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Introduction: Private Ratings and Public Purposes

In the past three decades, public actors (i.e. states and intergovernmental organizations) have increasingly come to rely on private (business and civil society) actors’ governance contributions in a wide range of political issue areas. A trend has emerged towards a partnering of state and nonstate actors in the provision of governance and a reallocation of political authority from public to private actors. This book examines processes of delegation of political authority from states to business actors in the vital public policy area of finance and seeks to uncover both structural, contextual and agency-related causes and conditions underlying these processes. More precisely, I develop and apply a synthetic theoretical model based on principal–agent theory, resource dependence theory and the varieties-of-capitalism approach in order to explain why public regulators in advanced OECD states have used credit ratings by private credit rating agencies (CRAs) for regulatory purposes. Credit rating agencies such as Moody’s Investors Service, Standard & Poor’s (S&P’s) or Fitch Ratings are private firms that estimate and rate the creditworthiness of borrowers, for example firms, insurance companies, banks, municipalities, and sovereign states, as well as financial instruments, for example bonds, loans, and structured finance products such as collateralized debt obligations (Cutler et al. 1999b: 10–11; Fuchs 2005: 125; Kerwer 2002: 294). Credit rating agencies collect dispersed information on the financial situation of borrowers and the default risk of certain financial products, and condense it into a single measure of relative credit risk – a credit rating in the form of a letter grade (see Chapter 2). Credit rating agencies publish these
condensed credit risk assessments, which have been widely used not only by private actors for investment decisions in the market place but also by public regulators in risk-sensitive financial regulation (Cantor and Packer 1994: 1; Kerwer 2002: 294; Nölke and Perry 2007: 129). This book is interested in exactly this latter regulatory use of private credit ratings. Through the regulatory use of private ratings for public purposes, public authorities have transferred (quasi-)regulatory authority to credit rating agencies. In explicating the causes and conditions for the use of credit ratings in financial regulation and the concomitant delegation of regulatory authority, this book addresses the more general overarching puzzle of why public actors from OECD countries have relied on private business actors for the provision of governance in key domains which affect crucial public policy goals.

The transformation of governance: decentralizing and privatizing political authority

This book draws upon and aims to complement a growing body of literature in international relations and comparative politics which is concerned with the emergence and consequences of transnational modes of governance and the transformation of statehood (Genschel and Zangl 2008; Hurrelmann et al. 2007; Koenig-Archibugi and Zürn 2006; Leibfried and Zürn 2005). In the face of globalization processes and the ensuing ‘rise of transsovereign problems’ (Cusimano 2000), which are propelling changes in the conditions for governance in all policy domains of world politics, there is growing recognition that regulation is no longer the exclusive domain of states and intergovernmental organizations. Instead, scholars of global governance stress the regulatory capacities of nonstate actors and point to the emergence of a variety of public–private and purely private modes of governance beyond the state. A broad range of public–private and private institutions create and implement rules for the collective management of trans-sovereign problems, which transcend state boundaries and cannot be solved by individual state actions alone, and take care of the provision of global public goods (Cusimano 2000: 3; Hutter 2006: 63; Koenig-Archibugi 2006: 1–3; Rittberger et al. 2008: 45; see also Bernstein and Cashore 2008; Graz and Nölke 2008a; Pattberg 2007).