



## Rating Agencies, an instrument against social democracy?

The author reflects on the lack of rigorousness on behalf of rating agencies and their more than possible interest in defending neo-liberal governments.

It is not a coincidence that Greece, Portugal and Spain have been the countries over which all the insecurity generated by the financial crisis has been placed-despite the fact that Italy's debt is far higher than the debt of the aforementioned countries-as it is also not a coincidence that the agents in charge of leading this campaign come from the financial sector. More than coincidence, we should be speaking about causality. José Socrates, Yorgos Papandreu and José Luis Rodríguez Zapatero are all, curiously, distinguished leaders of European progressivism, an ideology that makes markets anxious when it questions its firm fiscal beliefs and defends social rights.

In the Spanish case, who is responsible for generating pressure and concern? The battle against the economic policies of the Government of José Luis Rodríguez Zapatero began in January of 2009, when Standard & Poor's reduced Spanish debt from a rating of AAA to a rating of AA+. At the end of that year (December 2009), the same agency sent another warning which would translate into a new reduction in April of 2009. Spain fell to AA with "negative" prospects.

During May of this year, it was Fitch that again chipped away at Spain's financial credibility by retiring its triple A rating. However, Fitch was more realistic in describing our debt situation as it qualified it as "stable." Nevertheless, the third agency in question, Moody's, maintained its highest rating, although it warned at the end of June of a more than possible reduction. In the analysis this agency made to justify its "yellow card" to Spain, it included the following consideration: "An important issue about which we spoke with them (Spain) last year was how to reduce the deficit. It will be a fundamental factor for the rating."

One does not need to think too much in order to extract a clear conclusion from this affirmation. The agencies are clear: we are the ones in charge of giving the rating; you are the ones who have to grant our conditions. In this context, it seems interesting to analyze who the rating agencies are, who regulates their activities and if they function autonomously or if they depend on corporations or governments.





## ARTICLE OF ANALYSIS AND OPINION

July the 15th of 2010

Francisco Rosa

Communication Assistant  
of IDEAS Foundation



The enigma is not as easy to resolve as first would seem. These agencies are private; thus in theory, they act independently. But one cannot forget details like the fact that they rated Lehman Brothers, shortly before its bankruptcy, as an eminently solvent entity. Also, the financial institutions that made Iceland fall were well rated during these dates. Hence, it seems clear that they are submissive to the interests of financial power.

The exposed cases are only some evidence of their fallibility, of their lack of rigorousness and of the more than probable contamination their reports suffer. It has reached a point where Dominique Strauss-Khan, director of the International Monetary Fund, has said that “we should not believe them too much,” a theory shared by Nobel Laureate in Economics, Joseph Stiglitz. Stiglitz has gone even further by stating that “they have been an essential factor in creating the crisis, having contributed to the instability of markets.”

This is with respect to the rating of Spanish debt. Yet, criticisms also came regarding the ratings of Greek finances. The European Commissioner of Economic Affairs, Olli Rehn, previously noted that the reduction in the rating of Greek debt was made in an “extraordinary and unfortunate” moment and that it did not correspond with the real rendering offered by bonds. Jean-Claude Juncker, president of the group of finance ministers of the Eurozone, spoke in a similar fashion although he was harsher by characterizing Moody’s behaviour as “irrational.”

To illustrate this interpretation about the interested functioning of rating agencies at a national level, one needs to only focus on one fact. When Standard & Poor’s withdrew Spain’s triple A rating, it did so five minutes before the Spanish stock market closed, which translated into a loss of 9.3 billion euros for our investors. If they had done this the next morning, other factors-like a simple public appearance-could have helped mitigate the impact.

As if the sudden rating agency attack had not been enough, the German press went mad during mid-June when it launched a campaign to convince public opinion that Spain was on the edge of the precipice. Information picked up by the *Financial Times Deutschland* and the *Frankfurter Allgemeine Zeitung* assured that Spain had asked the EU to receive substantial funds from the Rescue Package for extreme situations, a package that contained 750 billion euros. Meanwhile, it was Deutsche Bank that was betting against the Spanish stock market.

In addition to the rumours that point to all of this being merely a concerted strategy by countries that wish to buy our debt and make a profit-the rating agencies are all American and the German implication seems clear-, it is also worth noting, taking into account Moody’s behaviour, that there is a deep interest in seeing the Spanish government move away from its mixed economic policies and adhere to neo-liberal ones.





## ARTICLE OF ANALYSIS AND OPINION

July the 15th of 2010

**Francisco Rosa**

Communication Assistant  
of IDEAS Foundation



Amid such pressure, the Government of José Luis Rodríguez Zapatero has held firm, coming out day after day to maintain confidence in the Spanish economy, with little support from the opposition, which seemed to applaud every catastrophic statistic. Despite such impetus to protect our economy, it seems that finally the government had to make some concessions and approve certain measures with adverse social effects.

It may well be worth making some sacrifices, but this depends on if these come along with certain changes in the rules of the economic game. From now on, as was proposed at the last EU and G-20 meeting, rating agencies will need to be supervised and these should be sanctioned if they fail in their prediction. Also, we should develop international mechanisms that make realistic evaluations and guarantee neutrality.

