Bond Rating Services Latest Scapegoat in Greek Crisis

America is hardly unique in that respect. In Stalin's Soviet Union, millions of hard-working farmers, kulaks, were starved or sent to death camps for the crime of being productive. Stalin also found "wreckers" everywhere in Soviet industry and "traitors" throughout the government. Hitler infamously blamed Jews for everything, even when that accusation made no sense at all. George Orwell grasped well the basic concept of the surreally irrational scapegoat in his dystopian masterpiece, *1984*. Blind and senseless hatred, organized by the Inner Party against imaginary "enemies," was the method by which it ruled.

The socialist nations of Europe — facing economic meltdowns — also need their official culprits to blame for the natural consequences of proliferate spending, public pension budgets that cannot be paid by any reasonable means, environmental regulations that stifle economic growth, and the vast superstructure of the European Union with its bloated bureaucracies.

Greece has selected private bond rating services as the villains in their current economic crisis. The Greek Finance Ministry called the decision by Moody's on Monday to downgrade Greek government debt from B1 to Ba2 (a status below junk bonds) "completely unjustified," adding that the action "does not reflect an objective and balanced assessment" of the Greek economy. The ministry concluded:

> Ultimately, Moody's downgrading of Greece's debt reveals more about the misaligned incentives and the lack of accountability of credit rating agencies than the genuine state or prospects of the Greek economy.... At a time when the global economy is fragile and market sentiment is sensitive, unbalanced and unjustified rating decisions such as Moody's today can initiate damaging self-fulfilling prophecies and certainly strengthen the arguments for tighter regulation of the rating agencies themselves.

The Finance Ministry turned its attack on other bond rating services as well, such as Standard & Poor's and Fitch Ratings:

> Having completely missed the build-up of risk that led to the global financial crisis in 2008, the rating agencies are now competing with each other to be the first to identify risks that will lead to the next crisis.

The ministry questioned the timing and size of Moody's downgrade because it followed a cut of six percent in the Greek national deficit, which reduced it to about nine percent of the nation's national income, with a pledge to bring the deficit down to the European Union limit of three percent by 2014. One problem is that Greece's national debt is still a whopping 150 percent of its GDP this year; and because its economy is anticipated to shrink three percent, the debt ratios will be even more unfavorable. Moody's also noted that the Greek government was having a great deal of trouble raising revenues, which are essential to pay the government debts, and that a ripple effect might follow: "The risk of a post-2013 restructuring might lead the Greek authorities and investors to participate in a voluntary distressed exchange before that time."

The two other major rating services have not been quite as pessimistic as yet. Standard & Poor's and Fitch both have rated Greece slightly higher, at BB+ (although S&P warned it may lower its rating soon).

The European Union has criticized the rating services as well, and its representatives stated that the decision by Moody’s on Monday would not affect how it dealt with the Greek public finance crisis. Amelia Torres of the European Commission commented, "We have our own assessments of what is going on. This is the assessment, as far as we are concerned, that you should look at and we don't react to rating agency announcements." The European Union, with a vested interest in Greece's success — namely its financial investments in Greece — is unlikely to suggest that the country's problems are insoluble.

The financial services companies, however, make their money from being accurate and fair. Another problem that the services see now is that the interest rate investors are charging to lend money to the Greek government on bonds of 10 years is a chilling 12 percent, which is nine percentage points greater than what Germany has to pay, even though both nations have the same currency. This sort of dramatic difference between more prudent governments — Germany is the prime example — and more extravagant governments also threatens to raise in the minds of Europeans who remember the Second World War, images of German or Franco-German hegemony in Europe.

It is almost certain that Germany, and possibly France, will soon join the list of scapegoats for those nations such as Greece, Portugal, Ireland, and Belgium (which has still not formed a government, adding each day to its record-setting impasse) who face an accumulation of postponed problems and instant government gratification that no longer can be simply kicked down the road. It hurts Germany and France, of course, to have floundering nations such as Greece in the Union. It does not help private financial services to knock down government bonds to junk status (if the bond market itself collapses, of course, the rating services all suffer as well).

As more European Union governments melt down because of untenable statism, the menagerie of scapegoats will doubtless grow.