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Conclusion and Outlook: After the Crisis

Findings and implications of the book

This book has sought a theory-based explanation for the use of credit ratings in financial market regulation. For that purpose, a macro-institutionally embedded resource dependence perspective on the delegation of regulatory authority from public regulators private to credit rating agencies has been proposed: public regulators have delegated regulatory authority to credit rating agencies (in varying degrees) because (to varying extents) they have perceived themselves as dependent upon, and have sought to make use of, credit rating agencies’ analytical resources. The dependence of public regulators on credit rating agencies’ analytical resources is in turn conditioned by the prevailing global and national/regional macro-institutional socioeconomic contexts, that is, the global transformation of the financial architecture from embedded to disembedded liberalism and different national/regional varieties of capitalism.

The results of an intertemporal and interregional congruence analysis and a process-tracing exercise underlined the plausibility of the proposed theoretical framework. The core hypothesis, that the higher the degree of public regulators’ dependence on credit rating agencies’ analytical resources, the higher will be the degree of public regulators’ use of credit ratings in regulation, has been corroborated. There has also been empirical evidence that public regulators’ dependence on credit rating agencies’ analytical resources is contingent on macro-institutional socioeconomic contexts on both global
and national/regional levels. In particular, dependence on credit rating agencies’ analytical resources and thus the use of ratings in financial market regulation seem to be systematically higher in the Anglo-Saxon variety of capitalism (liberal market economy) than in the Rhenish variety (coordinated market economy).

The main findings of this book also give rise to some open questions which call for further research. While the examination of the US and German positions in the Basel II negotiations has confirmed the core hypothesis of the proposed theoretical framework, it has also revealed that a slight modification (or supplementation) of the proposed theoretical framework might be in order: The decision whether or not to use credit ratings in financial regulation does indeed seem to be based on a (subjective) cost–benefit calculation: public regulators delegated regulatory authority to credit rating agencies if the perceived benefits were larger than the costs. However, there was no publicly available evidence that the loss of control over parts of financial regulation, or costs of control mechanisms to avoid agency slack on the part of credit rating agencies, played a significant role in public regulators’ cost–benefit analysis. At least, the German position in the Basel II process seems to suggest that the degree to which the use of credit ratings in regulation fits or undermines prevalent macro-institutional modes of financing that are supported by both influential economic interest groups and public actors is an important determinant of the decision for or against the use of credit ratings in regulation. This is in line with the general argument that the condition variable ‘macro-institutional socioeconomic context’ affects public regulators’ behavior when it comes to decisions for or against delegation of public tasks to private actors and when specific types of private actors are chosen. However, it might be that the variable ‘macro-institutional socioeconomic context’ does not only function as a condition variable affecting the independent variable ‘dependence on credit rating agencies’ analytical resources’. Rather, the degree to which the use of credit ratings fits the broader macro-institutional financing modes in an economy might directly influence public regulators’ cost–benefit analysis. Quite obviously, more empirical research is needed on the interplay between macro-institutional settings and (micro-)behavior of public regulators – not only in the issue area of financial policies.