulations, such as the incorporation of ratings into the Basel II proposals, would be useful to establish whether rating agencies are an institution which is properly equipped to deal with the larger need for stability within the international financial system. Given their poor

[271] On this topic, Woodruff D. Smith describes the importance of the assembly and exchange of business information in the establishment and maintenance of Amsterdam as a world commercial centre. He attributes information exchange to a number of actors, namely municipal governments, merchant houses, local correspondence networks, the East India Company, banks, and merchant handbooks. Woodruff D. Smith, "The Function of Commercial Centers in the Modernization of European Capitalism: Amsterdam as an Information Exchange in the 17th Century," The Journal of Economic History, (44) 4, December, 1984. There are of course many other contemporary examples of informal standard setters (the modern law merchant regime), information providers (Dun & Bradstreet which undertakes mercantile ratings of retailers for suppliers), and surveillance mechanisms (the IMF), all of which would be interesting to compare with rating agencies.

track record during times of crisis, and their organic link to finance capital, it is doubtful that ratings are in fact capable of operating as a source of global governance which can stabilize volatilities in finance and at least partially support the interests of debtors in the future. In addition, since they are unaccountable sources of authority it is potentially ill-advised to continue to afford them power over global governance without formulating a mechanism which would in some way hold them accountable for their judgments.

In association with this area of concern is the obvious desire for more local forms of knowledge production in the business of debt rating. In chapter four examples were provided from Japan, continental Europe, and the countries affected by the Asian Financial Crisis which were all concerned with the applicability of American standards of creditworthiness within their respective countries. Thus, the Basel II proposals will not meet their needs, yet will nonetheless entrench the authority of a handful of global rating agencies within their economies. Future interview and/or survey research could help to more adequately articulate the demands and thoughts of these countries with regards to the Basel II proposals.

Finally, future research would benefit from interviews conducted with various governmental actors charged with the formulation of public-policy to further establish the importance they personally place on ratings, and how much they feel that ratings guide neoliberal policy enactment. One example of this research could be done in the context of the establishment of public-private partnerships, a form of privatization whereby the private sector, in addition to other tasks, undertakes the financing of a public project. A relevant link between this form of privatization and rating agencies

is that the adoption of public-private partnerships is explicitly linked with attempts by government to reduce or eliminate budget deficits, and thus it remains to be determined whether public officials undertake these types of policy options out of a concern for their credit rating.

Bibliography

--- "South Africa's International Credit Rating Upgraded Again." South Africa Online. August 1, 2005. <http://www.southafrica.co.za/the_good_news_72_24.html>

Altman, Edward I. The High-Yield Debt Market: Investment performance and economic impact. Dow Jones & Company, Inc.: USA, 1990.

Anderson, Geoff. "Standard Bearers for the Market: International Credit Rating Agencies, New Actors in Politics and Public Policy." Refereed paper presented to the Australian Political Studies Conference, University of Adelaide. September 29 to October 1, 2004.

Appleyard, Dennis R. and Alfred J. Field, Jr. International Economics. Fourth edition, McGraw-Hill: NY, 2001.

Arrighi, Giovanni. The Long Twentieth Century. Verso: London, 1994.

Auditor General of Canada. "Federal Debt Management." 1996.

Baker, H. Kent, and Sattar A. Mansi. "Assessing Credit Rating Agencies by Bond Issuers and Institutional Investors." Journal of Business Finance & Accounting. (29) 9, 2002.

Burchill, Scott and Andrew Linklater, eds. Theories of International Relations. St. Martin's Press: New York, 1996.

Bustillo, Ines and Helvia Velloso. "Bond Markets for Latin American Debt in the 1990s." United Nations. Santiago, Chile, November 2000.

Cantor, Richard, and Frank Packer. "Determinants and Impacts of Sovereign Credit Ratings." Economic Policy Review. Federal Reserve Bank of New York, October 1996.

Cerny, Philip G. "Restructuring the Political Arena: Globalization and the Paradoxes of the Competition State." in Randall D. Germain, ed. Globalization and Its Critics. MacMillan Press Ltd.: Great Britain, 2000.

Chernomas, Robert and Ardeshir Sepehri. Is Globalization a Reality, a Tendency, or a Rationale for Neoliberal Economic Policies? <http://www.globalization.icaap.org/content/v2.2/sepehri.html>

Cheung, Stella. "Provincial Credit Rating in Canada: An Ordered Probit Analysis." Bank of Canada: Ottawa, 1996.

Cluff, George S., and Paul G. Farnham. "A Problem of Discrete Choice: Moody's Municipal Bond Ratings." Journal of Economics and Business. (37) 1985.

Cook, Peter. "Is Canada Now a Serious Country?" The Globe and Mail. April 14, 1995, B2.

Cox, Robert W. Approaches to World Order. Cambridge University Press: NY, 1996.

Cox, Robert W. Production, Power, and World Order, vol.1. Columbia University Press: New York, 1987.

Crowell, Anthony and Steven Sokol. "Playing in the Gray: Quality of Life and the Municipal Bond Rating Game." Public Management. May 1993.

Czempiel, Ernst-Otto and James N. Rosenau, eds. Global Changes and Theoretical Challenges: Approaches to World Politics for the 1990s. Lexington Books: Toronto, 1989.

Datz, Giselle. "Reframing Development and Accountability: the Influence of Sovereign Credit Ratings on Policy Making in Developing Countries." Third World Quarterly, (25) 2, 2004.

Ederington, L.H. "Why Split Ratings Occur." Financial Management. (15) 1986.

Ehsan, Syed. "Should Japan Be Rated Below Botswana?" The Japan Times.

Engelen, Klaus C. "A European Nightmare: Unchecked American rating agencies become the continent's new boss-men." The International Economy. November/December 1994.

Ferri, G, L. G. Liu, and J. E. Stiglitz. "The Procyclical Role of Rating Agencies." Economic Notes. (28) 3, 1999.

Germain, Randall D. The International Organization of Credit. Cambridge University Press: Cambridge, 1997.

Germain, Randall D., ed. Globalization and its Critics. Macmillan Press Ltd.: London, 2000.

Germain, Randall D. and Michael Kenny. "Engaging Gramsci: international relations theory and the new Gramscians." Review of International Studies. (24) 1998.

Gill, Stephen. Power and Resistance in the New World Order. Palgrave Macmillan Ltd.: NY, 2003.

Gill, Stephen, ed. Gramsci, Historical Materialism and International Relations Cambridge University Press: Cambridge, 1993.

Gill, Stephen. "New Constitutionalism, Democratisation, and the Global Political Economy." Pacifica Review. (10) 1, February 1998.

Gill, Stephen. "The Global Panopticon? The Neoliberal State, Economic Life and Democratic Surveillance." Alternatives, (2) 1995.

Gill, Stephen. "The Constitution of Global Capitalism." A paper presented to a panel: "The Capitalist World, Past and Present," at the International Studies Association Annual Conference, Los Angeles 2000. <www.theglobalsite.ac.uk>

Gill, Stephen, and David Law. The Global Political Economy: Perspectives, Problems, and Policies. The John Hopkins University Press: Baltimore, 1988.

Gilpin, Robert. Global Political Economy. Princeton University Press: Princeton, 2001.

Giovanni, Majnoni, Richard M. Levich, and Carmen M. Reinhart, eds. Ratings, Rating Agencies and the Global Financial System. Kluwer Academic Publishers: Boston, 2002.

Gramsci, Antonio. Selections from the Prison Notebooks. International Publishers: New York, 1971.

Haas, Peter. "Epistemic Communities and International Policy Coordination." International Organization. 46:1, Winter 1992.

Hackworth, Jason. "Local Autonomy, Bond Rating Agencies and Neoliberal Urbanism in the United States." International Journal of Urban and Regional Research. (26) 4, 2002.

Haque, Nadeem Ul, Donald Mathieson, and Nelson Mark. "Rating the Raters of Country Creditworthiness." Finance and Development. (34) 1. March 1997.

Hampton, Mark and Jason Abbott, eds. Offshore Financial Centres and Tax Havens. MacMillan Press: London, 1999.

Hanson, Richard. "Japan's Rating Wars: whose default is it?" Asia Times Online. May 9, 2002. <www.atimes.com>

Hand, John M., Robert W. Holthausen, and Richard W. Leftwich. "The Effect of Bond Rating Agency Announcements on Bond and Stock Prices." The Journal of Finance. (47) 2, June 1992.

Hawley, Jim. "The Internationalization of Capital: Banks, Eurocurrency and the Instability of the World Monetary System." The Review of Radical Political Economics. (11) 4, Winter 1979.

Helleiner, Eric. States and the Reemergence of Global Finance. Cornell University Press: New York, 1994.

Heritier, Adrienne, ed. Common Goods: Reinventing European and International Governance. Rowman & Littlefield Publishers, Inc.: Maryland, 2002.

Hettne, Bjorne, ed. International Political Economy: Understanding Global Disorder. Zed Books: London, 1995.

Hewson, Martin, and Timothy J. Sinclair, eds. Approaches to Global Governance Theory. State University of New York Press: Albany, NY, 1999.

Hoogvelt, Ankie. Globalization and the Postcolonial World. The John Hopkins University Press: Baltimore, 1997.

Japan Centre for International Finance. "Characteristics and Appraisal of Major Rating Companies." 1999.
< http://www.jcif.or.jp/e/report/rating.html>

Juttner, D. Johannes, and Justin McCarthy. "Modeling a Ratings Crisis." Macquarie University, Sydney.

Kapstein, Ethan, B. "Resolving the Regulator's Dilemma: International coordination of banking regulations." International Organization. (43) 2, Spring 1989.

Kendall, Leon T., and Michael J. Fishman, eds. A Primer on Securitization. The MIT Press: Cambridge Massachusetts, 1997.

Keohane, Robert O., ed. Neorealism and Its Critics. Columbia University Press: New York, 1986.

Kerwer, Dieter von. "Standardising as Governance: The case of credit rating agencies." Paper presented at the 11th annual meeting of the Society for the Advancement of Socio-Economics, Wisconsin, 1999.

King, Michael R., and Timothy J. Sinclair. "Private Actors and Public Policy: A Requiem for a New Basel Capital Accord." International Political Science Review. (24) 3, 2003.

King, Michael R. and Timothy J. Sinclair. "Grasping at Straws: A ratings downgrade for the emerging international financial architecture." Centre for the Study of Globalisation and Regionalisation. University of Warwick: UK, 2001.

Lairson, Thomas and David Skidmore. International Political Economy: The Struggle For Power and Wealth. Thomson Wadsworth: Canada, 2003.

Lincoln, Bruce. Authority: Construction and Corrosion. The University of Chicago Press: Chicago, 1994.

Majnoni, Giovanni, Richard Levich, and Carmen Reinhart, eds. Ratings, Rating Agencies and the Global Financial System. Kluwer Academic Publishers: Boston, 2002.

McCormick, Thomas J. America's Half Century: United States Foreign Policy in the Cold War. John Hopkins University Press: Baltimore, 1989.

Ministry of Finance of British Columbia. "BC Budget and Fiscal Plan 2005/06 to 2007/08." February 15, 2005. <www.gov.bc.ca>

Moon, C.G., and J.G. Stotsky. "Testing the Differences Between the Determinants of Moody's and Standard & Poor's Ratings." Journal of Applied Econometrics. (8) 1993.

Morton Adam David. "The Grimly Comic Riddle of Hegemony in IPE: Where is Class Struggle?" Politics. (26) 1, 2006.

Mosley, Layna. "Room to Move: International Financial Markets and National Welfare States." International Organization. (54) 4, Autumn 2000.

Murphy, Craig and Roger Tooze, eds. The New International Political Economy. Rienner: Boulder, Colorado, 1991.

Peterson, V. Spike. A Critical Rewriting of Global Political Economy. Routledge: London, 2003.

Polanyi, Karl. The Great Transformation. Beacon Press: Boston, 2001.

Poon, Winnie P.H. "Are Unsolicited Credit Ratings Biased Downward?" Journal of Banking and Finance. (27) 2003.

Prakash, Aseem. "The East Asian Crisis and the Globalization Discourse." Review of International Political Economy. (8) 1, Spring 2001.

Reisen, Helmut, and Julian von Maltzan. "Boom and Bust and Sovereign Ratings." International Finance. (2) 2, 1999.

Reeve, James M., and Hartwell C. Herring. "An Examination of Nonrated Municipal Bonds." Journal of Economics and Business. (38) 1986.

Robinson, William I. A Theory of Global Capitalism. The John Hopkins University Press: Baltimore, 2004.

Rupert, Mark. Ideologies of Globalization: Contending Visions of a New World Order. Routledge: London, 2000.

Sakamoto, Yoshikazu, ed. Global Transformation: Challenges to the state system. United Nations University Press: Tokyo, 1994.

Saskatchewan Executive Council Media Services. "Province Receives Credit Rating Upgrade." July 15, 2005. < http://www.gov.sk.ca/newsrel/releases/2005/07/15-688.html>

Sender, Henry. "Moody's Blues." Far Eastern Economic Review. (161) August 13, 1998.

Shin, Yoon S., and William T. Moore. "Explaining Credit Rating Differences Between Japanese and US Agencies." Review of Financial Economics. (12) 2003.

Sinclair, Timothy, J. Global Governance: Critical concepts in political science vol. 1. Routledge: New York, 2004.

Sinclair, Timothy, J. The New Masters of Capital. Cornell University Press: London, 2005.

Sinclair, Timothy J. "Global Monitor: Bond Rating Agencies." New Political Economy. (8) 1, 2003.

Sinclair, Timothy J. "Passing Judgement: Credit Rating Processes as Regulatory Mechanisms of Governance in the Emerging World Order." Review of Political Economy. April, 1994.

Sinclair, Timothy J. "Reinventing Authority: Embedded Knowledge Networks and the New Global Finance." Environment and Planning C: Government and Policy. (18) pp.487-502.

Sinclair, Timothy J, and Kenneth P. Thomas, eds. Structure and Agency in International Capital Mobility. Palgrave: NY, 2001.

Sklair, Leslie. The Transnational Capitalist Class. Blackwell Publishers Ltd: Oxford, 2001.

Smith, Dorothy. The Conceptual Practices of Power, University of Toronto Press: Toronto, 1990.

Smith, Woodruff D. "The Function of Commercial Centers in the Modernization of European Capitalism: Amsterdam as an Information Exchange in the 17th Century." The Journal of Economic History. (44) 4, December, 1984.

Spokesman's Office. "Mexico's Bi-Monthly Economic News." Ministry of Finance and Public Credit, no. 10, March 28, 2000. <http://www.shcp.gob.mx/english/docs/mben/mben1000.html>

Strange, Susan. States and Markets. Printer Publishers: London, 1988.

Sy, Amadou N. R. Rating the Rating Agencies: Anticipating Currency Crises or Debt Crises? International Monetary Fund, 2003.

Teeple, Gary. Globalization and the Decline of Social Reform. Garmond Press: Canada, 2000.

Ul Haque, Nadeem, Donald Mathieson, and Nelson Mark. "Rating the Raters of Country Creditworthiness." Finance and Development. International Monetary Fund: March, 1997.

Van der Pijl, Kees. Transnational Classes and International Relations. Routledge: New York, 1998.