

The solution to credit rating cuts?

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Simple. Shut down the credit rating agencies

Here's a radical idea for preventing a U.S. credit-rating downgrade: Shutter all the credit-rating agencies and put their executives in jail.

Admittedly, that sounds extreme and probably unworkable as well: It is a bit like trying to prevent bad theatre reviews by imprisoning all critics.

However, at least two commentators are now making the case, if only rhetorically. Barry Ritholtz [<http://www.ritholtz.com/blog/2011/07/rating-agencies-debt-police-go-rogue>] at The Big Picture taped an interview with a Canadian television crew on Wednesday, saying something to the effect (in his words) that ratings agencies "were a prime enabler of the credit crisis; that they were one of the most corrupt institutions in the United States, and had sold their ratings to the highest bidder. That their senior executives were criminally liable and deserved jail time. That S&P, Moody's and Fitch themselves deserved to be executed - the same corporate death penalty that Arthur Anderson received. I stated I was perplexed as to why they were not put down like rabid dogs."

Oh dear. Imagine how people in Greece must feel after being on the receiving end of a series of sharp credit rating cuts in recent months. Of course, the criticisms fail to address the point of credit-worthiness itself. Is Mr. Ritholtz suggesting that no country should be judged by a ratings agency? Should investors view Greece and the United States equally credit worthy?

Mr. Ritholtz isn't alone in his thinking, though. He pointed out that an article in the Daily Beast written by Zachary Karabell [<http://www.thedailybeast.com/articles/2011/07/27/debt-ceiling-unaccountable-credit-ratings-agencies-go-rogue.html>] makes a similar argument, although it adds that ratings agencies seem to be spoiling the fun at heavily indebted nations that might have trouble paying their bills: "David Beers is the head of global credit risk for S&P. He has about 80 people working for him, and they rate countries throughout the world. They recently downgraded Greek debt almost as low as it can go, into the C range, which will make what appeared to be a rational plan by the French and the Germans to restructure Greek debt and avoid a meltdown of euro zone banks that much more complicated. No doubt they are all well trained and have a better grasp of the complexities and trustworthiness of debt than most, but it still begs the question of how one company and a staff of 80 - about what a smallish Nasdaq company might have in its accounting department - came to occupy such a central position that their assessments can throw the global

system for such dangerous loops."

So there you have it: The problem isn't that big debt loads and political ineptitude lead to credit rating cuts. The problem is that credit rating cuts lead to higher borrowing costs.

Of course, I'm speaking as a smug Canadian whose triple-A credit rating was supported by Moody's Investors Service on Thursday. Said Moody's: "The economy's very high degree of resiliency is demonstrated by a high per capita income, the large scale of the economy, and its diversity. Natural resource industries, a competitive manufacturing sector, and a well-developed and well-regulated financial market also support the country's resiliency."